The Pacific Private Sector Development Initiative in 2011
Focus, Issues, and Outcomes

This publication describes further progress of ongoing and recently undertaken initiatives for the Pacific Private Sector Development Initiative (PSDI). It highlights the issues and many of the encouraging outcomes resulting from earlier efforts. It also explores issues expected to emerge in the future, and how they will be dealt with.

PSDI is a regional technical assistance facility cofinanced by the Australian Agency for International Development. It supports and encourages inclusive, private sector–led, sustainable economic growth among Pacific developing member countries of the Asian Development Bank. PSDI focuses on improving access to financial services, business law reform, and state-owned enterprise reform and public–private partnerships 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: 1.8 billion people who live on less than $2 a day, with 903 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.
THE PACIFIC PRIVATE SECTOR
DEVELOPMENT INITIATIVE IN 2011
FOCUS, ISSUES, AND OUTCOMES

Asian Development Bank
This report was prepared by Paul Holden, Melissa Dayrit, Laure Darcy, Terry Reid, Sabine Spohn, Erik Aelbers, Chris Russell, Aaron Levine, and Olga Santos, under the supervision of Andrea Iffland and Kanokpan Lao-Araya of the ADB Pacific Liaison and Coordination Office, Sydney, Australia. It was supported by the Pacific Private Sector Development Initiative, an ADB technical assistance facility cofinanced by the Australian Agency for International Development.

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

Figures and Boxes iv
Abbreviations vi
Foreword vii
Introduction 1
The Importance of the Business Environment 2
The Pacific Private Sector Development Initiative and Inclusive Growth 4
Focus Areas of the Pacific Private Sector Development Initiative 5
Access to Finance 6
  Overview 6
  Secured Transactions Reform 6
  Access to Financial Services 10
Business Law Reform 13
  Outdated Legislation in the Pacific 13
  Company Registries 14
  Reforms in Solomon Islands 14
  Reforms in Samoa and Vanuatu 16
  Impact and Lessons Learned 16
State-Owned Enterprise Reform and Public–Private Partnerships 18
  State-Owned Enterprise Reform 19
  State-Owned Enterprise Reform Results 21
  Public–Private Partnership Results 22
  Impact and Lessons Learned 22
Crosscutting Issues 23
  Monitoring and Evaluation 23
  Inclusive Growth: Promoting Gender Equity 26
  Competition 27
  Development Cooperation 27
The Way Forward 28
  Lessons from the First 5 Years of the Pacific Private Sector Development Initiative 28
  Challenges 29
  The Pacific Private Sector Development Initiative in 2012 and Beyond 29
Appendixes 32
  1 Activities by Country 32
  2 Pacific Private Sector Development Initiative Portfolio Summary 45
  3 Initiatives and Projects in 2011 46
Figures and Boxes

Figures

1 Number of Annual Searches and Cumulative Net Security Interests Registered in the Republic of the Marshall Islands Secured Transactions Registry 7
2 Number of Annual Searches and Cumulative Net Security Interests Registered in the Federated States of Micronesia Secured Transactions Registry 7
3 Number of Annual Searches and Cumulative Net Security Interests Registered in the Solomon Islands Secured Transactions Registry 8
4 Number of Annual Searches and Cumulative Net Security Interests Registered in the Vanuatu Secured Transactions Registry 8
5 Fiscal Transfers to State-Owned Enterprises 21
6 The Impact of Company Law Reform in Solomon Islands 24
7 How Secured Transactions Reforms Implemented under the Pacific Private Sector Development Initiative Promote Access to Formal Financing in Pacific Countries: Searches and Registrations since the Introduction of Secured Transactions Reform 25
8 Pacific Private Sector Development Initiative Activities by Gender Classification 26
A1.1 Cumulative Pacific Private Sector Development Initiative Spending in the Cook Islands and Share by Focus Area 32
A1.2 Cumulative Pacific Private Sector Development Initiative Spending in Fiji and Share by Focus Area 32
A1.3 Cumulative Pacific Private Sector Development Initiative Spending in the Republic of the Marshall Islands and Share by Focus Area 33
A1.4 Cumulative Pacific Private Sector Development Initiative Spending in Papua New Guinea and Share by Focus Area 34
A1.5 Cumulative Pacific Private Sector Development Initiative Spending in Samoa and Share by Focus Area 36
A1.6 Cumulative Pacific Private Sector Development Initiative Spending in Solomon Islands and Share by Focus Area 38
A1.7 Cumulative Pacific Private Sector Development Initiative Spending in Timor-Leste and Share by Focus Area 40
A1.8 Cumulative Pacific Private Sector Development Initiative Spending in Tonga and Share by Focus Area 41
A1.9 Cumulative Pacific Private Sector Development Initiative Spending in Vanuatu and Share by Focus Area 43
**Boxes**

1. Nonbank Financial Intermediary Benefits from Secured Transactions Reform  
   - Page 9
2. Extending Access to Finance to Previously Excluded Groups: Restaurant Owner Expands Business through Banco Nacional de Comércio de Timor-Leste Loan  
   - Page 10
3. Making Access to Finance Inclusive: Nationwide Microbank: A Success Story in Bringing Financial Services to the Poor  
   - Page 11
4. Electronic Company Registry Greatly Enhances Transparency in Doing Business  
   - Page 14
5. Promoting Inclusive Growth: Success Stories from Solomon Islands’ First Community Company  
   - Page 15
6. Removing Public Officials from Boards of State-Owned Enterprises  
   - Page 18
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AusAID</td>
<td>Australian Agency for International Development</td>
</tr>
<tr>
<td>BNCTL</td>
<td>Banco Nacional de Comércio de Timor-Leste (National Commercial Bank of Timor-Leste)</td>
</tr>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>CLAC</td>
<td>Customary Land Advisory Commission</td>
</tr>
<tr>
<td>CSO</td>
<td>community service obligation</td>
</tr>
<tr>
<td>DMC</td>
<td>developing member country</td>
</tr>
<tr>
<td>G2P</td>
<td>government-to-person</td>
</tr>
<tr>
<td>ICCC</td>
<td>Independent Consumer and Competition Commission</td>
</tr>
<tr>
<td>IMITL</td>
<td>Institute of Microfinance Timor-Leste</td>
</tr>
<tr>
<td>INA</td>
<td>Institute of National Affairs</td>
</tr>
<tr>
<td>INFUSE</td>
<td>Inclusive Finance for Under-Served Economy</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>monitoring and evaluation</td>
</tr>
<tr>
<td>PFIP</td>
<td>Pacific Financial Inclusion Programme</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>PPP</td>
<td>public–private partnership</td>
</tr>
<tr>
<td>PSDI</td>
<td>Pacific Private Sector Development Initiative</td>
</tr>
<tr>
<td>RMI</td>
<td>Republic of the Marshall Islands</td>
</tr>
<tr>
<td>RONPHOS</td>
<td>Republic of Nauru Phosphate Corporation</td>
</tr>
<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
</tr>
<tr>
<td>SOEMD</td>
<td>State-Owned Enterprise Monitoring Division</td>
</tr>
<tr>
<td>VFSC</td>
<td>Vanuatu Financial Services Commission</td>
</tr>
</tbody>
</table>
This is the fifth annual progress report of the Pacific Private Sector Development Initiative (PSDI), a comprehensive regional technical assistance facility that focuses on promoting inclusive economic growth in the region through assisting the private sectors in Pacific developing member countries (DMCs) of the Asian Development Bank (ADB). Fostering private sector development in the region remains a key development initiative of ADB, other development partners, governments, and the private sectors in Pacific DMCs.

PSDI is unique in its ability to respond rapidly to requests for assistance from Pacific DMCs. Its initiatives are based on a foundation of sound analytical work, and it is able to implement reforms that often take many years to come to fruition. As this report demonstrates, these features make it a powerful force for promoting inclusive growth that contributes to the alleviation of poverty in Pacific DMCs. I am delighted to note that PSDI-sponsored reforms have resulted in some Pacific DMCs being identified as among the top reformers in the world in the latest release of the World Bank Doing Business report.

PSDI supports raising inclusive growth among ADB’s Pacific DMCs in several ways. Its focus is on promoting investment and entrepreneurship by assisting countries to improve their business environments thereby raising their long-term potential growth rates. Through its reforms directed at improving access to finance, PSDI increases opportunities for a broad section of the population of Pacific DMCs and helps to spread the benefits of growth. Its efforts to reform state-owned enterprises provide improved delivery of basic services to more people, including those in rural areas. The overall impact of PSDI is to reduce poverty in the region.

One measure of success of any program such as this is the demand for its services. In this regard, PSDI must be judged as having achieved much. It finds difficulty in keeping up with the requests for assistance that it receives, with the result that its personnel and funding are constantly being tested. Feedback on the usefulness of PSDI assistance from our Pacific DMCs is strongly positive. PSDI has contributed to job creation in the region and improved access to finance, and has helped a number of countries improve the efficiency of their state-owned enterprises.

It is important that any program such as this monitors its successes and failures. Therefore, PSDI maintains a comprehensive monitoring and evaluation framework that tracks the outcomes of its initiatives and provides inputs in the design of further development efforts. The knowledge gained from PSDI initiatives provides a wealth of experience, not only in the region but also well beyond. Many development institutions and countries have much to learn from the experience of PSDI. Pacific DMCs can be proud to know that many of the reforms initiated under PSDI are at the cutting edge of reform efforts anywhere in the world.
A particular feature of the success of PSDI is that it has worked in combination with stand-alone ADB technical assistance for private sector development that substantially increases the impact of reform efforts in the region. Another factor in PSDI’s success is close collaboration with development partners, which ensures that reform efforts are well coordinated. In some cases, reform initiatives have been implemented jointly, which has added to their success.

I would like to take this opportunity to extend my thanks to Pacific DMCs, and their private sector representatives and government officials that have worked with our team to implement often far-reaching reforms. Without the special partnership that we have with the Australian Agency for International Development (AusAID), many of the positive impacts that PSDI has had would not have happened. AusAID deserves our sincere thanks for its support and for our most productive relationship. Lastly, I would like to thank the PSDI team for its dedication and efforts. I have great confidence that going forward, we will be able to further build on the foundation of the successes that we have achieved so far.

Xianbin Yao
Director General
Pacific Department
Asian Development Bank
Introduction

This is the fifth report on the progress of the Pacific Private Sector Development Initiative (PSDI), a regional technical assistance facility jointly financed by the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID). PSDI supports raising inclusive growth among ADB’s Pacific developing member countries (DMCs) in several ways. Its focus on promoting investment and entrepreneurship, by assisting countries to improve their business environments, raises the long-run potential growth rate. Through its reforms directed at improving access to finance, it increases opportunities for a broad section of the population of Pacific DMCs and helps to spread the benefits of growth. Its efforts to reform state-owned enterprises provide improved delivery of basic services to more people, including those in rural areas. The overall impact of PSDI is to reduce poverty in the region.

PSDI is demand driven, in that it responds to requests for assistance from countries in the region. It only undertakes interventions that are based on a sound foundation of analytical work.

This year’s report describes the further progress in ongoing initiatives as well as those that have just commenced in the past year. Although the reforms under PSDI often take an extended period to come to fruition, results of earlier efforts are becoming available and are showing highly encouraging outcomes.

The 2011 report adopts a more analytical approach than in the past in its discussion of PSDI interventions. It highlights both successes as well as potential difficulties that lie ahead. It draws upon the experience of the first 5 years of PSDI to identify key elements in determining the success of its interventions.

The report commences with a discussion of the importance of the types of reforms undertaken under PSDI. It then highlights PSDI’s key achievements and interventions in its core focus areas over the past year. It discusses how PSDI initiatives are progressing and the outcomes of reforms, as more data have become available. It also highlights some of the problems involved in implementing reform. It outlines the way forward for the remaining 2 years of PSDI Phase 2. Appendix 1 outlines and briefly describes interventions in each of the countries where PSDI has been active and provides data on resources expended in each of the focus areas. Appendix 2 provides detailed financial information on PSDI activities. Appendix 3 provides a list of ongoing and pipeline initiatives, as well as activities completed in 2011.

