

PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE PROGRESS REPORT 2013–2014

**PACIFIC PRIVATE SECTOR
DEVELOPMENT INITIATIVE**
PROGRESS REPORT 2013–2014

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +632 632 4444
Fax: +632 636 2444
www.adb.org

Pacific Liaison and Coordination Office
Level 20, 45 Clarence Street
Sydney, NSW 2000, Australia
Tel + 612 8270 9444
Fax + 612 8270 9445
www.adb.org/plco/psdi

For orders, please contact:
Public Information Center
Fax +63 2 636 2584
adbpub@adb.org

Paul Holden and the Pacific Private Sector Development Initiative management team wrote this report, with statistical analysis by Melissa Dayrit. The report was prepared under the supervision of Andrea Iffland and Hayden Everett of the Asian Development Bank (ADB) Pacific Liaison and Coordination Office in Sydney, Australia. Samantha-Jane Odbert edited this publication. It was produced by the Pacific Private Sector Development Initiative, a regional technical assistance facility cofinanced by ADB, the Government of Australia, and the New Zealand Government. This publication does not necessarily reflect the views and policies of either government.

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ABBREVIATIONS

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASC	Agriculture Stores Corporation
BNCTL	Banco Nacional de Comércio de Timor-Leste (National Commercial Bank of Timor-Leste)
CEO	chief executive officer
CSO	community service obligation
DMCs	developing member countries
EEOW	economic empowerment of women
FSM	Federated States of Micronesia
GDP	gross domestic product
ICCC	Independent Consumer and Competition Commission
MEP	Microfinance Expansion Project
M&E	monitoring and evaluation
NEC	Papua New Guinea National Executive Council
NUC	Nauru Utilities Corporation
NRC	Nauru Rehabilitation Corporation
PAIL	Polynesian Airlines (Investment) Limited
PNG	Papua New Guinea
PPP	public–private partnership
PSA	private sector assessment
PSDI	Pacific Private Sector Development Initiative
PUC	Pohnpei Utilities Corporation
SOE	state-owned enterprise
TA	technical assistance project
TAIS	Technical Assistance Information System
TORs	terms of reference
USAID	United States Agency for International Development
VFSC	Vanuatu Financial Services Commission

FOREWORD

This is the Pacific Private Sector Development Initiative's (PSDI) seventh progress report, and covers the period 1 July 2013 to 30 June 2014. PSDI is a regional technical assistance facility, cofinanced by the Asian Development Bank (ADB), the Government of Australia, and the New Zealand Government. PSDI works with governments, companies, and private sector organizations to improve the enabling business environment in ADB's Pacific developing member countries (DMCs).

PSDI's structure and longevity are a powerful force for promoting inclusive growth that contributes to poverty alleviation in Pacific DMCs. I am delighted that PSDI-sponsored reforms have resulted in some Pacific DMCs being identified as among the top reformers in the world. Successful initiatives, such as the Companies Acts and related registries in Samoa and Solomon Islands, have already attracted significant regional and international attention. Regional example is an important tool in marshalling government support for PSDI's expertise.

PSDI focuses on improving the business environment by promoting investment, encouraging entrepreneurship, and easing constraints to doing business in Pacific DMCs. Increasing access to credit and financial services is one part of the financing growth core area, along with a revitalized focus on investigating potential institutional and structural reforms to increase the capacity of the region's financial institutions to deliver a sound, stable, and dynamic financial sector for investors, businesses, and ordinary people. In 2013, with the approval of Phase III, PSDI broadened its core focus areas to include pilot programs to specifically promote the economic empowerment of women, and work on competition policy to maximize countries' ability to generate a fairer priced, more equitable marketplace for goods and services.

PSDI's services are increasingly in demand, especially in the new development assistance environment which sees private sector development as a key driver in alleviating poverty, encouraging trade, and reforming stagnant business environments. PSDI has always advocated for strong, clearly demarcated roles for the public and private sectors, with the private sector allowed to get on with "the business of doing business." Now, 7 years after inception, these messages and PSDI's consistent standpoint have taken hold with an increasing number of government requests for reform assistance. PSDI's resources and expertise are continually pushed to capacity—this demand, and the quality outcomes PSDI has delivered for nearly a decade, was one of the drivers in the increased size and scope of Phase III in which the New Zealand Government joined ADB and the Government of Australia as a cofounding partner for the first time.

ADB's Pacific DMCs are strongly positive about PSDI's work in the region. By sharing experiences and open communication, countries are confident in PSDI's expertise in delivering best practice, strategic, and up to date policy advice on a range of legal, financial, and regulatory issues. PSDI's analysis is well known for its rigorous research, investigation of current and emerging issues, and recommendations to assist governments and the private sector with structuring reforms in the best way to achieve maximum development impact. I firmly believe that other development organizations and countries beyond the Pacific—including our close neighbors in the wider Asia region—have a lot to gain from PSDI's hands-on experience in delivering these high impact reforms in challenging environments.

PSDI does not work in isolation. Many of its initiatives work alongside other ADB technical assistance projects in private sector development, SOE reform, public-private partnerships, and infrastructure development programs. This approach greatly increases the success rate of both ADB's and PSDI's work. PSDI is housed in the Pacific Liaison and Coordination Office in Sydney, along with ADB's country operations and project teams for three Pacific DMCs, and the Pacific Region Infrastructure Facility. This unique arrangement encourages information sharing and fosters a collaborative approach to project implementation across the region.

I would like to thank Pacific DMCs for their commitment to reforms that are having positive impacts on the lives of people across the region. Pacific governments, the private sector and representative organizations, and the PSDI team are to be commended for their efforts in bringing to life inclusive, dynamic, and innovative reform initiatives. I would also like to thank our cofounding partners in PSDI, the Government of Australia and the New Zealand Government. Australia has supported this initiative since the beginning and, with New Zealand a member of the partnership since 2013, PSDI is in a great position to maintain momentum and continue to build on its many achievements. We look forward to a long and successful partnership as we work to eradicate poverty in the Pacific region.

Xianbin Yao

Director General
Pacific Department
Asian Development Bank

1 OVERVIEW

This report describes developments and progress for the Pacific Private Sector Development Initiative's (PSDI) first year of Phase III, and covers the period 1 July 2013 to 30 June 2014. PSDI commenced Phase I in 2006, and is a regional technical assistance facility cofinanced by the Asian Development Bank (ADB), the Government of Australia, and the New Zealand Government.¹ Since its inception, PSDI's goal has been to alleviate poverty and promote growth in the Pacific region through reforms that encourage private sector investment and entrepreneurship.

Sustainable economic development in the region is vital to address social needs ranging from health and education, to environmental and cultural protection. This cannot occur without resources generated by private sector growth. By contrast, public sectors cannot effectively create their own revenues—they require resources produced by business activity, entrepreneurship, investment, and growth.

Healthy economies are dominated by strong private sectors that provide, through taxation, the surplus necessary for the public sector to finance services. Well-ordered, prosperous societies require public goods like law and order, health, and education. Without vigorous private sectors, Pacific island countries will remain dependent upon aid and external transfers, limiting their ability to control their own destiny.

PSDI's work reflects the importance of reducing constraints to private sector development

and promoting international trade. It focuses on minimizing barriers to investment and entrepreneurship that raise transactions costs, discourage investment, and hinder business formation and growth. PSDI's in-depth, analytical foundation identifies impediments to growth, informs extensive advocacy of reform priorities, and encourages design and implementation of measures that raise rates of return on capital—making investing and running businesses easier. A key feature of PSDI Phase III is the focus on mainstreaming women's vital economic contribution in the region.

PSDI is purely demand-driven; all initiatives are only undertaken upon formal country request. Further, unlike traditional country-focused technical assistance, PSDI's flexibility enables rapid response when opportunities arise. On the other hand, if reform progress stalls due to reduced political will or other factors, resources can be shifted into other countries or initiatives that yield more immediate progress.

PSDI has contributed to raising awareness in ADB's Pacific developing member countries (DMCs) of private sector development's importance in generating prosperity. Initiatives implemented under PSDI have been among the most innovative and far-reaching, worldwide. Some Pacific island countries can now justifiably claim to be world leaders in company registration, secured transactions reform, and state-owned enterprise (SOE) reform.

¹ Financed through the Australian Department of Foreign Affairs and Trade and the New Zealand Ministry of Foreign Affairs and Trade.

This report briefly describes private sector development issues, implications for reforms to promote investment and entrepreneurship, and how these relate to Pacific island economies. It then describes PSDI's six focus areas and the rationale

for the current reforms. The final section discusses PSDI work in Pacific island economies, reform progress to date, and future initiatives. Appendixes list PSDI's portfolio, describe PSDI's monitoring and evaluation framework, and track progress against key development indicators.

2 THE PRIVATE SECTOR AND ECONOMIC GROWTH

Until the early 2000s, the private sector was seen to have little, or no, role in the development of Pacific island countries.² According to this view, encouraging growth and development rested squarely with the government and the public sector. The public sector dominated the economy in many Pacific DMCs, owning a substantial portion of assets and crowding out private investment, particularly in the key areas of telecommunications, electricity generation, and transport. Because of high prices, poor service, and low productivity, these sectors restricted economic development in the region. Earlier ADB analysis identified the many barriers faced by investors and entrepreneurs that result from a state-centric economic development model.³ PSDI's continued analysis has identified regional constraints to private sector development, including inadequate infrastructure, outdated business laws, burdensome regulation, inefficient SOEs, limited finance for growth, and roadblocks to women's economic advancement. These barriers have

resulted in many Pacific island economies failing to achieve their growth potential.

Yet, attitudes toward private sector development in the region have changed strikingly over the decade since 2004. Progressing from a distinctly anti-private sector and pro-government view of economic organization, many of ADB's Pacific DMCs now view the private sector as the only potential source of growth. Further, the extent and depth of reforms in some countries matches or exceeds that occurring elsewhere—Pacific island countries are world leaders in certain areas of private sector reform.

Pacific island countries are now initiating and implementing private sector-oriented reforms. Some have become enthusiastic and successful reformers in business law, improving finance for growth, and SOE reform. Public-private partnership (PPP) frameworks are being developed in a number of countries, and several are also beginning competition and regulatory policy reform.

² P. Holden, M. Bale, and S. Holden. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Asian Development Bank: Manila.

³ For example, see ADB. 2005. *Private Sector Assessment for Solomon Islands*. Consultants' report. Manila. <http://www.adb.org/sites/default/files/pub/2005/SolomonIslands.pdf>

3 CHARACTERISTICS OF PACIFIC ISLAND ECONOMIES

Pacific island economies are typically small and remote. While there are exceptions regarding population size and geographic proximity to external markets (Papua New Guinea and Timor-Leste, for example), the Pacific island economies with which PSDI engages are characterized by:

- **Geographic isolation.** Their isolation adds to the problems of promoting growth and development. Most Pacific island countries in which PSDI works are isolated from other nations, and also internally geographically dispersed to a unique extent compared with other regions.
- **Narrow export and production sectors and substantial imports.** In widely dispersed countries, basic infrastructure and public services are often duplicated over a number of islands. Countries need to fund, per capita, higher government spending and higher imports than larger countries. Since many Pacific countries are not on major shipping routes, freight components of imports and exports are also high, adversely impacting competitiveness and limiting some trade gains. The unique challenges faced by the majority of Pacific countries are due to a combination of these factors.
- **High cost of providing services.** Generally, smaller countries incur a higher per capita cost of providing services. The tax base in many Pacific countries is limited, severely straining

budgets for providing both public goods and social services. Remittances and aid have played a significant role in closing the public sector funding gap and financing imports.