1 PSDI started in 2007, for an initial period of 5 years. A second tranche was approved in 2009 for the period covering January 2010 to December 2014.
The Importance of the Business Environment

The private sector contributes more than 85% of total gross domestic product in most countries. A dynamic private sector is a necessary condition for promoting inclusive growth that leads to increasing employment and generating jobs and income-earning opportunities, which in turn results in sustained reduction in poverty and increased prosperity.

While many factors influence growth and private sector development, extensive investigation in a wide range of countries around the world has identified that the quality of countries’ institutions appears to be the most important determinant of prosperity and growth. Institutions consist of commercial laws governing business activities, contracting, property rights, and governance. Together, they create an enabling environment for business. With well functioning institutions, the development impact of investment in infrastructure, education, social services, and access to finance is enhanced. With poorly functioning institutions, the effectiveness of such investment is greatly diminished or even negated.

In high-income economies, institutions that provide the foundation for business activity have evolved over decades and even centuries. In lower-income countries, the development of these institutions is still evolving. Studies of the relationship between the quality of institutions and prosperity show that those countries with poorly functioning institutions are invariably those where the incidence of poverty is greatest.

Institutions determine the incentives and transaction costs in terms of how the private sector organizes business activity, structures contracts, and undertakes investment. Ultimately, productivity, competitiveness, and economic growth depend on incentives available to the private sector. If the transaction costs of doing business are high and incentives promote short-time horizons, the productivity and efficiency of individuals, small businesses, and companies are adversely affected. This, in turn, harms long-term growth and reduces the impact of private sector development in contributing to poverty reduction.

Although the private sector was historically neglected in the Pacific, in recent years, the awareness of its importance has surfaced among Pacific countries and development partners focusing on private sector–led growth. A significant part of the recognition that the private sector is central to promoting prosperity has arisen because of analytical work undertaken by ADB in identifying the key constraints to private sector activity.

The term “institutions” is used in this sense throughout this report except in the section on access to financial services, where it refers to an established organization, i.e., a financial institution.
Another way of looking at PSDI is as a small and medium-sized enterprise program. The vast majority of businesses in the region are small, with a relatively small number of medium-sized firms. Large firms are almost nonexistent in the region, even using a developing-country classification of large businesses. Essentially, PSDI is directed at encouraging entrepreneurs to start businesses and allowing the successful ones to grow and realize their full potential.

The analysis of the business environment in Pacific countries has identified numerous factors that add to the costs of doing business. These include business laws that effectively exclude the majority of the population, limited access to financial services, regulations that impose substantial burdens on businesses, inefficient state-owned enterprises (SOEs), and regulations that discourage foreign investments, thereby excluding a valuable source of capital and know-how.

In many countries in the region, governments have contributed to the problem. State intervention under the guise of promoting growth has introduced constraints and distortions that in fact make private sector development more difficult, thereby having the opposite effect from what was intended. A major consequence is that rates of return on investment in the region have been and continue to be low. The amount of private sector investment is insufficient to achieve growth rates that will lead to sustained poverty reduction, and public sector investment often results in negative or very low rates of return that subtract from growth.

One of the aims of the reforms undertaken through PSDI is to offset some of the disadvantages of isolation and size. For example, the Solomon Islands company registry provides potential overseas business partners with the ability to determine the directors and shareholders of Solomon Islands companies with great reliability. The secured transactions registry allows potential lenders in other countries to ensure that borrowers’ assets have not been pledged to other lenders. While the use of these institutions is in its infancy, as the reforms in the Pacific are extended, they will increasingly contribute to economic integration in the region.
The impact of PSDI in the Pacific region promotes inclusive growth, defined by ADB as “economic growth coupled with equality of opportunity” in several ways.

- The business environment and its accompanying institutions are the prime determinant of countries’ prosperity. PSDI’s focus on business environment–oriented reform raises the long-term potential growth rates for the countries in which they occur. Sustained growth creates jobs and expands opportunities.
- By reducing the costs of formalizing businesses, thus improving access to finance and financial services, PSDI expands opportunities for a broader section of the populations of Pacific economies. As later chapters document, PSDI reforms have enhanced the prospects for women to enter into formal economic activity, both through low-cost business formation and through improved access to finance. Similarly, as a result of a highly innovative reform of the Companies Act in Solomon Islands, communities can now form community companies to engage in economic activity and gain access to the finance sector.
- Through its access to finance initiatives, PSDI also assists in providing social safety nets to lower-income groups, who often do not have facilities to save nor to borrow for such items as their children’s school fees or sudden illness. As described below, PSDI initiatives have significantly expanded the availability of such services. In addition, pilot programs are assessing the feasibility of introducing life insurance for people in poorer communities, so that in the event of the death of a supporter of a household, the surviving family members are not rendered destitute.
- PSDI’s efforts in reforming SOEs expand the quality of service and coverage of such services as electricity and water, which has a disproportionately positive impact on poorer members of communities.

The following chapters document how PSDI promotes inclusive growth in the Pacific. While numerous outside factors impinge on the growth rates of Pacific DMCs, PSDI-oriented reforms contribute to improving economic performance in the region.

---

Focus Areas of the Pacific Private Sector Development Initiative

PSDI promotes the effectiveness of development efforts that are inclusive, both with regard to a broad section of the population and with respect to promoting economic opportunities for women through its focus on institutional reform in countries in the region. PSDI currently has the following three pillars:

- improving access to finance through collateral reform and extending the availability of financial services,
- business law reform, and
- SOE reform and increasing the use of public–private partnerships (PPPs).

PSDI is also expanding into areas such as competition policy, trade policy, and contracting, all of which strengthen institutions and improve the functioning and performance of markets in countries in the region. These efforts not only reduce the costs of doing business in the countries where they occur, but also increase economic opportunity, particularly for women.

The following chapters examine each of these areas in greater detail.
esearch has consistently found that widespread access to financial services is a central factor in promoting inclusive growth and alleviating poverty. Financial services consist of a broad spectrum of financial products provided to businesses and consumers, including loans as well as 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.

Overview

Increasing access to financial services has been a key focus of ADB’s activities in the Pacific. In particular, PSDI focuses on improving the enabling environment for financial service provision and building the capacity and outreach of financial service providers to extend the availability of a broad spectrum of financial services. In improving access to loans by businesses and individuals, PSDI has focused on improving the ability of borrowers to pledge movable assets as collateral for loans and to extend the availability of credit to a broader proportion of the population. PSDI has also supported initiatives in the areas of branchless banking and microinsurance. These ongoing efforts are beginning to show promising outcomes and provide access to credit, access to savings services, and improved opportunities for transfers and payments, and have generated new employment opportunities, particularly for women and the rural population.

Secured Transactions Reform

The underdevelopment of the finance sector is closely connected to the lack of an effective secured transactions framework. A secured transactions framework is the legal, regulatory, and technical system sanctioned by law to use movable property as collateral for loans. A well-functioning secured transactions system generates economic and social gains for creditors and debtors as it reduces transaction costs and improves access to credit. It also benefits small businesses by making it easier to purchase equipment such as boats, outboard motors, rotor tillers, and trucks since equipment dealers and finance companies can easily secure these assets as collateral.

The Reforms

At the outset of PSDI, no Pacific DMC had an effective system for pledging movable property as security for loans, with the exception of the Federated States of Micronesia, where reforms occurred under a separate ADB technical assistance in 2006. In the past 5 years during PSDI’s operations, an intensive program of secured transactions reform has resulted in secured transactions laws (also
known in the region as personal property securities acts (PPSAs)). These have been enacted in the Republic of the Marshall Islands (RMI), Papua New Guinea (PNG), Solomon Islands, Tonga, and Vanuatu. Accompanying the reform of the secured transactions legal framework are the installation of electronic registries to record the filing of security interests.

Both Palau and Samoa are expected to pass PPSAs in 2012. Secured transactions reform will also commence in Timor-Leste in 2012. Along with the enactment of a PPSA in the Federated States of Micronesia, PSDI’s is the most extensive program of secured transactions reform of any region in

---

**Figure 1**  Number of Annual Searches and Cumulative Net Security Interests Registered in the Republic of the Marshall Islands Secured Transactions Registry

![Graph showing number of annual searches and cumulative net security interests registered in the Republic of the Marshall Islands Secured Transactions Registry.]

**Figure 2**  Number of Annual Searches and Cumulative Net Security Interests Registered in the Federated States of Micronesia Secured Transactions Registry

![Graph showing number of annual searches and cumulative net security interests registered in the Federated States of Micronesia Secured Transactions Registry.]

---

4 The act is yet to commence in PNG; therefore, an electronic registry is not yet in place.
the world. Ongoing work is taking place to ensure that the electronic registries keep pace with the needs of lenders and borrowers. Registry upgrades will be rolled out regionally in 2012.

Impact and Lessons Learned

Results show that in the countries where the reforms have occurred, access to credit has improved markedly, and businesses and individuals that had significant barriers to financing their operations are now able to fund equipment and working capital. The reforms have been especially effective in Solomon Islands where they have enhanced the impact of the new Companies Act. Small businesses have received loans that have markedly enhanced their productivity and ability to supply customers.
Box 1  Nonbank Financial Intermediary Benefits from Secured Transactions Reform

The leading nonbank financial institution operating in Solomon Islands, Credit Corporation, has reported that the amount of time spent approving a loan has been reduced to 1 day through the ease of preparation of agreements and elimination of the need for government approvals. The Credit Corporation also found that simplified enforcement has made a significant difference, rendering repossession cheaper and faster. They have recently grown their lending books, in particular, with loans made to businesses in the provinces that have provided credit to previously excluded groups, including women entrepreneurs. A corporate restructure is expected to lead to further rapid growth in lending, with the possibility of more creative uses of collateral under the Secured Transactions Act.

Source: Pacific Private Sector Development Initiative.

Figures 1 to 4 show the cumulative net security interests registered in four countries where reforms have been in place for at least 2 years: the RMI, Federated States of Micronesia, Solomon Islands, and Vanuatu. A registered security interest corresponds to a loan. Therefore, the figures show the total number of loans that are supported by collateral. While some registered security interests represent reregistered collateral, the majority are new loans that have resulted from the introduction of the reforms of the PPSAs in the four countries. Although Palau and PNG have also passed new PPSAs, they are not included, since procurement for their registries has not yet commenced. The electronic registry in Tonga was only installed in the middle of 2011, and the time period is too short for any conclusions to be drawn.

An additional benefit of the reform has been the reduction in borrowing costs. Since lenders’ risks are reduced, the risk component of lending rates has declined. The payment of stamp duty on some loans, a remnant of United Kingdom laws, has been abolished. The reforms have corresponded to a decline in lending rates of

- 2 percentage points in the RMI, where the Bank of the Marshall Islands announced that because of the lower risk resulting from the passage of the secured transactions law, it would lower lending rates;
- 3 percentage points in Solomon Islands as a result of the elimination of stamp duty; and
- 2 percentage points in Vanuatu, also as a result of the elimination of stamp duty.

Additional benefits include greatly reduced processing time and a sharp reduction in legal fees as lawyers are no longer required to prepare lengthy legal documents. Lenders also point to the greatly increased ease of repossession in the event of default.5

The experience of the secured transactions reforms in the region indicates that simply passing a law will not bring about the desired results. Intensive implementation support is also needed. Capacity
building is necessary for the operators of the electronic registry. Lenders and the legal profession require instruction in the implications of the new law. Nonbank financial intermediaries need to be made aware that they secure loans far more effectively than in the past. The courts need to be acquainted with the new procedures. Potential borrowers need to be made aware of the greater availability of financing under the reformed system.

In the longer term, once the framework has been operating effectively for a period of time within the country, there is the potential for offshore lenders to enter the local financial market through the registration of security interests. This is an ongoing process that PSDI will continue to implement.