- **Predominantly rural populations.** Most Pacific economies in which PSDI works are widely dispersed, remote, and rural, with slightly over 35% of the population living in urban areas.⁴ This is changing rapidly and, as subsistence agriculture declines and commercial agriculture increases, demand for rural labor will fall. This shift has resulted in a powerful rural–urban migration in other countries. The major implication will be the future need for urban infrastructure in Pacific island economies.

Pacific island economies have poor environments for doing business. Extensive analyses across the region have identified barriers that investors and entrepreneurs face in establishing and growing businesses.⁵ The analyses reveal the difficulties of doing business in the Pacific. Besides natural constraints due to isolation, small market size, and natural disasters, firms face high costs in doing business. These arise from inadequate infrastructure, poor communications, limited access to financial markets (with a few exceptions), outdated legal systems, and inefficient SOEs. Pacific women face yet more obstacles in engaging in formal economic activity. As a result of these factors, productivity is adversely affected—the very factor on which long-term growth and prosperity depends.

⁴ ADB. 2012. *The State of Pacific Towns and Cities: Urbanization in ADB's Pacific Developing Member Countries*. Manila.

⁵ Footnote 2.

Constraints to private sector growth in the Pacific arise because of a weak institutional foundation for economic development. Earlier analysis⁶ concluded that economic development had been hampered by states' failure to develop the fundamental institutions necessary for investment and entrepreneurship.

The main constraints were:

- Excessive state presence and interference in economic activity;

- Inefficient use of the capital stock, particularly by SOEs;
- Low rates of return on investment;
- Underdeveloped financial markets;
- An adversarial mindset toward foreign investment; and
- Limited provision of public goods, particularly business law.

The analysis also highlighted little understanding or contact between the public and private sectors, and little appreciation of each other's issues.

⁶ Footnote 2. PSDI is based on this original analysis.

4 TRADE, PACIFIC ISLAND ECONOMIES, AND PRIVATE SECTOR DEVELOPMENT

Pacific island economies' long-term prosperity depends on international trade, which expands markets for what these countries produce, allowing for economies of scale to raise productivity and per capita incomes. Exports can be goods and commodities, services such as tourism which earn foreign exchange, and remittances from migrant workers. Export earnings from all of these activities provide the foreign exchange needed to import.

Although there are claims that the export potential of Pacific island economies is very limited,⁷ a 2014 survey commissioned by the Australian Government Department of Foreign Affairs and Trade⁸ showed that Pacific island economies are rising to the challenge of exporting, revealing a significant amount of export dynamism. The findings illustrate the benefits of trade. Exporting opportunities have led companies to upgrade efficiency, develop new product lines, and actively seek new markets. Further, there is a high degree of confidence about future export growth prospects and finding new customers in the Asia-Pacific region, Europe, and the United States.

Yet, the survey revealed that the business environment in Pacific island countries is a significant barrier to doing business. Improving finance for growth, reducing regulation, eliminating barriers to foreign investment, reforming

business laws, and enhancing women's economic opportunities will lead to more exports. These activities will improve rates of return on investment and, in turn, lead to higher sustainable rates of growth for Pacific island economies. As expected, the survey showed that smaller companies were particularly constrained by a poor business environment. For exports to develop and become integral to the market economy, the business environment must promote the establishment and growth of formal companies.⁹

Formalization happens best where

- the process is quick and easy;
- the legal system promotes contracting;
- funding is available for company expansion and the financing of trade;
- regulation is not burdensome; and
- foreign investment can occur relatively easily.

Physical infrastructure must not inhibit the transport of inputs and the export of outputs. Reliable power is essential, as are strong telecommunications to shrink vast commerce distances. All these factors require a supportive business environment for private sector development.

⁷ C. Becker. 2012. Small Island States in the Pacific: the Tyranny of Distance? *IMF Working Paper WP/12/223*. Washington, DC: International Monetary Fund. <http://www.imf.org/external/pubs/ft/wp/2012/wp12223.pdf>

⁸ Pacific Islands Trade and Invest. 2014. *Pacific Export Survey*. Sydney. <http://www.pacifictradeinvest.com/PDF/INVEST/pacificexportsurvey/pacificexportreport.pdf>

⁹ Informal economic activity invariably takes place over short distances. Most transactions involve people who know each other. By contrast, international trade involves impersonal contracting, taking place over much longer distances and time horizons.

To realize its potential, the private sector needs a reformed business climate conducive to investment and entrepreneurship. Successful reforms result in:

- **More firms entering the formal economy.** Increased productivity results from better access to the financial system, contracts to supply larger companies or the public sector, as well as improved access to government services.¹⁰
- **Greater investment by firms.** This occurs because the improved legal and regulatory environment lowers transactions costs.

- **Investment in new technologies leads to higher productivity.** In turn, this increases profitability and promotes economic growth as a whole.
- **Improvements in firm productivity, turnover, and profit.** Profitable firms invest more and employ larger numbers of workers. This contributes to aggregate economic growth.
- **Inclusive growth through more and better paying jobs.** A reformed business environment also leads to greater economic opportunities for women in the formal sector.

¹⁰ Informal sector businesses are in the agricultural or fishing sectors, selling their products in markets or at the roadside. Transactions are usually for cash, and informal activity involves little investment in either physical or human capital. Long-term investment is rare. Access to the financial sectors and to the legal system is essentially nonexistent except for microfinance, where lending criteria are often not based on market factors and which usually have an upper bound on the amounts that can be borrowed. This makes it difficult for successful firms to grow.

5 HOW PSDI REFORMS IMPROVE THE BUSINESS ENVIRONMENT

PSDI works in ADB's 14 DMCs.¹¹ Its initiatives are based on an extensive foundation of economic analysis. Private sector assessments (PSAs) identify reform priorities and have been completed for most countries in which PSDI works.

PSDI's work focuses on:

- **Financing growth.** Unless investors, entrepreneurs, and viable businesses can be financed, opportunities are lost and growth potential is unrealized. Pacific island economies have underdeveloped financial markets because of weak institutions. PSDI promotes stable and competitive financial sectors, effective regulatory and supervisory frameworks, and strong and responsive financial institutions.
- **Reforming outdated business laws and removing regulations that compromise investment and growth.** In the Pacific region, starting a business involved high costs and long delays, with an especially adverse effect on smaller businesses. Overly burdensome regulations have imposed significant costs on business and discouraged foreign investment, a vital source of capital and business know-how. The large informal sectors—usually with low productivity and encouraged by the high-cost business environment—deliver little tax revenue to fund and deliver essential social services like health and education.
- **Enhancing the efficiency of SOEs** through restructuring, contracting out governance reforms and, where feasible, privatization. SOEs, which in many countries provide essential services such as power generation, water, sewage, and (in some cases) telecommunications, are inefficient and often run at a loss.¹² In turn, this drains government funds from social services such as health and education. The cost of inefficient SOEs is high. Frequently, a substantial proportion of the capital stock of countries belongs to SOEs. In all countries in the region this capital produces less than the equivalent use of capital in the private sector. Improving the productivity of this capital through improved operating efficiency, contracting out, privatization, and PPPs provides the opportunity for substantially higher growth and poverty alleviation.
- **Promoting PPPs.** Where feasible, PPP options are investigated and promoted to increase investment and improve service delivery.
- **Ensuring well-functioning competition and regulatory frameworks in Pacific island economies.** Small country sizes often lead to a conflict between promoting competition, and obtaining efficiency gains through economies of scale.
- **Promoting the economic empowerment of women.** Systemic barriers and entrenched cultural attitudes restrict women's full formal sector participation and contribution to economic growth.

¹¹ Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

¹² Or fail to achieve a return sufficient to cover their cost of capital.

6 PSDI FOCUS AREAS

FINANCING GROWTH¹³

Mobilizing finance is important. There is a strong correlation between financial market development, aggregate and per capita gross domestic product (GDP) growth, and lower poverty levels. Effective financial systems are vital to mobilize and channel savings to their most productive use.

In the Pacific, financial markets are generally underdeveloped. Many people, particularly women and rural dwellers, cannot access the most basic financial services. Access to credit remains a problem, despite excess liquidity across financial systems and increased savings product availability. Without financial services, businesses cannot grow, entrepreneurship is stifled, and those on low incomes cannot save securely to invest, pay for unexpected expenses, or move beyond subsistence living.

PSDI's analysis of credit constraints for Pacific businesses found the following factors reduce access to loan financing in the Pacific, especially for smaller businesses:

- **Inability to pledge both movable property (accounts receivable, inventory, and equipment) and fixed property (land and buildings) as collateral for lending.** Inability to take collateral increases lending risks and reduces the supply of credit;

- **Larger commercial banks earn lucrative profits from bank charges and foreign exchange transactions.** This allows them to adopt overly cautious credit risk management policies and forgo lending, without significantly impacting their rates of return on equity.
- **Poorly designed loan guarantee programs and subsidized loans from development banks.** These actions crowd out commercial lenders, while the distortions limit financial market evolution. They also disregard the substantial risk factors involved in preferential financing.
- **Weak legal systems and enforcement mechanisms limit the effectiveness of business laws.**
- **Lack of credit information makes lending risky because there is no credit history of potential borrowers.**
- **Lack of, or underdeveloped, bond markets makes raising finance for long term projects difficult.**
- **Lack of specialized financial products and services in certain sectors.** Agribusiness is one example of an underserved sector; particularly, supply chain financing. Underdeveloped equity markets exacerbate these constraints to loan finance.

¹³ This core area was referred to as "Access to Finance" in PSDI Phases I and II. The change of name to "Financing Growth" in this report reflects the realignment of PSDI's financial sector work with the wider PSDI objective of promoting growth. Increasing access to finance remains an important component of PSDI's financial sector work, particularly through the implementation of secured transactions reform. However, a wider range of institutional constraints and financial sector reforms is being addressed in Phase III. These include strengthening regulatory frameworks for the nonbank sector, the application of anti-money laundering and countering the financing of terrorism standards, strengthening the performance of provident funds, and developing mechanisms for capital raisings.

As the analysis found that inability to pledge collateral was a crucial lending constraint, PSDI has therefore supported one of the most extensive collateral reform (or, “secured transactions” reform) programs globally, aimed at facilitating the use of movable property. Starting with the Federated States of Micronesia (FSM) in 2006, six Pacific countries have fully implemented these reforms: FSM, Republic of the Marshall Islands (or, “the Marshall Islands”), Palau, Solomon Islands, Tonga, and Vanuatu. Papua New Guinea (PNG) and Samoa have commenced the reform, while Fiji and Timor-Leste are also willing to implement.

Regional reform results show positive effects on credit and loan supply, with more than 27,000 outstanding secured loans at end-December 2013.¹⁴ The secured transactions electronic registries are being actively searched, with over 71,000 searches¹⁵ to 30 June 2014—remarkable, given the region’s population size. However, further potential is being wasted because most lending institutions do not understand collateral reform’s capacity to increase lending and reduce risk. PSDI’s ongoing advocacy activities, including workshops, aim to raise institutional awareness of collateral reform’s benefits.

Increasing finance for growth in rural areas has been hindered by the cost of establishing traditional banking networks, versus the relatively little revenue that minimal-income, rural customers generate for financial institutions. Efficient, low cost outreach approaches are needed to enable the dramatic, required increase in services. Rapid growth in mobile

telephone coverage is an opportunity to further extend financial services to a far greater portion of the Pacific’s population.

As secured transactions reforms take hold, PSDI is focusing on regulatory frameworks, and the commercial sustainability of credit and other financial service providers. This work underpins the objective of financing growth. PSDI is increasingly focusing on capital market development, including the role of provident funds within financial systems of the region. Pacific provident funds are integral to regional financial systems’ stability, as well transforming savings into longer-term investments. They will be pivotal to the development of capital markets in the region, through investments in long-term bonds, equity investments, and other financing arrangements.