**Access to Financial Services**

**Enhancing the Capacity of Financial Institutions to Assist the Poor**

In 2011, a major milestone was achieved in Timor-Leste. The Institute of Microfinance Timor-Leste (IMfTL) was established in 2001 under the ADB-managed Microfinance Development Project. On 11 July 2011, with PSDI support, IMfTL officially transformed into Banco Nacional de Comércio de Timor-Leste (BNCTL), or the National Commercial Bank of Timor-Leste. It is the country’s first locally owned commercial bank. BNCTL now has 12 branches, more than 10,000 borrowers, and 45,000 depositors with about $7.5 million in savings. It has also provided $9.4 million in loans, 40% of which are held by women. Microfinance accounts for 30% of the bank’s portfolio. BNCTL’s branch network is spreading benefits throughout the country. For example, one of the regional branches in Gleno has over 1,000 savings clients and 1,500 borrowers, and had disbursed $900,000 in loans.

Besides supporting BNCTL in obtaining a commercial banking license in 2011, PSDI has also assisted in further strengthening the new bank through continuous support during the transformation phase. PSDI has assisted with (i) developing business plans and strategies, and stronger governance

---

**Box 2 Extending Access to Finance to Previously Excluded Groups: Restaurant Owner Expands Business through Banco Nacional de Comércio de Timor-Leste Loan**

One beneficiary of a loan from the National Commercial Bank of Timor-Leste’s Gleno Branch is restaurant owner Lourenca Iswandy. She established her roadside restaurant 11 years ago with her own capital. She describes her main customers as “hungry travelers” who stop by her restaurant to sample her fish, chicken, and rice dishes. Iswandy received her first loan of $300 from the bank (when it was still the Institute of Microfinance Timor-Leste) in 2008. More recently, she was provided a loan of $5,000. Now a successful entrepreneur, she used the loan to diversify her business, establishing sidelines in coffee and a photocopy service. “My daily income helps feed my children and pay for their education,” says Iswandy, who employs most of her extended family of nine in her businesses.

Source: Pacific Private Sector Development Initiative consultations.

---

structures; (ii) establishing risk management procedures; (iii) strengthening internal audit functions; and (iv) providing staff training. This assistance has contributed to BNCTL being in compliance with Timor-Leste’s Banking and Payments Authority regulations and requirements.

PSDI continues to support the implementation of the ADB Microfinance Expansion Project in PNG, a sector-wide program focused on strengthening institutions, offering financial literacy and business development skills training for clients, and providing a risk share facility to partner institutions to promote expansion of credit to micro and small enterprises.

**Improving Outreach with Innovative Products**

A central part of PSDI’s efforts to improve access to finance is to increase financial outreach. In many Pacific countries, a significant part of the population does not have access to even the most basic financial services. While microcredit is important, evaluation of access to finance projects has increasingly demonstrated that even more benefits accrue to poorer people from the provision of savings services, particularly among low-income groups in rural areas. Furthermore, the combination of technology and the rapid increase in mobile phone coverage in many countries provides the opportunity to extend financial services to a far broader section of the population than was possible before.

One main obstacle to increasing access to financial services in rural areas has been the high cost of establishing traditional banking networks versus the 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 can lead to the widespread availability of payment facilities and other financial services for the poor.

In 2011, ADB continued to support financial institutions in PNG, Timor-Leste, and Vanuatu to develop branchless banking models. In PNG, Nationwide Microbank developed an innovative

---

**Box 3  Making Access to Finance Inclusive: Nationwide Microbank: A Success Story in Bringing Financial Services to the Poor**

The Asian Development Bank and the Pacific Private Sector Development Initiative have supported Nationwide Microbank in Papua New Guinea. It has grown rapidly in rural as well as in urban areas. Its growth confirms the importance of a full range of financial services. Nationwide Microbank welcomed its 100,000th customer with an active savings account in May 2011, with rural savings accounts outnumbering urban accounts by almost 3:1. While men hold a majority of the accounts, over 35,000 savings accounts belong to women. By contrast, Nationwide Microbank has close to 2,600 active loans on its books. Savings accounts outnumber loans by a factor of more than 37:1.

Source: Pacific Private Sector Development Initiative consultations.
mobile phone–linked bank account, which is currently being pilot-tested in West New Britain Province with support from PSDI. The service will enable customers to deposit and withdraw funds from their bank account through an agent network, without having to travel to a bank branch, and to transfer funds to friends and family who also have a bank account with Nationwide Microbank. This will reduce transaction costs, increase security, and greatly improve the ease of accessing financial services. The pilot, which started in November 2011, is expected to run for 6 months, with the service expected to be rolled out across the country thereafter.

PSDI is supporting the development of innovative products for the rural and urban poor. Low-income populations need a variety of services to smooth cash flow for life-cycle events and to be able to cope with shocks and crises. In 2011, ADB supported microinsurance demand research in Fiji, in partnership with the Pacific Financial Inclusion Program. The research led to the development of three microinsurance product concepts. Discussions are currently ongoing between underwriters and distribution channels on partnerships for offering products. Pilots of products/distribution partnerships are expected in 2012.

**Strengthening the Regulatory Framework for Microfinance Institutions**

In Solomon Islands and Vanuatu, PSDI conducted reviews of the legal and regulatory environment for deposit-taking microfinance institutions and mobile phone–banking operators. Discussions with the respective governments on how the current frameworks can be strengthened are ongoing. An appropriate level of regulation and supervision must be in place—to protect customer deposits—while not overregulating institutions, which can prevent much needed innovation.

**Impact and Lessons Learned**

PSDI has promoted the availability of a broad range of financial services in both urban and rural areas. The impact stories contained in Boxes 1 to 3 illustrate the efficacy of these efforts. Furthermore, national financial inclusion task forces, led by central banks in the region, have considered several issues highlighted in PSDI’s private sector assessments and access to finance studies and led to further requests for PSDI assistance.

Financial institutions in the region continue to struggle to increase outreach of financial services in rural areas in a cost-efficient manner. Innovative technology-based solutions used in pilot activities show promising results. These require further assistance to accelerate the rollout and uptake in the region. While technology can go some way to address these issues, a focus on establishing agent models with existing organizations that have a rural presence will need further exploration.

Local capacity in financial institutions as well as regulators/supervisory authorities continues to be an issue in delivering traditional banking services and will become more pressing as new banking models and technologies evolve. To accelerate improved financial access, support needs to be extended to regulators and clients.
Business Law Reform

Business laws govern the way in which economic activity is organized. They determine how companies are formed, the way that contracts are structured, how businesses expand, and how they are closed down. The ease of company formation and the costs of complying with regulations have a major bearing on the degree of informal economic activity in a country. If the structuring and enforcement of contracting are difficult and costly, investment horizons will be shorter and long-term growth rates lower.

Outdated Legislation in the Pacific

Analytical work undertaken by PSDI reveals that business laws in the Pacific are often outdated, being based on commercial law imported from the United Kingdom during the colonial period. This legislation is decades or even centuries old and is unsuited to modern business practices. Often, the complexity of existing laws requires the extensive use of legal practitioners, raising costs further. Legal services are not available in remoter areas. Forming companies often necessitates a visit to the capital city, which can take days. Frequently, procedures involved in company formation can take months, and require further extensive traveling. The vast majority of the population is therefore excluded from the benefits of the legal system. It is therefore no surprise that the number of formal businesses in rural areas is minuscule.

In many cases, vital pieces of legislation do not exist. Furthermore, detailed analysis shows that many business laws disadvantage women, which negates efforts to promote the equality of gender opportunity. Enforcement of commercial law is often conspicuous by its absence. The result is that business laws are usually outside the purview of the vast majority of the populations of Pacific countries. These countries are remote, necessitating business dealings that take place with business counterparts who are thousands of miles away. The outdated legal framework makes transacting across space and time more costly, with the result that many local businesses are effectively excluded from international commerce.

This is, however, changing as a result of PSDI legal reforms, which are having the effect of making the business law framework far more inclusive. In a number of countries, legal reform is under way, which will have the effect of dramatically changing the ease with which Pacific islanders can engage in formal economic activity. The leader in this area is Solomon Islands, which passed a landmark legislation that is described below. This reform has resulted in the World Bank Doing Business report identifying Solomon Islands as one of the best performing reformers in the world in 2011.8

---

Additional assistance provided by PSDI includes the transformation of paper-based registries to those that are electronic and internet-based. This has the effect of broadening access to legal facilities to any area that has internet connectivity—something that is expanding rapidly in many countries in the region.

The momentum toward modernizing company registries continued in 2011, with the hosting of the second biannual Pacific Registrars Conference in Auckland, New Zealand, in March. The new Solomon Islands Company Haus electronic registry, supported by PSDI, was demonstrated at the conference.

Requests for new electronic registries were subsequently received from Samoa and Tonga. Pending the passage of the appropriate legislation through Parliament, Vanuatu will also receive assistance. Background work was conducted in 2011 to ensure that PSDI can facilitate implementation of the initiatives in 2012.

**Company Registries**

Additional assistance provided by PSDI includes the transformation of paper-based registries to those that are electronic and internet-based. This has the effect of broadening access to legal facilities to any area that has internet connectivity—something that is expanding rapidly in many countries in the region.

The momentum toward modernizing company registries continued in 2011, with the hosting of the second biannual Pacific Registrars Conference in Auckland, New Zealand, in March. The new Solomon Islands Company Haus electronic registry, supported by PSDI, was demonstrated at the conference.

Requests for new electronic registries were subsequently received from Samoa and Tonga. Pending the passage of the appropriate legislation through Parliament, Vanuatu will also receive assistance. Background work was conducted in 2011 to ensure that PSDI can facilitate implementation of the initiatives in 2012.

**Reforms in Solomon Islands**

**The Companies Act.** Since the Companies Act came into force in 2010, there has been a near doubling of the number of new companies being incorporated each year, indicating that the simplified incorporation processes with lower fees have encouraged greater participation in the formal private sector. The positive impacts of the new Solomon Islands company laws continued to be observed through 2011, with almost 1,200 companies successfully reregistering under the new company registry.

### Box 4 Electronic Company Registry Greatly Enhances Transparency in Doing Business

The Solomon Islands Company Haus electronic registry was launched at the end of 2010. The launch was accompanied by intensive training sessions that were held throughout 2011 for members of the private sector, government, professional associations, and interest groups to ensure that they are acquainted with how to access information and register companies. The registry makes available without charge, information regarding the ownership and management of every Solomon Islands company, as well as details about overseas companies operating in Solomon Islands. Company administrators use the system to manage their company details, but any party can inspect the records of any company to obtain useful information. The use of the system has exploded. On average, over 3,200 searches are conducted every day from users including potential investors and traders, police carrying out investigations, Parliament verifying details of ministers’ interests, banks undertaking loan approval procedures, tax authorities verifying company details, and government procurement functions verifying the authenticity of potential contractors. One result has been improved tax collection as tax revenue authorities are now more easily able to keep track of how many businesses have submitted tax returns. The overall impact of the registry has significantly improved transparency, and substantially strengthened the enabling business environment to operate in an efficient manner.

Source: Pacific Private Sector Development Initiative consultations.
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.

**Community Companies.** A unique feature of the new Companies Act is 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 are a powerful instrument for promoting inclusive growth and opportunity.

There are six community companies already operating across four provinces. The companies are involved in various activities, including the provision of agricultural produce to hotels, collective management of logging royalties, reforestation, and the establishment of health facilities. The safeguards of the community company, such as the restriction on paying dividends and the ban on loans to directors, ensure that the profits made by the company are used to benefit the community’s interests, with follow-on impacts on equitable distribution of wealth to women in the community.

---

**Box 5  Promoting Inclusive Growth: Success Stories from Solomon Islands’ First Community Company**

Two communities in rural areas near Honiara, Solomon Islands, wanted to expand their food-growing business to supply local hotels and businesses. A number of potential customers were reluctant to deal with a group of individuals. Under the new Companies Act, forming a community company is a simple procedure. The communities decided, therefore, that they would incorporate. The result was Aruligo and Areatatiki Community Company Limited—the first community company to be incorporated. A major goal was to ensure that the benefits of any business expansion remain with the women in those communities. The community company facilitated these goals by providing a level of formality that led to the signing of a contract with a large hotel for regular supply of fruits and vegetables. It was subsequently approached by the mining company Gold Ridge for a regular supply of their produce. When the only male board member objected to the expansion, the women held a board meeting and voted him off the board. The community company is now taking steps toward establishing a supply arrangement with Gold Ridge.