To strengthen fund performance, PSDI is developing a regional benchmarking study of Pacific provident funds, similar to the Finding Balance study for SOEs.¹⁶ The initial work on capital raisings will investigate legal frameworks, constraints to securities issuance, and capital market instruments suited to the Pacific.

BUSINESS LAW REFORM

Business laws govern the way in which economic activity is organized. They determine how companies are formed, contracts are structured, and how businesses expand or are closed down. The

¹⁴ Data compiled from national electronic secured transactions registries.

¹⁵ Sources: Secured transactions registries in the Marshall Islands, FSM, Palau, Solomon Islands, Tonga, and Vanuatu.

¹⁶ See ADB. 2014. *Finding Balance 2014: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila; ADB. 2012. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea*. Manila; ADB. 2011. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Fiji, Marshall Islands, Samoa, Solomon Islands, and Tonga*. Manila; and ADB. 2009. *Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa, and Tonga*. Manila.

ease of company formation and costs of complying with regulations have a major bearing on the degree of informal economic activity in a country. If contracting structuring and enforcement is difficult and costly, investment horizons will be shorter and long-term growth rates lower.

Low cost, inclusive business law systems provide strong incentives for business formalization. Initiatives to make the legal system accessible to poorer people, women engaged in business activity, and remote area residents include:

- **Quick, simple processes.** Streamlined process and relatively low costs enables businesses to incorporate a company quickly.
- **Single shareholder/single director companies.** Introducing this option has made formality far simpler for small businesses.
- **Community companies.** An easy-to-establish, corporate form for village and community businesses, providing a superior way to receive profits or revenues from royalties or communal economic activity.

Outdated Legislation in the Pacific

PSDI's analysis reveals that business laws in the Pacific are often outdated, and based on the commercial law of their colonial legacies. This legislation is decades old at best, and unsuited to modern business practices.¹⁷ Their complexity often requires lawyers, further raising costs and rendering legal services unavailable in remoter areas.

Forming companies often means visiting the capital city, which can take days. Procedures involved in company formation can frequently take months, and require further extensive traveling. As a result, the vast majority of a country's population is excluded from legal system benefits, and formal businesses in rural areas are rare. In many cases, vital legislation does not exist. Many business laws disadvantage women, negating efforts to promote equal economic opportunity.¹⁸

Enforcement of commercial law is often conspicuous by its absence; business laws are usually beyond the scope of most Pacific populations, which nullifies one of formality's benefits.

A further problem relates to the legal issues surrounding trading with these remote countries, which involves dealings with business counterparts who are thousands of miles away. The outdated legal framework makes transacting across space and time more uncertain and the costs, in the event of disputes, much higher. The consequence is that many local businesses are effectively excluded from international commerce—inadequate legal frameworks for doing business inhibit international trade.

PSDI Reforms

PSDI legal reforms are actively creating inclusive business law frameworks in the Pacific region. In a number of countries, legal reform is underway that will have the effect of dramatically changing the ease with which Pacific islanders can engage in formal economic activity.

¹⁷ Some laws date from the 19th century.

¹⁸ For example, see PSDI. 2013. Solomon Islands: Barriers to the Economic Empowerment of Women. <http://www.scribd.com/doc/190629124/Solomon-Islands-Barriers-to-Economic-Empowerment-of-Women>

Companies Acts

The leader in this business law reform in the region is Solomon Islands. The country has passed important legislation eliminating 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. PSDI also assisted in policy development, legal drafting, and advocacy for the Registration of Business Names Bill, which the government passed into law in August 2014.¹⁹

In March 2013, Samoa installed one of the most modern electronic company registries worldwide. Forming and registering a company now takes about 24 hours.

While too early to draw definitive conclusions on reform impact, the company formation rate appears to have doubled in both countries and represents a substantial increase in formality (Figures 16 and 20). PSDI is currently assisting the Cook Islands, Palau, Tonga, and Vanuatu with similar reforms.

Business Licensing

In many Pacific island economies, regulations are a significant impediment to business formation and operation. In Tonga, PSDI identified business licensing as a major factor in increasing the cost of doing business.²⁰ The requirements of the licensing framework were onerous, requiring licenses to be issued for business activities, rather than for individual businesses, which is the practice in

virtually every other part of the world. A single business engaged in a number of activities had to license each activity separately, renewable annually. Since the regulations identified some 100 different activities, the process was tortuous and costly. Most business activities required the approval of several ministries. Delays and lack of clarity imposed large costs and improper discretion in approving licenses, which was not mandated in legislation.

Subsequently, the government passed the Business Licenses (Amendment) Bill, which became law in October 2012.²¹ The licensing framework now conforms to modern practice, illustrating the strong connection between analysis, consultation, consensus, assistance, and reform.

COMPETITION POLICY

“Competition policy” encompasses the range of policies, laws, regulations, decisions, and government actions promoting competitive behavior between business ventures. It also addresses efficiency issues or actions in potential conflict with other important social objectives. Therefore, competition policy is intrinsic to national economic policy and inseparable to SOE reform.

Competition policy may advance objectives such as:

- Ensuring market efficiency;
- Encouraging entrepreneurship and innovation;
- Supporting good governance by restricting rent-seeking behavior;

¹⁹ Registration of Business Names Act 2014.

²⁰ See ADB. 2012. *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga*. Manila.

²¹ Business Licenses (Amendment) Act 2012. 12 October 2012.

- Supporting equal access to economic opportunities, particularly those controlled by SOEs;
- Improving the investment climate; and
- Promoting sustainable and inclusive economic development.

Competition policy is especially important in Pacific island economies, because of trade-offs between small market size and economic efficiency. Without competition, firms can restrict output and/or raise prices without losing sales and reducing profitability, due to no (or few) others supplying particular goods or services. This often occurs with SOE-provided basic necessities, like electricity, water, and other services. Reduced competition may also allow firms to reduce product quality while maintaining prices, or ignore market pressures. This is clearly against consumer interest, reducing overall efficiency and growth prospects.

Most Pacific island economies enforce price controls, which might be a superficially attractive means to keep prices down. Limiting market power in this way is counterproductive, and a disincentive to increase supply of the goods whose prices are controlled. Competition policy is far preferable to price controls.

SOEs often operate as “legal monopolies”, to the detriment of consumers. Due to their market power, they have little incentive to improve efficiency, invest in capital equipment, or raise employee skills to increase productivity. A competition framework benefits both SOEs and the entire economy.

PSDI is actively helping several Pacific governments to strengthen their competition

frameworks by developing and/or reforming competition laws, establishing regulatory offices, and improving regulators’ capacity. Samoa’s competition policy reform is most advanced; PSDI is also assisting the Cook Islands, PNG, Solomon Islands, and Tonga. PSDI will publish a regional competition and intervention diagnostic report in early 2015.

STATE-OWNED ENTERPRISE REFORM AND PUBLIC-PRIVATE PARTNERSHIPS

SOEs continue to play an important role in many Pacific island countries. Yet, many absorb large amounts of scarce capital for very low returns and, while some provide essential public services, others operate as purely commercial ventures and crowd out the private sector. SOE reform is crucial to private sector development.

SOEs significantly strain Pacific island economies, negatively impact GDP growth, and reduce government funds to higher priority social needs.²² Low SOE productivity heavily burdens the private sector; to achieve growth, the private sector must be more efficient to compensate for poor SOE performance. Further, many Pacific island countries face severe budget constraints. Governments’ ability to invest in their SOEs to improve productivity is limited, even when commercially justified. In turn, this further reduces the entire economy’s growth.

Commercial SOEs often compete with private businesses, yet enjoy subsidized debt and equity. The infrastructure SOEs—monopoly providers of power, ports, water, and airports—are often inefficient, drive up the private sector’s input costs,

²² Government funded social services include health and education.

and often require ongoing financial support from government.

The most important factors determining SOE performance are:

- A strong political commitment to demand commercial returns from SOEs, holding boards of directors accountable for performance;²³
- Boards of directors selected and appointed on merit, and having the skills, knowledge, and experience to assist the SOE achieve its commercial mandate;
- SOEs' financial accounts are current, audited, and meet international standards. It is impossible to effectively manage a SOE without reliable, current financial information;
- Transparent SOE and Board performance, measured and published against agreed standards;
- A central ownership monitor that regularly reviews SOE performance against agreed financial and nonfinancial targets, reporting to a SOE minister solely responsible for all SOEs; and
- No involvement of line or sector ministers in SOE ownership or shareholding functions.

Reforming SOEs and implementing PPPs creates opportunities for private investment, reduces the costs of doing business, and improves basic services. Crucial to this process are introducing private sector discipline and competitive market pressures into the SOE sector.

SOE performance and infrastructure service delivery is improving in the Pacific region through legal, governance, and monitoring reforms, and increased private sector participation. PPPs expand SOEs' capacity to deliver infrastructure and related services, allowing governments to contract directly with the private sector without SOE involvement.

ADB has worked with Pacific island countries on SOE reform and PPPs since the late 1980s.²⁴ Since 2009, PSDI's Finding Balance studies have been instrumental to maintaining the momentum for SOE reform. They track the challenges, achievements, and best practices in SOE reform in Pacific DMCs. The studies are a valuable SOE reform advocacy tool, providing a unique benchmark for measuring progress and sharing lessons.

The 2014 Finding Balance update²⁵ analyzes the performance of SOE portfolios in six Pacific DMCs²⁶ and includes, for the first time, non-Pacific island nations—the Republic of Cabo Verde, Jamaica, and Mauritius. This study enables the Pacific to measure its SOE reform progress with comparable countries facing similar challenges.

THE ECONOMIC EMPOWERMENT OF WOMEN

Women represent 40% of the world's labor force, but hold just 1% of its wealth. Underinvestment in women—and the resulting forgone productivity—is widely recognized as an opportunity cost for economic growth and business performance. Pacific women have enormous potential to greatly enhance regional prosperity.

²³ A commercial return fully incorporates risk.

²⁴ ADB. 1988. *Technical Assistance to Samoa for Implementing Privatization of Selected Government Corporations and Activities*. Manila.

²⁵ ADB. 2014. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

²⁶ Fiji, Marshall Islands, PNG, Samoa, Solomon Islands, and Tonga.

In many Pacific economies, women are economically marginalized due to deep-seated cultural practices, structural factors, and legal, institutional, and regulatory constraints.²⁷ PSDI analysis revealed that women often need a male relative's written agreement before entering into contracts, obtaining a business name, or forming a company.²⁸ This confines many women to the informal sector, operating home-based businesses. Comingled personal and business resources prohibit women from investing and, without investment, productivity and labor returns are low and poverty is further perpetuated.

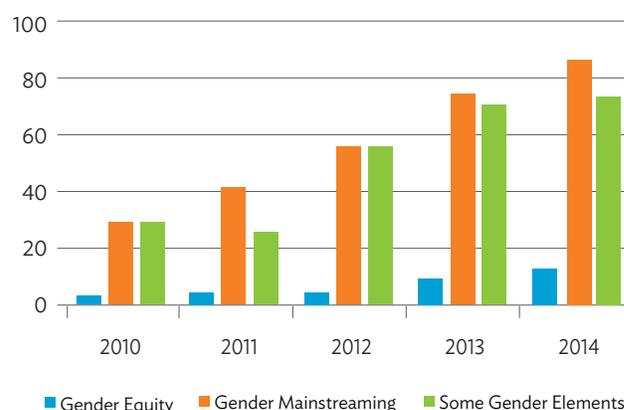
Women's economic exclusion results in reduced social wellbeing and carries enormous financial costs. Women's contributions to poverty reduction, economic growth, and private sector development are recognized globally. Promoting women's economic empowerment is now an integral part of development strategies.²⁹ Yet, women's economic contributions continue to lag behind advancements in health and education, and a variety of barriers—systemic, legal, and institutional—still prevent their full economic contribution in much of the Pacific region.

Being unable to inexpensively form a company and engage in contracts harms everybody, and women are especially disadvantaged because of their higher informal sector activity. Many

interventions to improve the business environment, such as the Business Names reform in Solomon Islands, are disproportionately beneficial for women.

Gender equality is recognized as one of the drivers of change in ADB's Strategy 2020.³⁰ Since 2007, PSDI has applied gender mainstreaming to all its initiatives. PSDI's new Economic Empowerment of Women (EEOW) program began with Phase III's launch in 2013. EEOW is actively working to identify pilot program opportunities that encourage women's private sector engagement. An increased number of PSDI initiatives are now classified as "gender equity" (Figure 1).

Figure 1: Number of Initiatives by Gender Classification, 2010–2014



Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

²⁷ ADB. 2011. *Gender Issues and Responses in the Pacific Private Sector Development Initiative. Consultant's Report*. Manila. <http://www.adb.org/Documents/Produced-Under-TA/43048/43048-reg-dpta.pdf>

²⁸ In Solomon Islands, PSDI provided policy guidance and support in drafting legislation for the Registration of Business Names Act 2014. The Act should become law in 2015. The legislation removes this barrier to the economic advancement of women.

²⁹ For example, ADB has supported the Government of Nauru's Ministry of Home Affairs with developing its draft National Women's Policy, revealed at a consultative workshop in February 2014. Two of the draft Policy's six goals are the improved economic status of women (including workplace equality), and equal decision-making and leadership participation in government, SOEs, and community groups.

³⁰ ADB. 2008. *Strategy 2020: Working for an Asia and Pacific Free of Poverty*. Manila.

STRATEGIC MANAGEMENT

Analytical Work

PSDI reform initiatives are underpinned by an extensive body of analysis, dating back to the early 2000s.³¹ Analysis occurs at both country and regional levels, ensuring that all PSDI initiatives have a solid foundation of rigorous research and comparative investigation of historical and current trends in economic, legal, financial, and social disciplines. PSDI's knowledge management framework is guided by significant institutional memory and commitment to building, maintaining, and disseminating a world-class body of critically important regional analyses of Pacific island economies.

Since 2007, PSDI has published seven Progress Reports (including this current publication), plus:

- *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Countries (2014)*
- *Finding Balance 2014: Benchmarking the Performance of State-Owned Enterprises in Island Countries (2014)*
- *The Challenges of Doing Business in Papua New Guinea (2014)*
- *Re-energizing Private Sector Investment: A Private Sector Assessment for Fiji (2013)*
- *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga (2012)*
- *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea (2012)*
- *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Fiji, Marshall Islands, Samoa, Solomon Islands, and Tonga (2011)*
- *Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa, and Tonga (2009)*
- *Policy Brief: Reforming Pacific Contract Law (2009)*
- *Sustaining Growth: A Private Sector Assessment for Vanuatu (2009)*
- *Policy Brief: State-Owned Enterprise Reform (2008)*
- *Policy Brief: Public-Private Partnerships (2008)*
- *Policy Brief: The Legal Business Environment (2008)*
- *Policy Brief: Access to Finance (2008)*
- *The Challenges of Doing Business in Papua New Guinea (2008)*
- *Transforming Tonga: A Private Sector Assessment (2008)*
- *Foundation for the Future: A Private Sector Assessment for Papua New Guinea (2008)*
- *Samoa Private Sector Assessment: Consolidating Reform for Faster Economic Growth (2008)*

In addition, the following publications were produced by PSDI core experts immediately prior to PSDI Phase I. This initial body of analysis formed the foundation of PSDI's extensive knowledge base, providing the template for its ongoing advocacy and assessment approach.

³¹ Footnote 2.

- *Palau Private Sector Assessment: Policies for Sustainable Growth (2007)*
- *Private Sector Assessment for Fiji Islands: Promise Unfulfilled (2006)*
- *Private Sector Assessment for Solomon Islands (2005)*
- *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific (2004)*

Current regional analyses include:

- An analysis of competition and consumer protection issues for the region—to be published in 2015.
- A regional study of foreign investment regulation—to be published in 2015.
- Analysis of the potential contribution of National Provident Funds to enhancing finance for growth in the region—to be published in 2016.
- A follow-up book to *Swimming Against the Tide*—to be published in 2015.

PSDI's experts regularly contribute to the global private sector development debate through other publishing and outreach channels. These include engagement with international and Pacific media, social media, peer-reviewed journals, bilateral and multilateral agency engagement, regional development and trade institutions, and international conferences.

PSDI's country-level analytical work is described in the Country Updates section.

Monitoring and Evaluation

Guiding Principles for PSDI's Monitoring and Evaluation Framework

An effective monitoring and evaluation (M&E) framework tracks reform success, and measures project initiative results. Initiatives need clear goals linked to development impact, and future design must incorporate lessons learned during implementation.

There is, however, a delicate balance between establishing quantitative criteria and too heavy reliance on numerical indicators. This particularly applies to complex reforms such as designing and implementing new legislation, strengthening regulatory frameworks, and improving competition policy. Quantifying impacts is often difficult, which is increasingly recognized in academic literature on evaluation. Burton Weisbrod recently observed, "The more we reward those things that we can measure and not reward the things we care about but don't measure, the more we will distort behavior."³²

Excessive reliance on quantification risks falling victim to the so-called "McNamara Fallacy" (see box). Robert McNamara was the United States Secretary of Defense during the Viet Nam War. His tenure was characterized by an obsession with measurement, a widely discredited approach. Data limitations; costs of collecting nonexistent data; and inherent problems in rigorously evaluating reform results—these limit the potential for statistically based evaluation. Further, if results measurement is too strongly emphasized, innovative projects could be neglected in favor of the more easily

³² E. Porter. 2013. When Public Outperforms Private in Services. *The New York Times*. 15 January. http://www.nytimes.com/2013/01/16/business/when-privatization-works-and-why-it-doesnt-always.html?pagewanted=all&_r=0

quantifiable.³³ Excessive focus on quantitative impact evaluation and hard data would preclude many successful PSDI initiatives.

Box: The McNamara Fallacy

The first step is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard that which can't be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can't be measured easily really isn't important. This is blindness. The fourth step is to say that what can't be easily measured really doesn't exist. This is suicide.

C. Handy. 1995. *The Empty Raincoat—describing the Viet Nam era measurement policies of Secretary of Defense Robert McNamara.*^a

^a D.W. Hubbard. 2010. *How to Measure Anything: Finding the Value of "Intangibles" in Business.* John Wiley & Sons, Inc. Hoboken: NJ. p. 99.

A further issue in establishing an M&E framework is how far to take attribution. For example, changes in an economy's GDP are a highly complex reduction of factors. To accurately attribute GDP changes to one particular reform requires knowledge of a range of impossibly interconnected factors—every variable impacting GDP in the economy (including the weather), the extent to which a change in one affects GDP, and how each variable interacts with all others.

PSDI's Monitoring and Evaluation Framework

PSDI's M&E framework uses both quantitative and qualitative indicators at the initiative level. These indicators clearly link factors identified by analytical work to well defined outcomes. The framework embeds M&E processes and procedures within PSDI's institutional structure and context. It also integrates reform priority identification; initiative conceptualization and implementation; financial planning and control; and outputs, outcomes, and reform impact tracking and evaluation.³⁴

PSDI's management and operational structure leverages the core team's strong relationships in-country, allowing the team to readily identify and manage mid-implementation issues. This key feature of the M&E framework enables PSDI to better focus reform initiatives.

PSDI's Monitoring and Evaluation Tool

To support its M&E framework, PSDI has developed the M&E Tool. Since 2007, it has evolved from a series of spreadsheets into a strategic planning, management, and reporting tool.

The M&E Tool is a database, containing and storing all information associated with every PSDI initiative and project since 2007. Fully relational, it enables quick and easy searches, and allows information to be presented in various ways. It also

³³ See A. Natsios. 2010. *The Clash of the Counter-bureaucracy and Development.* Washington, DC: Center for Global Development. <http://www.cgdev.org/content/publications/detail/1424271>. Natsios states that the United States Agency for International Development (USAID) has become excessively focused on projects where outputs are (relatively) easily measured. For example, health-oriented reform results are much more easily quantifiable than the more difficult-to-measure rule of law. He notes that USAID-implemented health reforms have risen sharply, while rule of law reforms have declined drastically. He attributes the decline to rule of law outcomes being hard to measure, and USAID managers avoiding criticism. He also maintains that long term growth in poorer countries will not occur unless topics like rule of law are addressed as a central constraint to development.

³⁴ PSDI includes indicators in consultant terms of reference (TORs) to allow tracking and evaluation of outputs and outcomes from the project to initiative levels.

produces tailored, searchable financial reports such as the “country summary report” and the “financials sheet”. The country summary report shows the country portfolio, and provides budget/cost information for each initiative and project by country and focus area. The financials sheet lists all the contracts in a given technical assistance project (TA), their status, cost information, and other administrative details.³⁵ The cost information is aggregated at the macro-level so that the sheet displays financial details by both TA and PSDI portfolio level. Information displayed includes all PSDI I onwards, plus other PSDI-related TAs.³⁶ The M&E Tool is also a document repository, where PSDI analytical work and selected³⁷

TA administration documents are filed.³⁷ This promotes institutional memory and continuity.

The M&E Tool was designed primarily to support implementation and results management. In addition to budget, cost, and contract information, progress against input milestones (outputs delivery) and outcome indicators are systematically recorded and tracked at the initiative level. Quarterly updated narratives summarize initiative status and are available for all team members with access to the M&E Tool.

All financial data in this Progress Report were extracted directly from the M&E Tool.

³⁵ Contract number, contract type, contract start and completion dates, and focus area.

³⁶ Budget, committed, disbursed, undisbursed, disbursed as a percentage of committed, undisbursed as a percentage of committed, committed as a percentage of budget, disbursed as a percentage of budget, and undisbursed as a percentage of budget.

³⁷ Consultant reports and other outputs, back to office reports, and some TA project implementation documents (e.g., contracts, contract variations, and additional TORs).

7 MANAGEMENT, RESOURCES, AND SPENDING

MANAGEMENT

ADB's Pacific Liaison and Coordination Office in Sydney, Australia manages PSDI, under the leadership of its Regional Director. PSDI work is coordinated closely with ADB's Pacific Department, based in ADB Headquarters.³⁸ Reform activity implementation is closely coordinated with ADB's Pacific regional offices.

PSDI operations are programmed, designed, and implemented in collaboration with the Pacific Subregional Office for initiatives in the Cook Islands, Fiji, Samoa, and Tonga; the Manila-based Urban, Social Development and Public Management Division for North Pacific initiatives; the Timor-Leste Resident Mission in Dili; and the Papua New Guinea Resident Mission in Port Moresby.

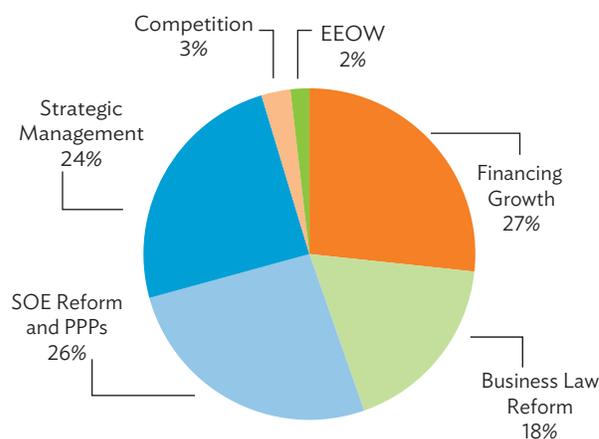
In countries where PSDI is especially active—PNG, Solomon Islands, and Timor-Leste—PSDI country coordinators liaise with local counterparts. A Fiji-based coordinator is planned, following the September 2014 elections.