Illustrating the complementarity of reforms under the Pacific Private Sector Development Initiative, as a result of the secured transactions reforms, the community company has been able to obtain financing for the purchase of a mechanical tiller, which enables the increase in productivity and raises income in the community. This would not have been possible before the secured transactions reform came into effect.

Source: Pacific Private Sector Development Initiative consultations.
Two landowning groups in Isabel province recently took steps to set up community companies to responsibly manage significant potential nickel extraction royalties. The stronger protections under a community-company structure will enhance the ability of the community to better manage the significant royalties due to them in the next 40–50 years, should the nickel mine proceed.

**Reforming the Customs Regime.** The Government of Solomon Islands requested ADB 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. As a result of the review, reform of the Customs and Excise Act is under way. Detailed consultations with the Solomon Islands Customs and Excise Division, affected government agencies, and the business community have been progressing. The Customs and Excise Division has played a particularly supportive role in this process, and its senior management has embraced the need for the reforms. Drafting of the legislative package is well advanced and will be ready for processing through cabinet and parliamentary procedures in 2012.

**Reforms in Samoa and Vanuatu**

Samoa requested a review of its Companies Act, which was completed in 2011, to determine whether it would support an electronic registry. Some amendments to the existing act were suggested as a result of the review. In addition, Samoa has requested assistance with the installation of an electronic registry, which will commence in 2012.

In contrast to Samoa, where reform momentum has revived strongly, in Vanuatu, it has significantly slowed. During 2011, further work was done on the companies bill and the companies (insolvency and receivership) bill. Consultations and discussions continued as the government requested changes to reflect new government policy. However, continued political uncertainty during 2011 has led to ongoing delays in the introduction of the bills into Parliament. PSDI involvement will be resumed upon the receipt of firm commitments from the government regarding moving the process forward.

**Impact and Lessons Learned**

The implementation of the new Companies Act and registry in Solomon Islands appear to be having a strong positive impact on the community. The rate of company formation has more than doubled since the reform, from 124 per year during 2004–2009 to more than 260 per year in 2010 and 2011. This contributes not only to increases in employment, but also to a reduction in informality as well as an increase in tax collections.

Experience also illustrates the power of coordination with other development partners. In particular, the New Zealand Ministry of Economic Development, through the New Zealand Companies Office, has provided strong support through it hosting the Solomon Islands Company Registry. Further cooperation initiatives with New Zealand’s ministry are planned for 2012.

Unfortunately, despite the widespread enthusiasm of the business community for the reform, vacant positions in the Solomon Islands Company Registry Office have not yet been staffed. This is poten-
tially a substantial roadblock to the sustainability of this reform in Solomon Islands. It also illustrates the need for continued government commitment to reforms and perhaps for PSDI to ensure, at an early stage of initiatives, that government approval for the funding of the institutional components of the reform is secured.

While the results in Solomon Islands are encouraging, experience with legal reform in the Pacific illustrates the problems associated with PSDI’s ambitious agenda. Legal reform of this type is a complex process requiring persistence and good timing if it is to achieve its results. Time horizons can easily exceed the standard 3-year time frame of most technical assistance programs. It is a significant strength of PSDI that it can accommodate lengthy reform periods. Furthermore, the lengthy time horizons experienced in the Pacific are not unique to the region, or to the level of development of countries in the region. It is commonplace for important reforms being undertaken by high-income countries to take many years to come to fruition.

Furthermore, PSDI has unique strengths compared with stand-alone technical assistance. Not only can it accommodate lengthy reform periods, it also allows for the reallocation of resources away from countries where commitment is insufficient toward those that request urgent assistance. The suspension of work in Vanuatu because of lack of progress with the legislative agenda is an illustration of this feature of PSDI.

A key theme of the legal reform promoted under PSDI is the implementation of the laws that are being adopted by Pacific DMC governments. Implementation is a crucial component of the legal and regulatory reform process. If the new laws are to work as desired, significant resources must be allocated to implementation. This has occurred a number of times over the past few years. An extensive implementation program accompanied the company law reform in Solomon Islands. The success of the reform was in part the result of the extensive public awareness campaign, which included radio and newspaper coverage as well as training seminars to key groups, including women’s associations. The campaign commenced in 2010 and continued into 2011.

Similar implementation programs will occur when company law reforms are completed in Samoa, Tonga, and Vanuatu.
State-Owned Enterprise Reform and Public–Private Partnerships

SOEs place a significant and unsustainable strain on Pacific economies. They absorb large amounts of scarce capital, on which they provide very low returns. PSDI’s analytical work in 2011 revealed that SOEs in the five benchmarked countries absorbed between 15% and 31% of total fixed assets, yet their contribution to gross domestic product for every $1 invested ranged from a high of $0.27 to a low of –$0.07. This represents a significant destruction in economic value and places a heavy burden on the private sector. If economies are to grow, the private sector must work even harder and more efficiently to compensate for the poor performance of SOEs. 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, while 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.

Box 6  Removing Public Officials from Boards of State-Owned Enterprises

Finding Balance 2009 and Finding Balance 2011 identified the practice of appointing ministers and public servants to its state-owned enterprise (SOE) boards—often as chair—as the strongest causal link in explaining the poor performance of SOEs in the region. For example, in Samoa, where the average return on equity for 2002–2007 was –0.5%, ministers served as the chair on 18 of the 24 SOEs, while senior public servants chaired a further three. Ministers and public servants made up 33% of all board appointments. As a result, the Prime Minister decided that fundamental change was necessary. He required all ministers to resign their positions on SOE boards. An Independent Selection Committee has been established to select new directors, the first of its kind in the region. A total of 180 private sector directors are now being appointed following the passage of the Composition of Boards of Public Bodies Bill in early 2012.

Source: Pacific Private Sector Development Initiative.


The following are the figures for the respective countries as of FY2008: Fiji = $0.19, RMI = $0.04, Samoa = $0.13, Solomon Islands = –$0.07, and Tonga = $0.27.
PSDI’s work in SOE reform and 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. The goal is to significantly reduce the costs of the SOE sector in each country, while improving the quality of infrastructure and related service delivery through increased private sector participation.

**State-Owned Enterprise Reform**

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

- Having sound governance practices free of undue political influence
- Having robust SOE legislation
- Having a competent and well-resourced SOE monitoring unit reporting directly to a responsible minister
- Ensuring high levels of transparency and accountability
- SOEs having an unambiguous commercial mandate
- Having political commitment to improve the functioning 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
- Restructuring and/or privatizing SOEs

As PSDI’s interventions are always demand-driven, the allocation of efforts between countries differs from year to year. In 2011, no technical assistance resources were expended to Vanuatu, where the current government has little appetite for substantive reform. In PNG, in contrast, the new government has undertaken a wide-ranging SOE reform effort, to which PSDI has actively contributed. Highlights of PSDI’s SOE reform work in 2011 include the following.

**Improving Governance and Monitoring Practices**

In Solomon Islands, PSDI continued to support the Ministry of Finance in the implementation of the 2010 SOE Act regulations concerning the selection and appointment of directors and the management of community service obligations (CSOs). This has resulted in the planned restructuring of 15 board positions in 2012 and the signing of one CSO contract in 2011. Three further CSO contracts are to be signed in 2012. PSDI also provided training sessions for directors in Tonga, with a rollout of this program planned for Samoa and Solomon Islands once the new director appointments are made in 2012.

In Tonga, PSDI continued to support the implementation of its CSO guidelines, while in PNG work was revived to develop new principles through which SOEs could deliver CSOs on a fully commercial basis.
PSDI promoted SOE governance focused on transparency and accountability. In 2011, PSDI supported SOEs in Solomon Islands to prepare financial accounts and statements of corporate objectives. In Tonga, PSDI provided ongoing support to the Ministry of Public Enterprises to publish the financial results of the SOEs.

**Strengthening Legal and Regulatory Frameworks**

PSDI supported the new Minister for Public Enterprises in PNG to develop amendments to the Independent Public Business Corporation Act to substantially increase its provisions on transparency and accountability.

At the request of the Government of the Cook Islands, PSDI undertook a gap analysis in the legislative, governance, and monitoring frameworks that apply to SOEs. These recommendations are under implementation in 2012.

**Restructuring and Privatizing State-Owned Enterprises**

The privatization of Solomon Island Printers was largely completed in 2011, with most of the assets sold. The bid documents were completed for Tonga Print, for issuance in 2012. Also in Tonga, PSDI supported the corporatization and commercialization of the biosecurity heat treatment facility previously operated by the Ministry of Agriculture.

In Nauru, PSDI supported the Republic of Nauru Phosphate Corporation in its corporate restructuring and recruitment of a new chief executive officer, who commenced work in October 2011.

In Fiji, PSDI provided peer review for a proposed technical assistance program for Fiji’s SOEs, to be managed by ADB’s South Pacific Subregional Office. In Samoa and Tonga, ongoing policy dialogue has led to a tentative agreement to privatize a further two SOEs in 2012.

**Analytical Work**

PSDI continued its analytical work in 2011, as an essential component in its ongoing advocacy for SOE reform. PSDI’s second SOE benchmarking study, *Finding Balance 2011* (footnote 9), was formally launched at the regional Pacific Leaders’ Meeting in April 2011, and subsequent cabinet seminars in Solomon Islands and Tonga. These were instrumental in creating increased appetite for reform.

PNG, which did not participate in the initial study, subsequently requested a similar analysis in September 2011 to support the SOE reform efforts of the new Minister for Public Enterprises. This is the first such benchmarking study which has included PNG and will represent a milestone in transparency for the country. In late 2011, the Independent Public Business Corporation, the holding company for the SOEs, published its annual report for the first time on its website. This increased level of transparency and accountability will provide the public with a solid basis on which to demand continued disclosure from the SOEs and the future IPBC management team.
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 new Solomon Islands and Tongan SOE legislation 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.

![Figure 5 Fiscal Transfers to State-Owned Enterprises](source:

**State-Owned Enterprise Reform Results**

The ongoing SOE reform efforts are beginning to show promising results, with the 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 (Figure 5). This indicates increased discipline from the governments that are imposing harder budget constraints on their respective SOEs, and improved governance and management practices within the SOEs.
Public–Private Partnership Results

PPPs have become a central theme in reform in Pacific DMCs, not only in PSDI but also in ADB’s 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 2011 to assist countries with their PPP frameworks. Success has begun to attend these efforts. In Timor-Leste, a PPP policy and draft law was finalized in 2011 and endorsed by the Cabinet in early 2012. In PNG, a draft PPP bill was finalized in 2011 and now awaits submission to Parliament. These legal frameworks 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 frameworks are being developed, PPP transactions are being prepared, such as operation and maintenance contracts in the water and wastewater sectors in Timor-Leste and Vanuatu, the power sector in Timor-Leste, and the port sector in PNG. PSDI’s PPP assessment for PNG’s Lae Port resulted in the government’s commitment to operate the port under a PPP arrangement in the future. This work complements a large ADB investment in Lae Port. 11

PSDI also conducted PPP assessments of 22 potential infrastructure projects in Timor-Leste in collaboration with the International Finance Corporation. This resulted in four pre-feasibility studies. This work is expected to lead to a number of PPP contracts and to enhance significantly the capacity of the government to deliver core infrastructure services. PSDI’s particular focus has been on the development of PPP contracts for the operation and maintenance of Timor-Leste’s new power plants. In parallel, PSDI supported the development of a business plan for Timor-Leste’s new PPP Unit, as well as detailed procedures for developing, tendering, and implementing PPP contracts.

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. More complex PPPs involving capital investments and longer-term concessions will be the next step, and a number of these transactions are now under preparation in Timor-Leste and 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.

Crosscutting Issues

Besides working in the key focus areas, PSDI also has a number of crosscutting issues that span its work.

**Monitoring and Evaluation**

The monitoring and evaluation (M&E) framework that was described in detail in the 2010 PSDI Annual Progress Report\(^2\) continues to evolve. Detailed tracking data are available for each initiative and project, and outcome, output, and impact indicators are collected and updated. The system is functioning well, both as a reporting and monitoring, and management tool for PSDI. It is integrated with a budgetary mechanism that allows for the effective allocation of resources among focus areas and countries.