RESOURCES AND SPENDING

PSDI Phase I closed on 30 April 2013, disbursing \$9.8 million. As of 30 June 2014, resources committed and disbursed under Phase II were 99% and 97% respectively, of the total TA budget of \$12 million. Phase II will close on 31 December 2014. After Phase III's first year (1 July 2013 to 30

June 2014), \$10.7 million has been committed, with about a third of the contracts secured for long term activities to end-2016. PSDI committed \$32,949,129 in the period 2007 to 30 June 2014. The highest spending was on financing growth, and SOE reform and PPPs; these were 27% and 26% of total commitment, respectively (Figure 2). Strategic management—analytical work, M&E, communications, administration expenses, and other crosscutting activities—totalled 24%. Business law reform accounted for 18%. Competition and the economic empowerment of women, added in Phase III, absorbed 3% and 2% of total commitments, respectively.

Figure 2: Spending by Focus Area, 2007–2014 (\$32,949,128)

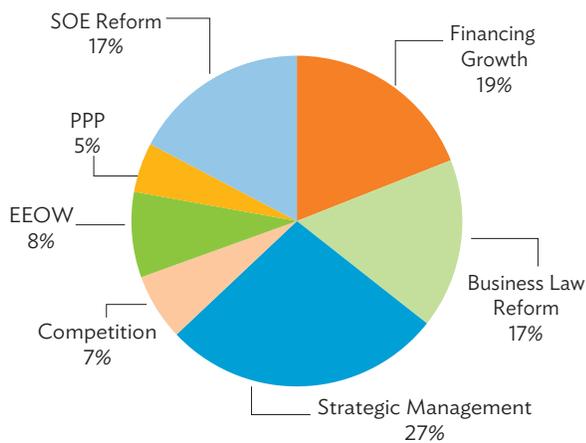


EEOW = economic empowerment of women, PPPs = public-private partnerships, SOE = state-owned enterprise
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

³⁸ Manila, Philippines.

In the period 1 July 2013 to 30 June 2014, spending by focus area totaled \$4,806,268, with the highest amount allocated to strategic management activities at 27% (Figure 3). Financing growth, business law reform, and SOE reform spending were broadly equivalent at 19%, 17%, and 17%, respectively. The balance was committed to PPPs, EEW, and competition policy activities.

Figure 3: Spending by Focus Area, 2013–2014 (\$4,806,267)



EEOW = economic empowerment of women, PPPs = public-private partnerships, SOE = state-owned enterprise
 Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

More than a third of total commitments in 2007–2014 and 2013–2014 were allocated to regional initiatives (Figure 4 and 5). The most active reformers in the region absorbed the largest amount of resources, with Solomon Islands, Tonga, and PNG receiving 16%, 12.5%, and 12% of total commitments, respectively. In 2013–2014, funds committed to strategic management (including analytical work, M&E, communications, and administration) were 51% of the total regional spending by focus area (Figure 6). At 22%, financing growth activities were the next largest recipient of PSDI regional funding in 2013–2014.

Figure 4: Cumulative Spending by Country, 2007–30 June 2014

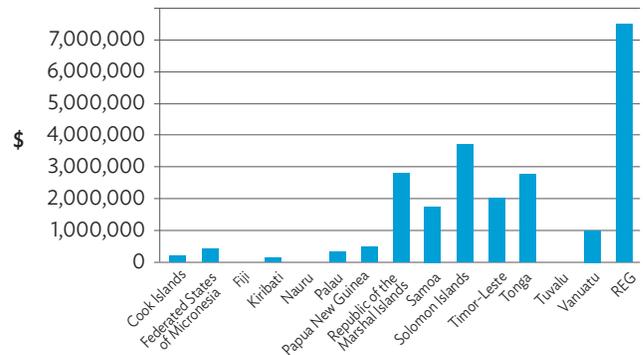
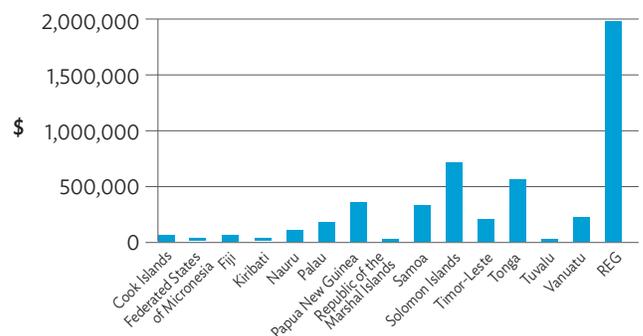
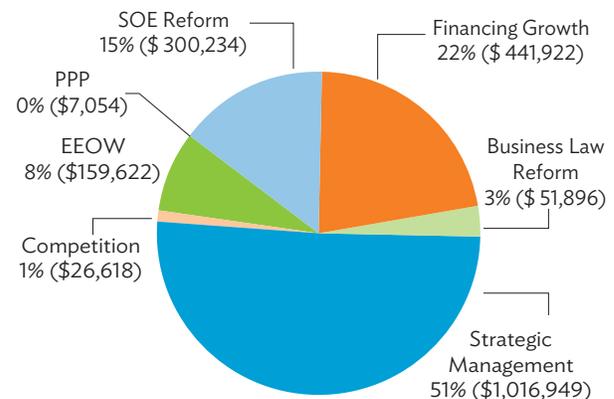


Figure 5: Spending by Country, 2013–2014



REG = regional
 Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 6: Regional Spending by Focus Area, 2013–2014 (\$2,004,294)



EEOW = economic empowerment of women, PPPs = public-private partnerships, SOE = state-owned enterprise
 Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

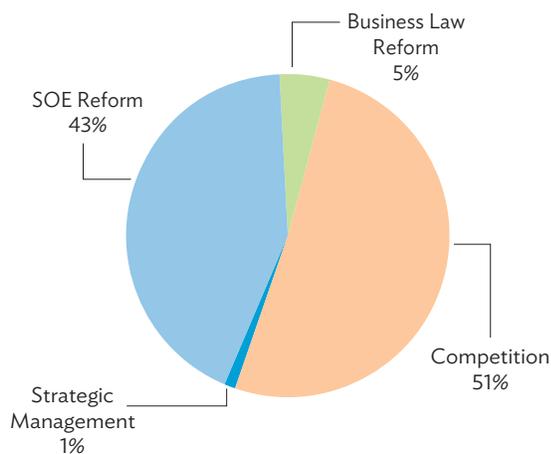
8 COUNTRY UPDATES

COOK ISLANDS

Resources and Spending

PSDI activities in the Cook Islands have focused on competition issues and SOE reforms, comprising 51% and 43% of spending from 2007–2014, respectively (Figure 7). In 2013–2014, spending on competition (48%) and SOE reform (37%) remained the largest spending allocation, with scaled up business law reform activities accounting for the increase in spending to 12% of the year's total budget (Figure 8). Support for company law reform and the planned private sector assessment is expected to increase spending in business law reform and strategic management over the coming year to mid-2015.

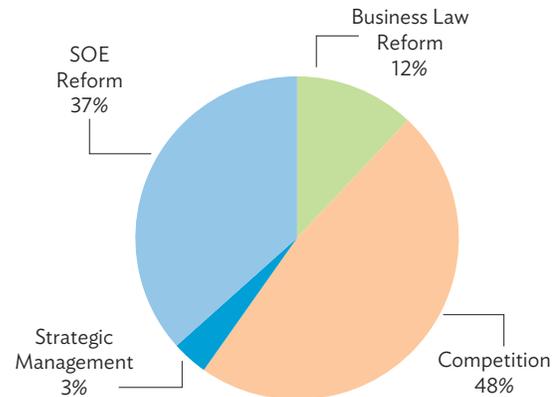
Figure 7: Cook Islands Cumulative Spending by Focus Area, 2007–2014 (\$155,518)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 8: Cook Islands Spending by Focus Area, 2013–2014 (\$61,459)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Analytical Work

A private sector assessment for Cook Islands will be published in 2015.

Business Law Reform

PSDI is supporting company law and registry reform. It undertook a review of the existing Act in 2014, and is in discussions with the government and the New Zealand Aid Programme on the implementation plan.

Competition and Consumer Protection

PSDI completed an assessment of Cook Islands' competition and consumer protection laws in 2009. The government agreed to the competition reform recommendations, but did not define an

implementation schedule. PSDI recommenced competition work in 2014 and completed a diagnostic. The resulting report will be finished in 2014.

The government is considering reform to liberalize the telecommunications market. PSDI is providing policy advice to support this decision.

State-Owned Enterprise Reform and Public-Private Partnerships

In November 2011, PSDI reviewed the legislative, governance, and monitoring framework for Cook Islands' SOEs. In July 2012, the government endorsed the resulting gap analysis recommendations. In March 2013, implementation was suspended as the government sought to clarify several issues. After a further review in July 2013, updated recommendations were submitted to government in August 2013. PSDI stands ready to support implementation in the 2014 calendar year.

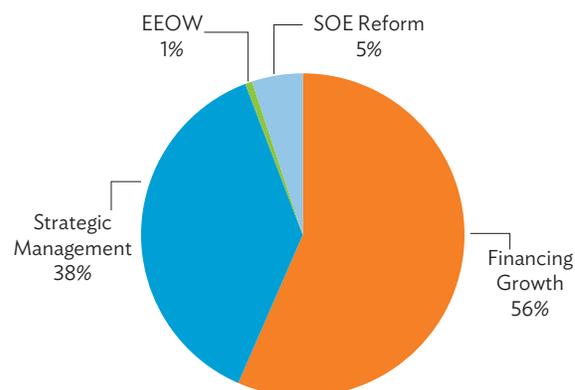
FIJI

Resources and Spending

From 2007–2014, PSDI spent over \$390,000 on private sector development-related reforms in Fiji (Figure 9). About 56% of total country spending was on financing growth, 38% on strategic management activities (specifically, the 2013 private sector assessment),³⁹ and 5% on SOE reform activities. Increased spending on financing growth is anticipated, with support for secured transactions reform and capital raisings to commence in 2014/2015. In 2013–2014, financing growth (32%) and strategic management (43%) activities again

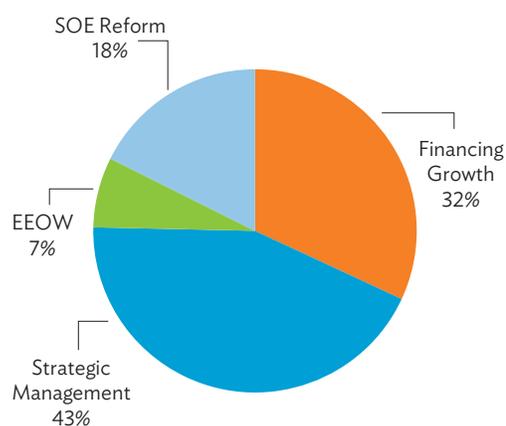
accounted for the largest share of funding allocations, while SOE reform and EEOW activities increased to attract 18% and 7% of the reporting period's funding, respectively (Figure 10).

Figure 9: Fiji Cumulative Spending by Focus Area, 2007–2014 (\$393,143)



EEOW = economic empowerment of women; SOE = state-owned enterprise
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 10: Fiji Spending by Focus Area, 2013–2014 (\$39,343)



EEOW = economic empowerment of women, SOE = state-owned enterprise
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

³⁹ See ADB. 2013. *Re-Invigorating Private Sector Investment: A Private Sector Assessment for Fiji*. Manila.

Financing Growth

In August 2013, PSDI contributed to a workshop for insurance regulators convened by the Pacific Islands Working Group of Central Banks in Nadi, Fiji and organized by the Pacific Financial Inclusion Programme.⁴⁰ The workshops brought together insurance supervisors from seven Pacific island countries to highlight the integral role that accessible insurance services plays within wider financial inclusion efforts, and to build requisite regulatory capacity.

Ongoing and Future Projects

Discussions commenced in 2014 on secured transactions reform. PSDI is working on building government support to implement the reforms.

State-Owned Enterprise Reform and Public–Private Partnerships

PSDI has provided ongoing support for SOE reform activities in Fiji since 2007, although on a relatively modest scale. Fiji has participated in all PSDI's Finding Balance SOE benchmarking studies, and PSDI also provided peer review and ongoing support to a standalone ADB TA on SOE reform. The TA ran from 2012–2013, and supported SOE restructuring, outsourcing, and monitoring agency capacity building.⁴¹

Potential projects

In 2014, PSDI received government requests to support SOE restructuring and PPP initiatives, including policy, legal, institutional, and transactional support. These requests were

discussed with the government in 2014 and will be further progressed postelection.

Economic Empowerment of Women

Discussions are underway to implement a skills development and mentoring pilot, commencing early 2015. This will follow the planned 2014 private sector gender assessment.

Ongoing and Future Projects

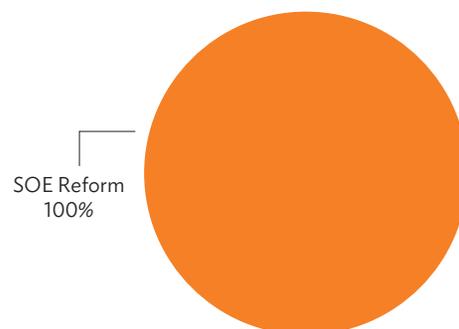
Discussions will continue towards developing a skills development and mentoring pilot in 2015.

KIRIBATI

Resources and Spending

Kiribati has received a small proportion of PSDI funds over 2007–2014 (just over \$20,000), focusing completely on SOE reform (Figure 11). Spending in 2013–2014 has followed the same pattern (Figure 12).

Figure 11: Kiribati Spending by Focus Area, 2007–2014 (\$20,071)



SOE = state-owned enterprise

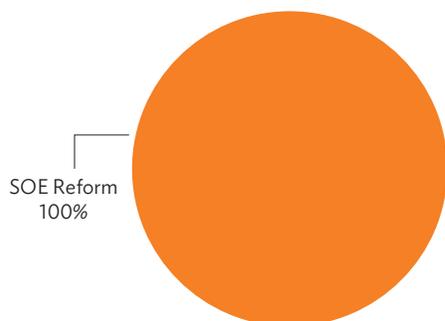
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

⁴⁰ PSDI also contributed to the first of these workshops in June 2012.

⁴¹ ADB. 2012. *Technical Assistance to Fiji for Implementing Reforms of State-Owned Enterprises*. Manila.

With a company law and registry diagnostic commencing in late June 2014, increased spending on business law reform is anticipated in 2015.

Figure 12: Kiribati Spending by Focus Area, 2013–2014 (\$2,396)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Business Law Reform

Following a fact-finding mission in 2014, PSDI will review existing laws regulating the private sector—focusing on company law and the company registry. PSDI is working on a more appropriately tailored, economical solution for the government to manage company registrations.

State-Owned Enterprise Reform and Public-Private Partnerships

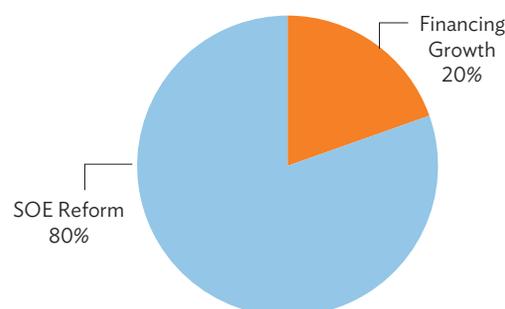
PSDI peer-reviewed the development of a SOE Bill, prepared under a separate TA managed by the Pacific Subregional office in Suva, Fiji.⁴² The Bill was enacted in April 2013 and became effective on 1 August 2013. Phase 2 of the standalone SOE reform TA began in 2014.⁴³ PSDI participated in the inception mission in June 2014 to review progress and assess whether complementary support from PSDI was warranted.

THE MARSHALL ISLANDS

Resources and Spending

PSDI assistance to the Marshall Islands from 2007–2014 has amounted to \$123,120, with 80% spent on preparing an SOE policy and 20% on secured transactions reform in the financing growth core area (Figure 13). In 2013–2014, the allocations were nearly identical, with 79% to SOE reform and 21% to financing growth (Figure 14).

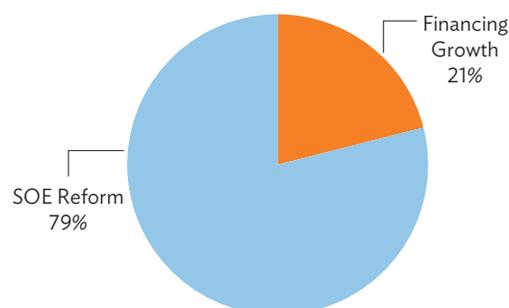
Figure 13: The Marshall Islands Spending by Focus Area, 2007–2014 (\$123,120)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 14: Marshall Islands Spending by Focus Area, 2013–2014 (\$10,375)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

⁴² ADB. 2008. *Technical Assistance to Kiribati for Economic Management and Public Sector Reform*. Manila.

⁴³ ADB. 2014. *Technical Assistance to Kiribati for Enhancing Economic Competitiveness through State-Owned Enterprise Reform*. Manila.

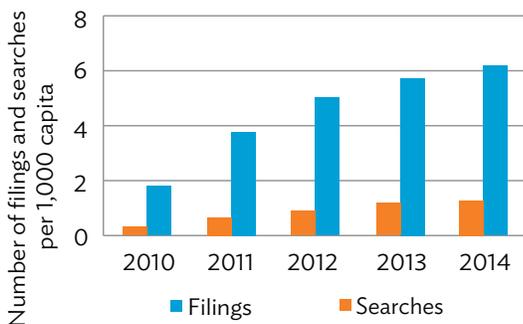
Analytical Work

The Marshall Islands has requested a private sector assessment. Timing for this report will be confirmed in 2015.

Financing Growth

The Secured Transactions Act 2007 was enacted and an electronic registry installed in 2007, with technical assistance from PSDI. Lenders in the Marshall Islands have been active registry users, with over 5,000 loans made to mid-2014 (Figure 15). Interestingly, many loans are secured by future land rent proceeds from the United States Government’s military base on Kwajalein Atoll.

Figure 15: The Marshall Islands Cumulative Net Filings and Number of Searches, 2010–2014



Source: The Marshall Islands Secured Transactions Filing Office

Ongoing and Future Projects

A registry applications upgrade and secured transactions reforms review are both planned for 2014.

State-Owned Enterprise Reform and Public-Private Partnerships

PSDI prepared an SOE Policy, which Cabinet endorsed in April 2012. Based on the approved

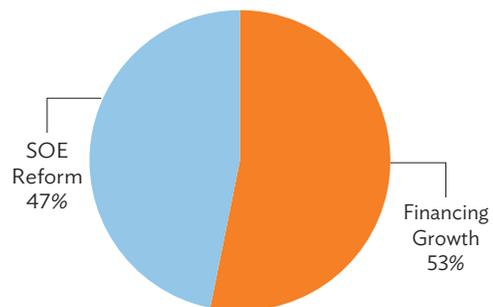
policy, PSDI drafted an SOE Bill to strengthen the SOEs’ governance and commercial orientation. The Bill further supports the government’s ongoing efforts to improve their performance. PSDI continues to support the government in passage of the SOE Bill—providing ongoing technical assistance and attending public consultation meetings. The Bill is due to be reported back to the Legislature for a second reading in August 2014. The Marshall Islands has also participated in the 2011, 2012, and 2014 Finding Balance studies.

FEDERATED STATES OF MICRONESIA

Resources and Spending

Cumulative spending in the Federated States of Micronesia (FSM) totaled nearly \$31,000 from 2007–2014, with 53% on secured transactions related work and 47% on SOE reform (Figure 16). In 2013–2014, SOE reform activities dominated the funding allocation at 98%, with the balance of 2% spent on financing growth activities (Figure 17).

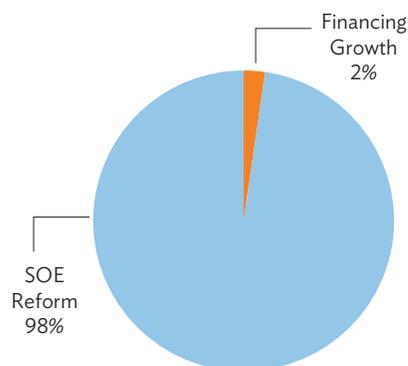
Figure 16: Federated States of Micronesia Spending by Focus Area, 2007–2014 (\$30,790)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 17: Federated States of Micronesia Spending by Focus Area, 2013–2014 (\$14,759)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Financing Growth

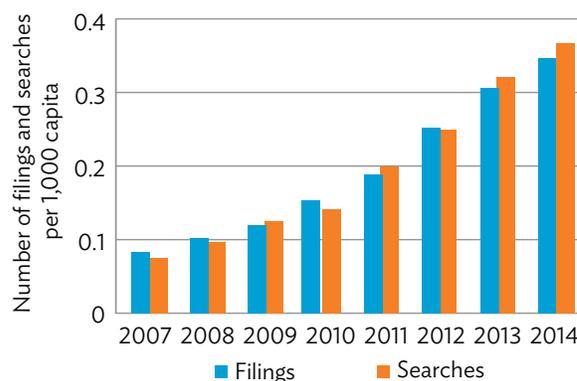
In 2005–2006, ADB assisted the government⁴⁴ implement secured transactions reforms, culminating in successful passage of the Secured Transactions Act 2006⁴⁵ and installation of an online registry.⁴⁶ Secured transactions in FSM is the longest lasting in the Pacific (Figure 18).

The transition to the new framework resulted in a large number of initial registrations. Between 2008–2009, the number of filings slowed, but increased registrations between 2011–2014 represent new loans.

Ongoing and Future Projects

PSDI is supporting an upgrade of the secured transactions registry, planned for 2014. A review of secured transactions reform outcomes is also targeted for 2014.

Figure 18: Federated States of Micronesia Cumulative Net Filings and Number of Searches, 2007–2014



Source: Federated States of Micronesia Secured Transaction Filing Office

State-Owned Enterprise Reform and Public–Private Partnerships

As requested by Pohnpei Utilities Corporation (PUC), PSDI undertook an analysis of PUC's options to outsource their power, water, and wastewater operations. The analysis included PPP opportunities. PSDI presented the resulting options paper to PUC management in June 2014.

NAURU

Resources and Spending

PSDI assistance to Nauru commenced in 2011, with over \$323,000 spent to June 2014 (Figure 19). SOE reform initiatives used 26% of this total, 73% has been spent on financing growth, and 1% has supported an ADB gender initiative in Nauru. In 2013–2014,

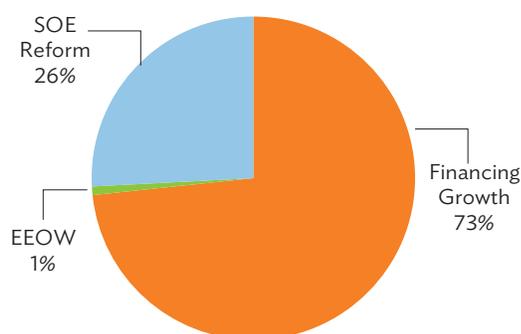
⁴⁴ ADB. 2004. *Technical Assistance for the Federated State of Micronesia for Legislation for Private Sector Development*. Manila.