A new feature of the M&E framework that will become available in 2012 is the collection of higher-level aggregate impact indicators in an attempt to show more clearly the combined regional impact of PSDI.

Focus area indicators have been developed for company law reform and secured transactions reform, which are designed to summarize outcomes and achievements in these areas. While these data reflect those provided in the individual focus areas, they indicate how such data can be aggregated to show summary outcomes.

Reform priorities in each focus area, as outlined in PSDI’s analytical work, ADB country partnership strategies, and government requests for assistance, trigger initiatives to address constraints to private sector development or missing elements that are essential for the private sector to flourish. Each initiative may consist of several projects. An example of an initiative is company law reform. As part of the initiative, projects would consist of writing a new law, installing an electronic registry, and implementing the reforms.

Figures 6 and 7 illustrate how the M&E framework aggregates data in focus areas in order to provide a summary of outcomes. While the individual data have already been presented, the summary information also shows how outcomes can be aggregated to provide an overview of what has been achieved.

---

Company law reform increases the impact of secured transactions reform in Solomon Islands.

The reform is reducing informality. Registrations per month have doubled since the reform.

New Incorporations per Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Incorporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>108</td>
</tr>
<tr>
<td>2005</td>
<td>92</td>
</tr>
<tr>
<td>2006</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>159</td>
</tr>
<tr>
<td>2008</td>
<td>157</td>
</tr>
<tr>
<td>2009</td>
<td>127</td>
</tr>
<tr>
<td>2010</td>
<td>286</td>
</tr>
<tr>
<td>2011</td>
<td>270</td>
</tr>
</tbody>
</table>

Monthly Incorporations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7</td>
<td>37</td>
<td>26</td>
<td>25</td>
<td>28</td>
<td>28</td>
<td>22</td>
<td>17</td>
<td>36</td>
<td>16</td>
<td>16</td>
<td>28</td>
<td>18</td>
<td>22</td>
<td>30</td>
<td>22</td>
<td>26</td>
<td>17</td>
</tr>
</tbody>
</table>

Breakdown of Shareholding by Gender

- **Male Shareholding**: 2,076
- **Women Shareholding**: 2,076

Ten community companies have been formed, which opened access to credit to communities that formally could only apply for micro loans.

Information on who is forming companies and directors by gender is now available.

**Sectors in which Incorporations Have Occurred**

- Agriculture: 44
- Forestry: 140
- Fisheries: 32
- Mining: 47
- Manufacturing: 59
- Distribution: 107
- Tourism: 48
- Entertainment-Catering: 22
- Transportation: 63
- Telecommunications: 15
- Construction: 37
- Statutory Corporation: 0
- Financial Institutions: 7
- Professional and Other Services: 76
- Retail: 98
- Communications and Information Technology: 12
- Insurance Services: 4
- Education: 0
- Health: 5
- Real Estate and Renting: 45
- Other: 400

Table showing the number of companies by location:

<table>
<thead>
<tr>
<th>Location</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honiara</td>
<td>1,116</td>
</tr>
<tr>
<td>Guadalcanal</td>
<td>77</td>
</tr>
<tr>
<td>Western Province</td>
<td>41</td>
</tr>
<tr>
<td>Makira</td>
<td>11</td>
</tr>
<tr>
<td>Isabel</td>
<td>6</td>
</tr>
<tr>
<td>Makira-ULawa</td>
<td>4</td>
</tr>
<tr>
<td>Central Province</td>
<td>5</td>
</tr>
<tr>
<td>Rennell Bellona</td>
<td>1</td>
</tr>
<tr>
<td>Choiseu</td>
<td>1</td>
</tr>
</tbody>
</table>

**Figure 6 The Impact of Company Law Reform in Solomon Islands**

Source: Solomon Islands Company Haus.
Since secured transactions reform began in Pacific island economies, about 15,000 new secured loans were made to business and consumers by formal financial institutions. Most of these were in the last 3 years.

- The registries that record security interests are being used increasingly; cumulative searches of the registries numbered 16,174 at the end of 2011.
- As a direct result of the reforms, borrowing costs have declined by 2 percentage points in the Republic of the Marshall Islands, 3 percentage points in Solomon Islands, and 2 percentage points in Vanuatu.
- Other benefits:
  - In the unreformed system, lenders always passed on the substantial legal fees paid for the preparation of loan documents to borrowers, raising the costs of borrowing. These have almost completely disappeared because most of the loan documentation is now standardized.
  - When loans are repaid fully, the records of security interests are being retired. This has never happened before in the Pacific.
  - Time for lenders processing loan applications has fallen from weeks to days.
  - Lenders are offering a much greater variety of loan products.
  - Ease of repossession in the event of default has risen substantially, reducing the risk of lending. What used to take months or years, now only takes a few days.
  - The electronic registries not only save the government money compared with the manual registries, the fee revenue from the registration of security interests exceeds the annual cost of running the electronic registries.

Sources: Republic of Marshall Islands, Federated States of Micronesia, Solomon Islands, and Vanuatu secured transactions registries.


**Inclusive Growth: Promoting Gender Equity**

PSDI actively considers gender issues when deciding on initiatives and projects. Furthermore, PSDI classifies gender impact. The system follows the ADB gender classification framework, and assigns a rating based on the following scale: 1 (actively promoting gender equity), 2 (effective gender mainstreaming), 3 (some gender benefits), and 4 (no gender impact at all).

The distribution of PSDI initiatives and projects classified by gender impact is shown in Figure 8. All of the initiatives and projects promote gender benefits, with 45 of the 70 initiatives classified as either category 1 or 2. PSDI has collected significant anecdotal evidence of the substantial gender effects of the company law reform in Solomon Islands, in particular from the provision of community companies. In PNG and Timor-Leste, there has been a large increase in bank accounts opened and held by women. Before these facilities became available, many women opening accounts had never been in control of their own finances.

Similar pro-gender reforms have occurred in other countries. Currently, an upgrade of the secured transactions electronic registries is under way, which will allow for the collection of more comprehensive data on the gender composition of lending under the new reforms.

---

**Figure 8  Pacific Private Sector Development Initiative Activities by Gender Classification**

(\% of Total)

- **Gender Equity** 6\% 4 of 70 initiatives
- **Effective Gender Mainstreaming** 59\% 41 of 70 initiatives
- **Some Gender Benefits** 35\% 25 of 70 initiatives

**Source:** Pacific Private Sector Development Initiative.
**Competition**

In Pacific island countries, competition is often limited by market size. While threat of new entrants often restrains monopolistic behavior, in some cases, there is a severe lack of competition, often the result of the need to generate economies of scale. The provision of telecommunications services is one such example. Similarly, there is often only one company providing electricity. These activities require regulation. The issues are often complex, with trade-offs existing between economic efficiency that require economies of scale and competition. PSDI is moving into assisting Pacific countries in this area.

Currently, PSDI is providing assistance to strengthen the capacity of the Independent Consumer and Competition Commission (ICCC) in PNG in the area of investigations and/or inquiries into competition cases. The initiative specifically aims to help ICCC be able to systematically undertake 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.

**Development Cooperation**

PSDI actively seeks to work with development partners. Meetings with the donor coordination group that occur three times per year guarantee that there is widespread dissemination of PSDI activities and ensure effective coordination and collaboration with development partners.

In the financial inclusion program, efforts go beyond cooperation to joint support, based on each partner’s comparative strengths. The microinsurance demand research in Fiji and mobile banking work in PNG are examples.

PSDI cooperates closely with the governments of Australia and New Zealand. Missions to countries in the region routinely consult with AusAID and the New Zealand Aid Programme to brief them on what is being done and to explore opportunities for working together. An example is the reform of the Customs Act in Solomon Islands, which is being financed by AusAID and which is being implemented in close collaboration with the Australian Customs and Border Protection Service and the Regional Assistance Mission to Solomon Islands.

PSDI works closely with the New Zealand Ministry of Economic Development, in particular, the Companies Office, which is cooperating with PSDI in implementing reforms of the companies acts and the establishment of electronic registries in the region. A regional seminar to highlight reform experiences and to plan further reforms over the next 2 years was held in Auckland in March 2011 and was attended by senior registry officials from countries around the region.
As PSDI evolves, its profile continues to increase and demand for assistance grows. While it is clear that PSDI is not a substitute for investment in education, health, infrastructure, and technology, both analysis and experience show that private sector development reforms are an important complement to reforms in the other sectors, enhancing their impact and contributing to the alleviation of poverty in the region.

Lessons from the First 5 Years of the Pacific Private Sector Development Initiative

A number of powerful lessons arise from the first 5 years of operation of PSDI:

- The importance of ongoing analytic work and advocacy, as well as the necessity of coordinating development efforts.
- Working on reforms in several countries accumulates a reservoir of expertise that grows as experience is accumulated and makes subsequent interventions more effective.
- While acknowledging each country’s unique systems, cultures, and nuances, there are powerful benefits in working on similar issues in several countries simultaneously. Successful reform in one country has a strong demonstration effect in other countries and increases the demand for reforms more generally.13
- The flexibility built into PSDI allows for reallocation of resources that are initially assigned to one country to be redirected to others where commitment to reform is higher.
- Long time horizons are essential to achieve results in many of the areas covered by PSDI. The standard 2–3-year timeframe of technical assistance projects is often insufficient to implement complex reform. Furthermore, the continuity of PSDI has built up a body of institutional memory, trust in Pacific DMCs, and expertise in the core areas that is unmatched, and allows for rapid, on-the-ground assistance that would otherwise not be possible.
- Intensive implementation is necessary to assure the success of many initiatives in PSDI, in the areas of legal reform, access to finance, SOE reform, and PPPs. These require intensive inputs from PSDI personnel as well as significant resources.
- The continuity of the PSDI team has proven to be one of its greatest strengths and has enabled long-term ongoing dialogue with government and private sector counterparts in the countries in the region. Furthermore, it has also been a major factor in continuing to

---

13 A good example is the ongoing work on the efficiency of SOEs in Pacific DMCs. As a result of the widespread dissemination of the Finding Balance analyses, which highlight the costs that poorly performing SOEs impose on economies, the demand for technical assistance to facilitate SOE reform is expected to increase in 2012 and 2013. For example, PNG had earlier declined to participate in Finding Balance 2011. However, at the request of the government, PSDI is now funding an analysis of PNG’s SOE performance from FY2002 to FY2010.
The Way Forward

raise the awareness of private sector development–oriented reform in Pacific DMCs. As a result, reform efforts look to continue and deepen as a result of PSDI, which is also proving to be a model that is being adopted in other parts of the world.

Challenges

Challenges arise in several areas:

• Changes in government in Pacific DMCs present a challenge to the implementation of reform. New ministers and senior government officials need time to become acquainted with the details of programs with which they are unfamiliar. However, the unique flexibility of PSDI allows initiatives to be suspended and subsequently resumed when new counterpart ministries are in place and are ready to resume reform programs.

• The success of PSDI has resulted in increased requests for assistance, putting PSDI’s current capacity under severe strain. Although this presents challenges for financial and human resources, this will be taken into consideration during the preparation of a possible third phase of PSDI.

The Pacific Private Sector Development Initiative in 2012 and Beyond

To achieve its goal of promoting inclusive growth, as it moves into 2012, PSDI has a full and challenging program to execute. In each focus area, new initiatives will get under way, while the implementation of existing reforms will continue. New areas of concentration are opening up. In particular, the ongoing work on competition policy will expand to cover a complete review of competition and regulation in a number of Pacific countries. Developing a more effective framework for contracting will commence in 2012, with an initial focus on its applicability in Tonga, and, if satisfactory progress is made, will be extended to other countries.

The extensive PSDI commercial law reform program will continue in 2012. Legal reform is part of a larger platform to capitalize on the increasing use of technology in the region. The legal framework needs to be extended to take advantage of technological developments. Currently, many countries do not have the necessary laws in place for this to occur. Technology also provides the opportunity to integrate these reforms to maximize the availability of information, i.e., company registries can be integrated with secured transactions, business names, and foreign investment registries. As internet access improves, rural areas will also have access to the information. If there is compatibility across countries, availability of information will no longer be constrained by national boundaries. A beneficial side effect will be much more comprehensive data that will, in turn, allow for better evaluation of data and design of future programs.
The following are some highlights of planned reforms:

Following the success of the 2nd biannual registrar’s conference, the rollout of secured transactions reform in several Pacific DMCs, and the forthcoming implementation of reform in PNG, a secured transactions conference is planned for 2012. Australia has also recently adopted a new secured transactions framework, and the conference will bring together bankers, lawyers, and development practitioners with a view to informing banks in the region of the strengths of the new reforms. This should encourage them to take a more proactive approach to using the new framework.

A further reform will involve simplifying and reducing the costs of business registration and licensing through business names reform in Solomon Islands, and possibly Samoa and Tonga. These have been important barriers that have excluded women and those in rural areas.

Foreign investment diagnosis and policy development will start in Tonga in 2012 to enable faster entry and registration of foreign investors. PSDI has been requested by the Solomon Islands government to support the design and installation of a new electronic foreign investment registry since their current hybrid paper/electronic registry is not operating effectively. Assistance will be provided depending on the adequate resourcing of the Company Registry Office.

In 2012, work will commence on the implementation of a contracting code for Tonga, which could then be used as a model for other countries. Currently, contracting in the region is uncertain and enforcement is haphazard. The code will address the current weaknesses and ensure that a code is recommended that will be effective and tailored to the needs of local (regional) users. It must remove the legalese and confusion arising from many aspects of English common law as applied to contracts and ensure that the benefits of a codified approach, such as the following, are supported:

- Improves accessibility
- Improves enforcement, removes unnecessary disputes, and encourages alternative dispute resolution within a Pacific context
- Widens the use of contracts by the business sector
- Embraces customary law and practices
- Creates greater ease of understanding by courts
- Encourages participation in the formal economy
- Encourages better-managed opportunities and risks for the private sector
- Reduces the costs of doing business

In SOE reform, PSDI will continue to develop and implement CSO frameworks in PNG and Solomon Islands; pursue SOE restructuring and privatization in Samoa, Solomon Islands, and Tonga; and further enhance governance frameworks through director and SOE monitoring unit training in Samoa, Solomon Islands, Tonga, and Vanuatu. In the RMI, the recent endorsement of a new SOE policy will lead to the development of a new SOE Act, which PSDI will support. PSDI will also continue to work closely with ADB’s technical assistance teams implementing SOE reform programs in the Cook Islands, Fiji, Kiribati, Nauru, Palau, and Tuvalu. The first performance benchmarking analysis of the SOE portfolio in PNG will be published as an update of the Finding Balance series.

In the area of PPPs, work will focus on preparing transactions in PNG, Solomon Islands, Timor-Leste, and Vanuatu in the power, telecommunications, transport, and water sectors. In Timor-Leste, PSDI will also support the establishment of the PPP unit and PPP process, following the adoption of the
new PPP decree law in February 2012. The processing of the first PPP transaction—an operations and maintenance contract in the power sector—will provide an ideal on-the-job training opportunity for Timorese officials involved in the PPP program. In PNG, PSDI will conduct a PPP assessment of Jacksons International Airport in anticipation of a major expansion program, and will continue to support the Department of Treasury in preparing the PPP bill for submission to Parliament, but the electoral calendar is likely to push this submission to late 2012. In Solomon Islands, PSDI has been supporting the development of a PPP structure to finance and operate a future undersea telecommunications cable, and it is anticipated that a similar approach may be taken in Timor-Leste. Finally, in Vanuatu, smaller PPP transactions have been built into two recently approved ADB loans, and PSDI will support their implementation.
APPENDIX I
Activities by Country

Cook Islands

PSDI activities in the Cook Islands have focused on competition issues and state-owned enterprise (SOE) reforms, which comprised 80% and 20% of total spending, respectively (Figure A1.1). An assessment of the competition and consumer protection laws was completed in 2009. In 2011, at the request of the government, the Pacific Private Sector Development Initiative (PSDI) undertook an analysis of the gaps in the legislative, governance, and monitoring frameworks that apply to SOEs in the Cook Islands. A paper was presented to the government listing the gaps identified and recommending corrective actions that should be taken as well as specifying implementation priorities.

Fiji

Although development partner activities in Fiji continue to be limited by political considerations, PSDI has spent over $250,000 in initiatives that support private sector development in the country. As illustrated in Figure A1.2, 72% of total spending has been on access to finance and 28% 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 2011.1

Access to Finance

Following a national financial inclusion workshop held in Fiji in late 2009, PSDI supported assessments of the microfinance and microinsurance industries. As a result of these assessments, the Asian Development Bank (ADB) has continued to work with the Australian Agency for International Development (AusAID) and the Pacific Financial Inclusion Programme (PFIP) to encourage the development of microinsurance in the country. In 2011, ADB carried out microinsurance demand research in Fiji, in partnership with PFIP and AusAID, underwriters, and potential distribution channels. This has led to the development of three microinsurance product concepts. Discussions are currently ongoing between underwriters and distribution channels on partnerships for offering products. Pilots of products and/or distribution partnerships are expected to commence in 2012.

Crosscutting

Also in 2011, PSDI undertook an in-depth analysis of the constraints to private sector development in Fiji with a view to identifying policy reform priorities that would contribute to private sector–led economic growth and poverty alleviation. The private sector assessment for Fiji will be finalized and published in 2012.

Republic of the Marshall Islands

The Republic of the Marshall Islands (RMI) has received a small proportion of PSDI funds with $31,196 in total disbursements. Figure A1.3 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. About $5,000 was spent in the area of access to finance, particularly on work related to secured transactions reform. The RMI has also participated in the comparative analysis of SOE performance and reform experiences in the Pacific completed in 2011.2

Nauru

In 2011, the Government of Nauru sought assistance from ADB to restructure the senior executive management of the Republic of Nauru Phosphate Corporation (RONPHOS), 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 (CEO), who commenced

---

work in October 2011. This SOE reform initiative saw resources supporting the Government of Nauru for the first time, with an expenditure of close to $40,000.

The performance of RONPHOS has improved since the new CEO took over. The company is on track to meet its two key performance targets: an export volume of 450,000 tons and the timely payment of dividends to the government. With the phosphate industry currently supporting about 700 families in a population of 10,000, the improved governance and performance of RONPHOS has a substantial positive effect on the economy, significantly improving the lives of the people of Nauru.

**Palau**

PSDI support to Palau has focused on the area of access to finance, with approximately $96,000 being spent on secured transactions reform. A draft secured transactions bill was passed by Congress in early 2012. Following the passage of the new law, PSDI will support the development of an electronic registry to support the Secured Transactions Act.

**Papua New Guinea**

Papua New Guinea (PNG) has the third largest share of PSDI spending among Pacific DMCs, with disbursements totaling over $1.5 million. As shown in Figure A1.4, a 44% share of the expenditure was applied to access to finance, and 43% of funds spent in PNG were for SOE reform and activities related to public–private partnerships (PPPs). Crosscutting issues absorbed 13%. Less than 1% was spent on competition issues.

**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, and regulation and supervision of the microfinance industry, and promoting expansion of credit to micro and small enterprises through a risk-share facility.

Nationwide Microbank has developed an innovative mobile phone–linked bank account, which is currently being pilot-tested in West New Britain Province with support from PSDI. The service will enable customers to deposit and withdraw funds from their bank account through an agent network, without having to travel to a bank branch, and to transfer funds to friends and family who also have a bank account with Nationwide Microbank. This will reduce transaction costs, increase security, and greatly improve the ease of accessing financial services. The pilot, which started in November 2011, is expected to run for 6 months, following which the service is expected to be rolled out across the country.
During the year, extensive consultations were conducted on the Personal Property Securities Bill, and there was excellent participation by stakeholders. The bill was presented to Parliament and passed into law in December 2011. Implementation, including the installation of an electronic registry, is scheduled to commence in June 2012, so the act can be operational later in 2012.

**Competition**

PSDI is currently providing assistance to strengthen the capacity of the Independent Consumer and Competition Commission (ICCC). The initiative specifically aims to help ICCC be able to systematically undertake 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 2007–2008, PSDI supported the ICCC in establishing the parameters for competition in PNG’s mobile telecommunications sector.

**Crosscutting**

In 2008, PSDI published a private sector assessment for PNG and an analytical summary of a survey identifying key constraints to business. PSDI also provided funds for private sector development seminars organized with the Institute of National Affairs (INA) and the Port Moresby Chamber of Commerce and Industry. In late 2011, PSDI initiated a program of support to enable the INA to conduct the 2012 business environment survey.

**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 CSOs by SOEs. A CSO policy was drafted; however, due to lack of political commitment, the CSO working group was effectively disbanded. In November 2011, the new government revived the CSO work, which is now finalizing the CSO policy. Concurrent efforts are also under way to substantially strengthen the governance framework for the SOEs, which was one of the weakest in the Pacific. In 2011, PSDI provided inputs to the amendments to the Independent Business Corporation Act and conducted a benchmarking analysis of the performance of PNG’s SOEs. This study, which will be published in 2012, represents a significant improvement in SOE transparency in PNG.

In the area of public–private partnerships, a PPP Policy was prepared in 2008 and a draft PPP bill finalized in 2011, in close collaboration with a multi-agency task force. The bill now awaits submission to Parliament. The framework 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. PSDI’s PPP assessment for Lae Port resulted in the government’s commitment to operate the future port under a PPP arrangement. This work complements a large ADB loan for Lae Port. In the health sector, PSDI in 2010 completed an assessment of PPP options for the redevelopment of the Angau Hospital in Lae. Another PPP assessment is now under way for Jacksons International Airport.

Samoa

The Government of Samoa has requested assistance from PSDI in a number of areas, including improvement of access to finance through secured transactions reform; reform of commercial law, including a company registry; and further assistance with reforming SOEs.

Figure A1.5 shows the amount disbursed for PSDI activities in Samoa, with about 40% spent on SOE reform activities. More than a third was spent on access to finance, including secured transactions reform, and about a quarter on crosscutting issues, including the preparation of the 2008 private sector assessment. Business law reform comprised only 4% of spending. After slowing over the past couple of years, the reform momentum in Samoa revived strongly in 2011, with a number of activities that were put on hold in 2009 and 2010 being revived in 2011.

Access to Finance

ADB recommenced secured transactions reform in Samoa through PSDI in 2011. A new bill has been finalized, which should be considered by Parliament in 2012. Design and installation of a supporting registry will follow the introduction of the new act. There will also be wide implementation and public awareness on the application of the new law.

In 2008, PSDI supported the preparation of a feasibility study for the strengthening of Samoa’s commercial banking sector through technical assistance and a quasi-equity investment (subordinated convertible bonds) in a commercial bank.

Business Law Reform

Company Law Reform. Samoa requested a review of its Companies Act 2008, completed in 2011, to determine whether it would support an electronic registry. Some amendments to the

---

existing act were suggested as a result of the review. In addition, Samoa has requested assistance with the installation of an electronic registry, work on which will commence in 2012.

**Land.** PSDI also provided assistance to identify the options for the establishment of the Customary Land Advisory Commission (CLAC), with a view to drafting legislation to support the introduction of the CLAC.

**Review of Business Laws.** The Attorney General has requested PSDI assistance in reviewing the current business laws and recommending priorities for reform. This work will commence in 2012 and may lead to a series of follow-on advisory work updating legislation.

**Crosscutting**

In 2008, a private sector assessment (footnote 4) was prepared to identify and discuss solutions to address the binding constraints on doing business in Samoa as well as to recommend reform priorities. An update to this assessment is currently being prepared, to be published in 2012.

**State-Owned Enterprise Reform**

Samoa was one of the countries that participated in the PSDI-funded comparative studies on the performance of SOEs in the Pacific (footnote 2). After the publication of *Finding Balance* in 2009, the government introduced a number of reform initiatives to strengthen SOE governance. These, however, were not fully adopted and Samoa’s SOEs continue to perform at levels well below the government target of 7% return on equity.

PSDI continues to support the broad-based SOE reform program in Samoa. It provided assistance for the development of an SOE reform pipeline for 2008–2012 and the implementation of the CSO framework. As part of its commitment to enhancing institutional capacity, ADB also supported the development of the Samoa Institute of Directors and their ongoing director training programs.