⁴⁵ Public Law 14–34; 1 October 2006.

⁴⁶ The FSM Secured Transactions Filing Office's online registry is at <http://securedtransactions.dea.fm/>

financing growth and EEOW activities used 97% and 3% of the year's funding, respectively (Figure 20). PSDI will continue to support activities to introduce banking services to Nauru in 2014 and 2015.

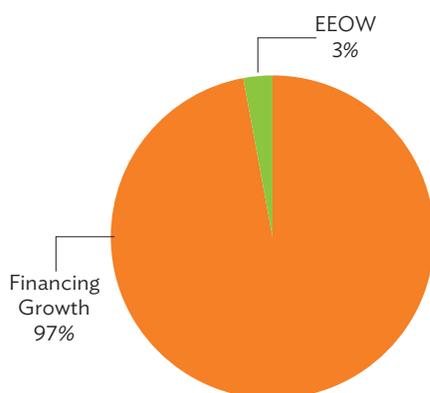
Figure 19: Nauru Spending by Focus Area, 2011–2014 (\$323,679)



EEOW = economic empowerment of women, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 20: Nauru Spending by Focus Area, 2013–2014 (\$95,327)



EEOW = economic empowerment of women

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Financing Growth

Since the early 2000s, Nauru has been without a financial institution capable of providing commercial banking services. Based on a PSDI assessment of financial requirements in 2012, PSDI supported the government to prepare an information memorandum, aimed at identifying an appropriate institution to provide these services. Expressions of interest were submitted to the government in August 2013, and discussions between the government and the preferred financial institution were ongoing in June 2014. PSDI also assisted the government in reviewing the existing regulatory framework for financial institutions and identifying reforms. In February 2014, PSDI submitted policy recommendations for the regulation and supervision of financial institutions.

Ongoing and Future Projects

The drafting of a Financial Institutions Bill is expected to commence in 2014.

State-Owned Enterprise Reform and Public–Private Partnerships

PSDI provided technical assistance to the government to restructure the Republic of Nauru Phosphate Corporation's senior executive management. This included assistance with recruiting a new chief executive officer (CEO) who began in October 2011. PSDI also supported the development of a new organization structure for senior management and board of the Nauru Utilities Corporation (NUC) and Nauru Rehabilitation Corporation (NRC), including assistance with new CEO and other senior management recruitment. NUC's new CEO took up his position in June 2012. Follow-up performance review assistance for the NUC CEO, and recruitment of a new NRC CEO,

was provided under separate ADB funding. NRC's new CEO was appointed in November 2013 and began shortly after.

Economic Empowerment of Women

Together with ADB, PSDI assisted in reviewing discriminatory laws and practices in Nauru in 2013 and 2014 and assisted the government with developing a National Gender Action Plan.

Ongoing and Future Projects

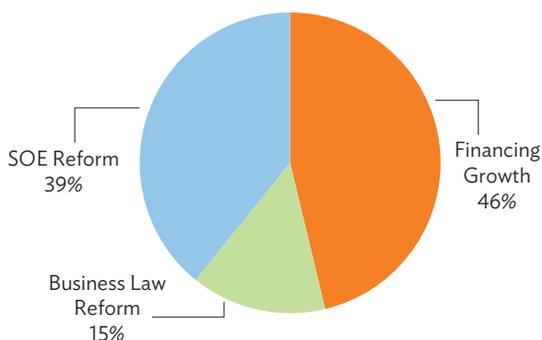
The Government of Nauru has approached PSDI to assist in further developing the National Gender Action Plan. Further work in Nauru is planned for 2015.

PALAU

Resources and Spending

Approximately 50% of the \$463,497 committed in Palau in 2007–2014 supported secured transactions reform and implementation (Figure 21). Spending

Figure 21: Palau Spending by Focus Area, 2007–2014 (\$463,497)

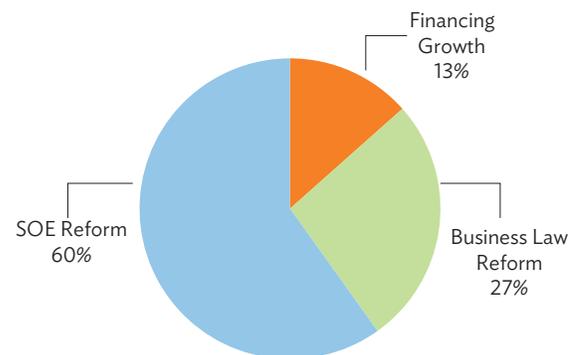


SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

in SOE reform more than doubled over the year since the last reporting period, now accounting for 39% of the total country portfolio. The company law and registry diagnostic accounted for 11% of total country spending from 2008–2014. In 2013–2014, SOE reform activities accounted for 60% of Palau's budget allocation, with business law reform and financing growth activities absorbing 27% and 13%, respectively (Figure 22).

Figure 22: Palau Spending by Focus Area, 2013–2014 (\$167,574)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

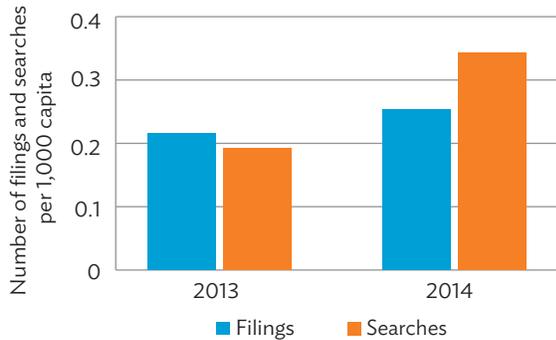
Analytical Work

Palau has requested a private sector assessment, and timing for this work will be finalized in 2015.

Financing Growth

Following PSDI-supported secured transactions reform, the Secured Transactions Act was passed in May 2012, and an electronic registry was launched in January 2013. Although relatively small, the number of secured loans per capita ranks Palau's secured transactions filings in the top half of the Pacific region's total (Figure 23).

Figure 23: Palau Cumulative Net Filings and Number of Searches, 2013–2014



Source: Palau Secured Transactions Filing Office

Ongoing and Future Projects

PSDI is providing ongoing support in 2014 to increase lenders’ uptake of the secured transactions framework.

Business Law Reform

PSDI completed a diagnostic of the company law and the existing company registry in late 2013.

Ongoing and Future Projects

PSDI and the government will discuss company law changes, after which a reform roadmap will be prepared. An electronic company registry is planned, with PSDI also assisting with drafting a new Bankruptcy Bill in 2015.

State-Owned Enterprise Reform and Public-Private Partnerships

PSDI continues to support Palau’s development of an SOE Policy and Act. The first public consultation on the draft SOE Policy was held in November 2013, and the second in April 2014. Together with the Palau Chamber of Commerce, PSDI has developed

a corporate governance strengthening program. This began in April 2014 and will continue through 2015. PSDI is also assisting the newly merged power and water utility with both their CEO selection process, and their efforts to develop a solar farm through a PPP model.

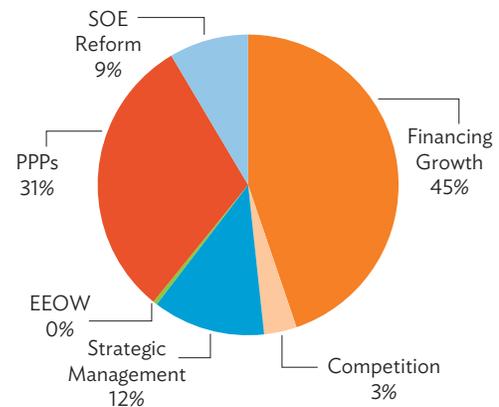
PAPUA NEW GUINEA

Resources and Spending

With over \$2.8 million in total commitments in 2007–2014, Papua New Guinea (PNG) has the third largest share of PSDI spending among Pacific DMCs, after Solomon Islands and Tonga (Figure 24). Financing growth accounted for approximately 45% and PPPs, 31% over this period. Analytical work, SOE reform, competition, and EEOW pilot development account for the balance.

In 2013–2014, PPPs absorbed 44% of the total budget of over \$350,000, with strategic

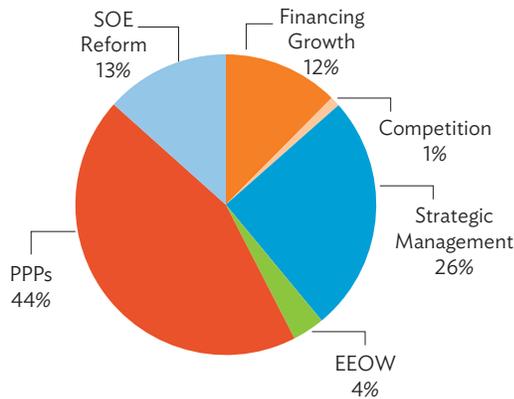
Figure 24: Papua New Guinea Spending by Focus Area, 2007–2014 (\$2,864,354)



EEOW = economic empowerment of women, PPPs = public-private partnerships, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 25: Papua New Guinea Spending by Focus Area, 2013–2014 (\$356,528)



EEOW = economic empowerment of women, PPPs = public-private partnerships, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

management activities (26%), SOE reform (13%) and financing growth (12%) the next major funding recipients (Figure 25). EEOW pilot activities attracted 4% of the year's total budget.

PSDI has had a PNG in-country presence since January 2010. Based in the Papua New Guinea Resident Mission, the PSDI private sector development coordinator promotes effective private sector development policies and practices through extensive, ongoing dialog with government and other stakeholders. The PNG coordinator works closely with focus area team leaders and supports the implementation of PSDI's legal reforms, financing growth, SOE reform, and PPP initiatives currently underway. The coordinator also works to identify opportunities towards developing ADB's private sector operations in PNG. This work is ongoing.

Analytical Work

PSDI sponsored a survey of businesses in PNG administered by the Institute of National Affairs. PSDI staff summarized the data in a publication presented to the Prime Minister, the Minister of Finance, the Minister of State-Owned Enterprises, and a large audience of the PNG's business community in February 2014.⁴⁷

A private sector assessment for PNG will be published in 2014.

Financing Growth

PSDI provided technical assistance to Nationwide Microbank between 2011 and 2013 to develop an innovative mobile telephone-linked bank account, MiCash. PSDI supported:

- a review of the MiCash pilot in West New Britain Province, completed in June 2012;
- the development of appropriate audit and risk management processes for MiCash, completed in April 2012; and
- the development of a MiCash training program for staff and agents, completed in March 2013.

The Personal Property Security Act was passed in December 2011. PSDI is assisting the government with the design, testing, and rollout of the associated online registry. The registry is expected to go live in 2014, and PSDI will continue to assist with implementation and advocacy activities.

⁴⁷ ADB. 2014. *The Challenges of Doing Business in Papua New Guinea: An Analytical Summary of the 2012 Business Environment Survey by the Institute of National Affairs*. Manila.

PSDI also funded the design of the Microfinance Expansion Project (MEP), a \$24 million sector-wide program cofinanced by the governments of Australia and PNG. The MEP focuses on strengthening institutions, financial literacy and business development skills training, developing appropriate regulation for and supervision of the microfinance sector, and establishing a risk share facility for partner institutions to promote credit expansion to micro- and small-enterprises. Implementation began in 2011, and the MEP will run to 2017.

Ongoing and Future Projects

PSDI is undertaking a financial sector assessment in conjunction with the private sector assessment. A detailed assessment of the legal framework for capital raising will commence in 2014, providing reform recommendations and exploring possible legislative and institutional support.

PSDI will continue to work with Nationwide Microbank, directing future support toward identifying business models suited to the continued expansion of Nationwide's operations and balance sheet.