From the end of 2007 to March 2008, PSDI funded an adviser to assist the Ministry of Finance in developing capacity in its SOE Monitoring Division (SOEMD) for 4 months. The adviser provided training to SOE managers on the development of corporate plans, helped develop guidelines for CSOs, enhanced SOE quarterly reports, assisted in developing a strategic plan for the SOEMD, helped formulate an ongoing privatization pipeline, and helped draft the SOEMD corporate plan for the 2009/2010 financial year.

The Samoa Broadcasting Corporation was privatized in 2008 with PSDI support. PSDI also carried out an in-depth analysis of the reform options for the loss-making Samoa Shipping Services in 2007. With the passage of the Composition Bill in early 2012, the boards of all SOEs will be restructured to remove elected officials and civil servants, and PSDI will support the induction training of approximately 180 new directors. Concurrently, the government has asked PSDI to support the privatization of three additional SOEs.
Solomon Islands

The Government of Solomon Islands has proved to be proactive in undertaking business law reform that benefits the private sector. As a result of some key reforms supported by PSDI, Solomon Islands moved up 30 places in the World Bank Doing Business rankings from 104th in 2010 to 74th in 2012.

Solomon Islands received the second largest share of PSDI funds at more than $1.8 million (Figure A1.6). The breakdown by focus area shows more than half of disbursements allocated toward activities in business law reform, the majority of which was spent on company law and customs 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. A private sector assessment, which is currently under preparation, accounts for the 2% of crosscutting expenditures.

Access to Finance

The Secured Transactions Act commenced in 2008, and the associated electronic registry was established in 2009 with support from PSDI. In the last year, registered security interests have increased about 15-fold from 177 to 2,500.

The time it takes to issue a secured loan has also significantly dropped from several weeks to 1 day. As a result of the reforms, borrowing costs in Solomon Islands have declined by 3 percentage points, through the elimination of stamp duty.

PSDI also supported the Central Bank of Solomon Islands and the National Financial Inclusion Taskforce in reviewing the current regulatory framework for microfinance and mobile banking, providing recommendations for further action, with a view to encouraging greater financial inclusion in Solomon Islands.

Business Law Reform

Company Law Reform. Since the Solomon Islands Companies Act 2009 came into force in 2010, and the electronic company registry was established the same year, there has been a near doubling of the number of new companies incorporating each year, indicating that the simplified incorporation processes with lower fees have encouraged greater participation in the formal private sector. The positive impacts of the new laws continued to be observed through 2011, with almost 1,200 companies successfully reregistering under the new company registry and over 250 new companies having been registered.
The new laws eliminate various barriers to company formation, including obtaining 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 several months to less than 36 hours. Improvements in the company law framework have also been observed, with greater strengthening of shareholder rights, more straightforward liquidation and insolvency procedures, and the encouragement of companies supporting community-based business, which are intended to preserve and grow community assets into the future.

There are six community companies already operating across four provinces in the areas of agriculture, forestry, and health. The companies are involved with various activities including the provision of agricultural goods to hotels, collective management of logging royalties, reforestation, and the establishment of health facilities.

The implementation of the new Companies Act and registry appear to be having a strong positive impact on the community. New community companies have successfully established supply relationships with local hotels and other larger companies, which significantly enhancing community income and creating jobs where none existed before.

Unfortunately, despite the widespread enthusiasm of the business community for the reform, key positions in the Company Registry Office have not yet been staffed. This is potentially a substantial roadblock on the sustainability of this reform in Solomon Islands.

Reform of the Customs and Excise Act. The Solomon Islands government requested ADB 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. As a result of the review, reform of the Customs and Excise Act is under way. Drafting of the legislative package is well advanced and during 2012 will be ready for processing through cabinet and parliamentary procedures.

Other Activities. PSDI is also assisting the government in drafting a new trustee bill and in reviewing the Registration of Business Names Act 1971 and the contracting framework. Pending the adequate resourcing of the Company Registry Office, PSDI will support business names reform, which will integrate the currently manual system into the electronic company registry.

PSDI is currently supporting the upgrade of the secured transactions electronic registry and will continue to provide training and support on both the company and secured transactions registries in cooperation with the New Zealand Ministry of Economic Development.

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. It supported the SOE Monitoring Unit in implementing the CSO framework by piloting new CSO
guidelines in four SOEs, with the first ever CSO contracts being signed by two SOEs in 2011. These guidelines will then be rolled out to the remaining SOEs in the portfolio. PSDI is also supporting the upgrading of accounting systems in four SOEs, and the privatization of Solomon Island Printers, which was completed in early 2012. This follows the successful privatization of Home Finance and Sasape Marina in 2008 and 2010, respectively. Solomon Islands participated in the PSDI-funded comparative study on the performance of SOEs in the Pacific completed in 2011 (footnote 2). PSDI is providing ongoing support to the government in training new SOE directors, more than 15 of which are expected to be appointed in 2012.

**Timor-Leste**

PSDI assistance to Timor-Leste has continued to focus on the areas of access to finance and PPPs. As shown in Figure A1.7, 70% of total spending is in access to finance, with the majority being spent on assistance to the Institute of Microfinance Timor-Leste (IMfTL) 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-feasibility assessment for new power generation plants constitute 30% of spending in the country.

**Access to Finance**

In 2011, a major milestone was achieved in Timor-Leste. IMfTL, which was established in 2001 under the ADB-managed Microfinance Development Project, officially became the National Commercial Bank of Timor-Leste (BNCTL), with PSDI support. It is the country’s first locally owned commercial bank. BNCTL now has 12 branches, more than 10,000 borrowers, and more than 45,000 depositors with about $7.5 million in savings. It has also provided $9.4 million in loans, 40% of which are held by women. Microfinance accounts for 30% of the bank’s portfolio. The bank’s branch network is spreading benefits throughout the country. For example, one of the regional branches in Gleno has over 1,000 savings clients and 1,500 borrowers and has disbursed $900,000 in loans.

Besides supporting BNCTL in obtaining a commercial banking license in 2011, PSDI has also assisted in further strengthening the new bank through continuous support during the transformation phase. PSDI has assisted with developing business plans and strategies, bolstering governance structures, establishing risk management procedures, strengthening internal audit functions, as well as providing staff training. This assistance has contributed to BNCTL being in compliance with central bank regulations and requirements. PSDI has further supported an assessment of potential branchless banking models for IMfTL.
In cooperation with the Inclusive Finance for Under-Served Economy (INFUSE) Programme and the International Finance Corporation, PSDI assisted the former Banking and Payments Authority in developing a regulatory roadmap to encourage branchless banking services and in assessing the potential for leveraging future government-to-person (G2P) payments by the government to develop new branchless banking services. The diagnostics, recommendations, and G2P assessment were completed in October 2010. PSDI is currently supporting the development of a business case and model for a third-party payments and cash management provider.

The meetings and workshops that PSDI conducted with stakeholders in 2011 revealed an overwhelming enthusiasm for secured transactions reform in Timor-Leste. PSDI will commence such a reform initiative in 2012, if a request is received from the government.

Public–Private Partnerships

A PPP policy and draft law were finalized in 2011 and endorsed by Cabinet in early 2012. PSDI is now assisting with the implementation of the legal framework, including support for the establishment of the PPP unit, recruitment plan, and detailed procedures for developing, tendering, and implementing PPP contracts.

PSDI also conducted PPP assessments of 22 potential infrastructure projects in collaboration with the International Finance Corporation, which resulted in four pre-feasibility studies. This work is expected to lead to at least three PPP contracts and to significantly enhance the capacity of the government to deliver core infrastructure services. PSDI’s particular focus has been on the development of PPP contracts for the operation and maintenance of Timor-Leste’s new power plants.

Tonga

Tonga had the largest share of PSDI disbursements at over $2 million, with over a third each going to crosscutting initiatives and SOE reform and PPPs (Figure A1.8). 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.

---

5 The INFUSE Programme is funded by the United Nations Capital Development Fund, United Nations Development Programme Timor-Leste, the Ministry of Economy and Development, and AusAID.
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, further implementation and some minor amendments to the act will be further supported by PSDI.

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 December 2011, the registry remains a hybrid paper/electronic registry, which prevents the benefits of the legal reform from becoming fully realized. In 2012, the government requested ADB to undertake registry design and implementation of a fully electronic company registry, similar to that of Solomon Islands.

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 prepared with a view to assessing progress on the reforms recommended in the earlier version and identifying private sector–oriented reforms that should be prioritized in Tonga. The results of this update were presented to key policy-making ministries and the cabinet subcommittee responsible for economic development in October 2011 and have significantly influenced government policy development in a number of areas. The final report will be published in 2012.

From August 2008 to March 2010, PSDI funded a private sector development adviser at the request of the Tongan government, to work in the Office of the Prime Minister to provide general support for the government’s private sector development reform program and support the Ministry of Public Enterprises in implementing its SOE reform agenda.

State-Owned Enterprise Reform

PSDI provided support to Tonga in a broad-based SOE reform program that impacted all of the Tongan SOEs. Amendments to the SOE Act were drafted that brought the Tongan SOE legislation from the weakest in the Pacific to an example of best practice. Other initiatives included governance training, a PPP workshop, development of a director performance appraisal system, development of CSO guidelines, and training to assist in the implementation of the provisions of its new SOE
legislation. Assistance was also provided to the Ministry of Public Enterprises to publish the financial results of the SOEs as required by the amended act. This makes Tonga the first country in the Pacific to publish information on the financial and operational performance of its SOEs in local newspapers.

In terms of SOE restructuring and privatization, PSDI provided assistance for the preparation of the bid documents for Tonga Print, which were completed and ready for issuance in 2012. PSDI also supported the corporatization and commercialization of the biosecurity heat treatment facility previously operated by the Ministry of Agriculture and the Small Industries Centre, previously owned by the Ministry of Labour, Commerce and Industries.

Tonga participated in the PSDI-funded comparative studies on the performance of SOEs in the Pacific (footnote 2). Finding Balance 2011 was formally launched at a regional Pacific Leaders Meeting in April 2011, and a subsequent seminar was held for cabinet members in Tonga.

**Vanuatu**

More than half of spending in Vanuatu has been in the area of access to finance, with more than $400,000 being spent on strengthening the institutional capacity of the Vanuatu Financial Services Commission (VFSC), secured transactions reform, and microfinance-related activities. Business law reform, consisting primarily of preparing the companies bill, companies (insolvency and receivership) bill, personal insolvency bill, and cross-border insolvency bill, received close to a third of PSDI resources spent on the country (Figure A1.9). The preparation of the Vanuatu private sector assessment and the SOE Policy and Act constitute 16% and 4% of disbursements, respectively.

**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 commenced in July 2008. Accompanying the reform of the secured transactions legal framework, an electronic registry was installed in April 2009 to record the filing of security interests. Data from the registry show an increasing number of loans in Vanuatu over the last year. Secured transactions reform also corresponds to a decline in lending rate of 1 percentage point as a result of the elimination of stamp duty. Follow-up discussions 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 the Vanuatu Women’s Development Scheme) that are taking deposits. At present, there is a lack of regulation and the Reserve Bank is looking at options, which may better protect depositors. The government requested the diagnostic, and a discussion paper will be prepared for fuller consultation with stakeholders in early 2012.

In 2011, ADB continued to support the National Bank of Vanuatu implement a rural outreach program in several of Vanuatu’s islands using new technologies and communications equipment, which was facilitated by PSDI.

**Business Law Reform**

PSDI has supported the modernization of the Vanuatu commercial legal framework. Assistance was provided for drafting a new companies bill, a companies (insolvency and receivership) bill, an insolvency (cross-border) bill, a trustee bill, and a personal insolvency bill. The experts have helped analyze the options for the development of an electronic company registry, and this was to be procured subject to Parliament passing the bills. There was further public consultation on the companies bill in 2011, and the bills have been with the state law office for finalization and presentation to Parliament. The PSDI team has offered to assist in any way it can to ensure the smooth passage of the bill. Unfortunately, changes in the government and the irregular sittings of Parliament have hampered progress. There will be no further action on the installation of an electronic company registry until the bills are passed. The consultations on the trustee bill and finalization of this bill will recommence after Parliament has dealt with the companies bills.

**Crosscutting**

In 2009, PSDI published *Sustaining Growth: A Private Sector Assessment for Vanuatu*, which concluded that the country’s reform efforts have led to the highest sustained growth rates in the region and urged that to sustain growth, the reform momentum needs to be maintained by making SOEs more efficient to reduce the high cost of infrastructure services, by continuing to upgrade the commercial legal framework, and by 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.

**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 AusAID. SOE policy principles were formulated in preparation for an SOE Act, but progress on this slowed in the second half of 2010 as the Ministry of Finance focused on internal restructuring to strengthen its SOE oversight capacity. Political instability throughout the fourth quarter of 2010 sidelined the SOE reform program, and the current government has shown little appetite for substantive reform in 2011. Nevertheless, PSDI remains ready to reengage with the Ministry of Finance on SOE reforms as soon as the demand arises.

A PPP transaction in the form of an operation and maintenance contract is being prepared in the water and wastewater sectors in Vanuatu. Another opportunity will be explored for a slipway in the context of ADB’s Interisland Shipping Project.
# APPENDIX 2

## Pacific Private Sector Development Initiative Portfolio Summary

(cumulative as of 31 December 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Initiatives and Projects</th>
<th>Number of</th>
<th>Total Funding Committed</th>
<th>Total Funding Disbursed</th>
<th>Current Status of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Access to Finance</td>
<td>Business Law Reform</td>
<td>SOE Reform and PPPs</td>
<td>Competition</td>
<td>Crosscutting</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1 (1)</td>
<td>1 (1)</td>
<td>n.a.</td>
</tr>
<tr>
<td>Fiji</td>
<td>1 (5)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1 (1)</td>
</tr>
<tr>
<td>Republic of the Marshall Islands</td>
<td>1 (3)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>1 (2)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Nauru</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1 (2)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Palau</td>
<td>1 (2)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Papua New Guinea&lt;sup&gt;b&lt;/sup&gt;</td>
<td>4 (6)</td>
<td>n.a.</td>
<td>7 (12)</td>
<td>1 (1)</td>
<td>3 (3)</td>
</tr>
<tr>
<td>Samoa</td>
<td>2 (3)</td>
<td>3 (3)</td>
<td>3 (6)</td>
<td>n.a.</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Solomon Islands&lt;sup&gt;c&lt;/sup&gt;</td>
<td>3 (5)</td>
<td>6 (10)</td>
<td>4 (6)</td>
<td>n.a.</td>
<td>1 (1)</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>3 (9)</td>
<td>n.a.</td>
<td>1 (3)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Tonga&lt;sup&gt;d&lt;/sup&gt;</td>
<td>2 (3)</td>
<td>2 (4)</td>
<td>3 (6)</td>
<td>n.a.</td>
<td>3 (3)</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>5 (8)</td>
<td>3 (8)</td>
<td>2 (2)</td>
<td>n.a.</td>
<td>1 (1)</td>
</tr>
<tr>
<td>Regional</td>
<td>5 (5)</td>
<td>3 (4)</td>
<td>10 (11)</td>
<td>2 (2)</td>
<td>8 (9)</td>
</tr>
<tr>
<td>Miscellaneous&lt;sup&gt;e&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PPP = public–private partnership, SOE = state-owned enterprise.

<sup>a</sup> Refers to number of initiatives with number of projects in parenthesis.

<sup>b</sup> Includes funding from TA 7782–PNG.

<sup>c</sup> Includes funding from TA 7797–SOL.

<sup>d</sup> Includes funding from TA 7271–TON.

<sup>e</sup> Includes administration and core miscellaneous task costs, core undisbursed, and outreach and other miscellaneous costs.

Source: Pacific Private Sector Development Initiative.
APPENDIX 3
Initiatives and Projects in 2011

The following shows the Pacific Private Sector Development Initiative’s ongoing and pipeline activities. Closed initiatives and projects refer to activities completed in 2011.

Cook Islands

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>State-Owned Enterprise Reform (SOE) and Public–Private Partnerships (PPPs)</td>
<td>SOE Reform</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SOE Reform Scoping</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number of Initiatives 1
Number of Projects 1

Fiji*

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Microfinance and Microinsurance Initiative</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>Microinsurance Demand Research and Product Development</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>Development of Microinsurance Distribution Channels</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>Microinsurance Greenfield</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Crosscutting</td>
<td>Private Sector Assessment</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

Number of Initiatives 2
Number of Projects 4

* Participated in Finding Balance 2011, results of which were published in March 2011 (see regional initiatives).
### Republic of the Marshall Islands*

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Application Upgrades</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Review and Implementation of the Law and Registry</td>
<td>Pipeline</td>
</tr>
<tr>
<td>SOE Reform and PPPs</td>
<td>SOE Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>SOE Policy Preparation</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>SOE Act Preparation</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Number of Initiatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Projects</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Participated in Finding Balance 2011, results of which were published in March 2011 (see regional initiatives).

### Federated States of Micronesia

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Application Upgrades</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Independent Review of the Secured Transactions Framework</td>
<td>Pipeline</td>
</tr>
<tr>
<td><strong>Number of Initiatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Projects</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Nauru

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOE Reform and PPPs</td>
<td>SOE Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Organizational Strengthening of RONPHOS and the Nauru Utilities Corporation</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td>Strengthening of the Nauru Rehabilitation Corporation</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Number of Initiatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Projects</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Palau

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Secured Transactions Law</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Design and Implementation</td>
<td>Pipeline</td>
</tr>
</tbody>
</table>

**Number of Initiatives** 1  
**Number of Projects** 2

### Papua New Guinea<sup>a</sup>

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Microinsurance Demand Research</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Mobile Phone Banking Support to Nationwide Microbank</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Secured Transactions Law</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Filing Archive (Registry) Design and Implementation</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Support for the Microfinance Expansion Project Implementation Support</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Number of Initiatives** 11  
**Number of Projects** 16

<sup>a</sup> Also participated in an SOE benchmarking study and planned to take part in a regional contracting framework (see regional initiatives).
### Regional

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Conference</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Secured Transactions Implementation Support to Financial Institutions</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Business Law Reform</td>
<td>Contracting Framework (Papua New Guinea, Solomon Islands, Tonga, and Vanuatu)</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Code of Contract</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Competition</td>
<td>Competition Law and Policy Workshop</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td>Competition Framework</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Crosscutting</td>
<td>Gender Strategy for the Pacific Private Sector Development Initiative</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td>Monitoring and Evaluation for the Pacific Private Sector Development Initiative</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Monitoring and Evaluation Framework</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Client Surveys</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Number of Initiatives**  
**Number of Projects**  
11  
13

### Samoa

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Reform Drafting and Passage of the Secured Transactions Law Filing Archive (Registry) Design and Implementation</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td>Crosscutting</td>
<td>Private Sector Assessment Update</td>
<td>Ongoing</td>
</tr>
<tr>
<td>SOE Reform and PPPs</td>
<td>Support for SOE Reforms (Director Training and Capacity Building)</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Number of Initiatives**  
**Number of Projects**  
6  
7

* Participated in *Finding Balance 2011*, results of which were published in March 2011 (see regional initiatives).
### Solomon Islands<sup>a</sup>

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Assessment of the Legal and Regulatory Framework for Microfinance and Mobile Phone Banking</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Rural Finance</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Review, Amendment, and Implementation of the Secured Transactions Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Application Upgrades</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Business Law Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Business Licensing Diagnostic</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Company Law Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Design and Implementation</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td>Review of the Companies Act 2009 and Companies (Insolvency and Receivership) Act 2009</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Support for the Implementation of the Companies Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Customs and Excise Act Review</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Review of the Act</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Law</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Customs Act Implementation</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Registration of Business Names Act Review</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Review of Act and Registry</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Trustee Law Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Foreign Investment Registry</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Design and Installation of the Registry</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Crosscutting</td>
<td>Private Sector Assessment</td>
<td>Ongoing</td>
</tr>
<tr>
<td>SOE Reform and PPPs</td>
<td>SOE Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Community Service Obligations</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Liquidation of Solomon Island Printers</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Upgrade of Accounting Systems</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Number of Initiatives</strong></td>
<td><strong>11</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Projects</strong></td>
<td><strong>18</strong></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Also participated in *Finding Balance 2011*, results of which were published in March 2011, and planned to take part in a regional contracting framework (see regional initiatives).
### Timor-Leste

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Branchless Banking&lt;br&gt; Development of Business Case and Model for a Third-Party Payments and Cash Management Provider&lt;br&gt; Development of Legal and Regulatory Framework for Branchless Banking&lt;br&gt; Secured Transactions Reform&lt;br&gt; Drafting and Passage of the Law&lt;br&gt; Registry Design and Implementation&lt;br&gt; Support to the Instituição de Microfinanças de Timor-Leste&lt;br&gt; Incorporation and Advice&lt;br&gt; Business and Training Plan Implementation&lt;br&gt; Strengthening the Banco Nacional de Comércio de Timor-Leste</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

| SOE Reform and PPPs  | PPP Framework<br> PPP Policy and Guidelines<br> PPP Legal Instrument<br> PPP Assessments and Pre-Feasibility | Ongoing  |
|                      |                                                                                       | Closed   |
|                      |                                                                                       | Ongoing  |
|                      |                                                                                       | Ongoing  |

**Number of Initiatives**<br>**Number of Projects**<br>4 10

---

### Tonga

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Secured Transactions Reform&lt;br&gt; Review and Implementation of the Law</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td>Business Law Reform</td>
<td>Company Law Reform&lt;br&gt; Companies Act Implementation&lt;br&gt; Registry Design and Implementation&lt;br&gt; Business Names Act&lt;br&gt; Review of Law and Registry Design and Implementation</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
<tr>
<td>Crosscutting</td>
<td>Private Sector Assessment Update</td>
<td>Ongoing</td>
</tr>
<tr>
<td>SOE Reform and PPPs</td>
<td>SOE Rationalization&lt;br&gt; Phase V&lt;br&gt; Phase VI&lt;br&gt; PPP Unit</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline</td>
</tr>
</tbody>
</table>

**Number of Initiatives**<br>**Number of Projects**<br>6 8

---

*a Also participated in Finding Balance 2011*, results of which were published in March 2011, and planned to take part in a regional contracting framework (see regional initiatives).
Vanuatu

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Initiative/Project Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Finance</td>
<td>Microfinance Legislative Framework</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Phase I</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Phase II</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Secured Transactions Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Implementation of the Law and Registry</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Registry Application Upgrades</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Law Reform</td>
<td>Business Names Act Review</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Company Law Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Companies Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Companies (Insolvency and Receivership) Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Personal Insolvency Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Drafting and Passage of the Cross-Border Insolvency Act</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>Company Registry Design and Implementation</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Support for the Implementation of the Companies Act</td>
<td>Pipeline</td>
</tr>
<tr>
<td></td>
<td>Trustee Law Reform</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOE Reform and PPPs</td>
<td>Port Vila Urban Development PPP Assessment</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>SOE Rationalization Program</td>
<td>Ongoing</td>
</tr>
<tr>
<td></td>
<td>SOE Policy and Act</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Number of Initiatives** 7  
**Number of Projects** 14

* Also participated in Finding Balance 2011, results of which were published in March 2011, and planned to take part in a regional contracting framework (see regional initiatives).
The Pacific Private Sector Development Initiative in 2011
Focus, Issues, and Outcomes

This publication describes further progress of ongoing and recently undertaken initiatives for the Pacific Private Sector Development Initiative (PSDI). It highlights the issues and many of the encouraging outcomes resulting from earlier efforts. It also explores issues expected to emerge in the future, and how they will be dealt with.

PSDI is a regional technical assistance facility cofinanced by the Australian Agency for International Development. It supports and encourages inclusive, private sector–led, sustainable economic growth among Pacific developing member countries of the Asian Development Bank. PSDI focuses on improving access to financial services, business law reform, and state-owned enterprise reform and public–private partnerships 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: 1.8 billion people who live on less than $2 a day, with 903 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.