Competition and Consumer Protection

PSDI began a review of PNG's competition policy in 2014. After the diagnostic is completed, PSDI will prepare an implementation plan for discussion with relevant stakeholders. PSDI also continues to actively support PNG's Independent Consumer and Competition Commission in formulating competition policy, promoting competition,

investigating violations, and prosecuting enforcement actions.

State-Owned Enterprise Reform and Public-Private Partnerships

In December 2013, the National Executive Council (NEC) approved a new Community Service Obligation (CSO) Policy for SOEs, developed with PSDI support. The CSO Policy requires full transparency in identifying, costing, contracting, and financing CSOs, and the NEC decision directed policy piloting to begin in three SOEs before end 2014. PSDI is currently supporting this work, which is led by an interdepartmental working group. NEC also endorsed the draft PPP law prepared with PSDI support in December 2013. The new Public-Private Partnership Act 2014⁴⁸ will enable PPP transactions to be prepared in a transparent and predictable manner, allowing a PPP program to form and reducing the private sector's participation risks. PSDI will support its implementation.

Ongoing and Future Projects

PSDI continues to provide capacity support and training to the SOE monitoring unit. Once the CSO policy has been piloted, PSDI will support the CSO working group in defining legislative changes to fully implement it. PNG also participated in the latest Finding Balance SOE benchmarking study, published in August 2014.

While the PPP framework is being developed, PSDI is assisting with preparing PPP transactions in the port, power, and airport sectors. PSDI presented updated Port Moresby and Lae Airport PPP

⁴⁸ The Public-Private Partnership Bill was passed by Parliament on 2 September 2014, with a unanimous vote of 67–0.

assessments to the National Airports Corporation in November 2013, and completed a detailed PPP options study for the new Lae Port in May 2014.

PSDI will continue to provide input into ADB infrastructure project design to identify potential PPP opportunities and ensure their consistency with PNG's CSO policy for SOEs.

Economic Empowerment of Women

In July 2014, PSDI began a pilot in Port Moresby to strengthen the supply chain for women operating at different levels of economic activity. The pilot helps women in the informal sector to formalize their businesses, by providing finance for growth, plus skills and product development training. Access to diverse markets will be provided by assisting women's small to medium sized businesses to access finance and grow their operations. A memorandum of understanding was signed with Nationwide Microbank in July 2014, with implementation to begin by end 2014.

Ongoing and Future Projects

PSDI is discussing potential opportunities with the National Fisheries Authority to further develop this type of program. This work will continue in 2014 and 2015.

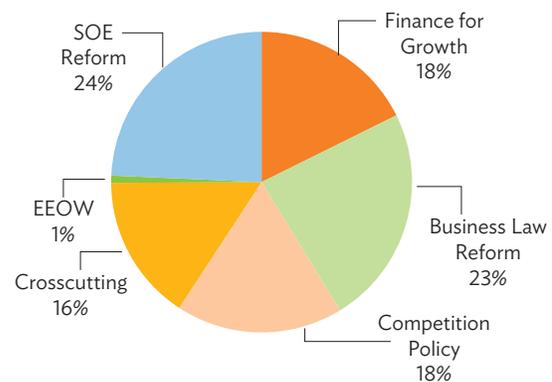
SAMOA

Resources and Spending

PSDI spent approximately \$1.76 million in Samoa in 2007–2014 (Figure 26). Over this period, SOE reform attracted the most spending, followed by business law reform and financing growth (including secured transactions reform). Competition policy

and legal reform is well underway, with competition accounting for 62% of the total 2013–2014 budget of over \$300,000 (Figure 27). This is a significant increase compared to the 18% country spending allocation for this focus area in 2007–2014. Analytical work, and a preliminary review of women's economic empowerment constraints, account for the remainder.

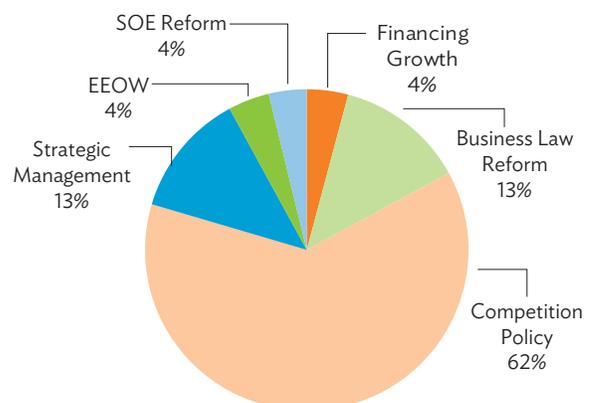
Figure 26: Samoa Spending by Focus Area, 2007–2014 (\$1,769,432)



EEOW = economic empowerment of women, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 27: Samoa Spending by Focus Area, 2013–2014 (\$333,726)



EEOW = economic empowerment of women, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Analytical Work

A private sector assessment for Samoa will be published in 2014. An analysis of constraints to women's economic empowerment will also be completed in 2014 under a separate TA.⁴⁹

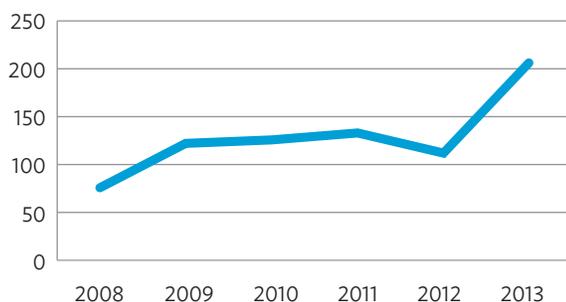
Financing Growth

PSDI supported the passage of the Personal Property Securities Act in February 2013. An amendment to the Act is expected in 2014. After it is passed, PSDI will assist in the associated registry's procurement, launch, and activation.

Ongoing and Future Projects

PSDI will raise public awareness to support implementation of the secured transactions framework. PSDI will also support the new electronic registry's design and installation.

Figure 28: Samoa Number of Incorporations, 2008–2013

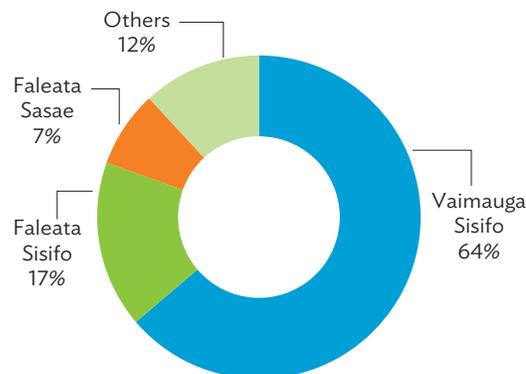


Source: Samoa Companies Registry

Business Law Reform

After updating the Companies Act Regulations in early 2013, PSDI assisted with the procurement and installation of a new electronic registry.

Figure 29: Samoa Location of Companies



Source: Samoa Companies Registry

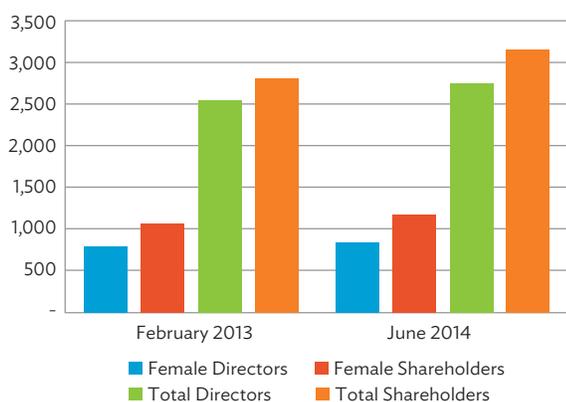
Together with the New Zealand Companies Office, PSDI has carried out significant public awareness activities and capacity building for the new registry. Implementation has revealed that various elements of company law would benefit from an amendment. PSDI has been asked to provide drafting and policy support for those legislative changes.

In 2014, PSDI surveyed company administrators and business services providers to evaluate the Samoa company registry, one year postlaunch. The survey found that:

- the new company registration rate had doubled by the end of 2013 (Figure 28);
- the cost had fallen dramatically;
- registering and maintaining companies was significantly easier;
- online company information searches saves large amounts of time and money; and
- the ease of access to information has lowered the costs of company administration, accounting, and auditing activities.

⁴⁹ ADB. 2009. *Regional Technical Assistance for Promoting Gender Equality and Women's Empowerment*. Manila.

Figure 30: Samoa Directors and Shareholders, 2013–2014



Source: Samoa Companies Registry

PSDI also provided drafting assistance for legislation to support the establishment of the Customary Land Advisory Commission.

Ongoing and Future Projects

PSDI will review the business licensing and electronic transactions laws. Using the company registry as a pilot, PSDI may also support the promotion of e-payment facilities with government.

Competition and Consumer Protection

At government request, PSDI engaged in a competition issues diagnostic. PSDI then supported the design and consultation process for the resulting draft policy, which the government approved in 2013. PSDI is assisting in the drafting of a Competition and Consumer Protection Bill. In mid-2014, the bill was undergoing public consultations and vetting by the Attorney General's office. The schedule for tabling in Parliament was yet to be determined at the time of publication.

State-Owned Enterprise Reform and Public-Private Partnerships

Samoa has participated in three of the Finding Balance studies.⁵⁰ After the 2009 study was published, the Prime Minister recognized that appointing ministers and public servants as SOE directors was directly contributing to SOEs' poor performance. He then sponsored the introduction and passage of the Composition Act through Parliament.

With the enactment of the Composition Act in early 2012, all Samoa's SOE boards were restructured to remove elected officials and substantially reduce the public servants serving as SOE directors. In 2010, almost 50% of SOE directors were either ministers or public servants. After 2012, only 11% of SOE directors are public servants—none are elected officials. The move to professional boards will reduce political influence, strengthening SOEs' ability to implement their commercial mandate.

In 2012, the government requested PSDI support for the privatization of three SOEs: Agriculture Stores Corporation (ASC), Polynesian Airlines (Investment) Limited (PAIL), and Samoan Shipping Services. Cabinet approved PSDI's recommended sales strategy for ASC but the Privatization Committee, appointed by Cabinet, opted for a more complex sales process. The sale of ASC had not been completed at the time of publication. PSDI's privatization scoping paper for PAIL was submitted in October 2012, but was still awaiting Cabinet's decision at 30 June 2014.

PSDI also provided technical support for the development of SOE reform policy conditions,

⁵⁰ Footnote 17.

included in the joint ADB, World Bank, and Australian Government aid policy matrix approved in 2013.

Ongoing and Future Projects

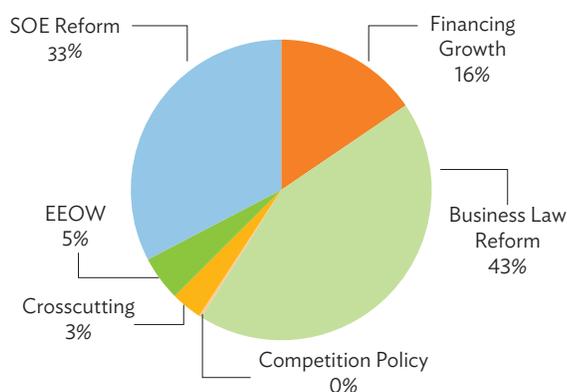
In April 2014, an SOE Minister responsible for all SOEs was appointed. PSDI has long advocated for this position. PSDI provided advice to the new Minister and the Ministry of Finance on how best to support and implement this new arrangement. In June 2014, at Cabinet request, PSDI prepared an SOE ownership, performance, and divestment policy update. PSDI is also providing technical input to define the mandate and structure of the new Ministry of Public Enterprises.

SOLOMON ISLANDS

Resources and Spending

At over \$3.9 million in 2007–2014, Solomon Islands continues to receive the largest share of PSDI funds (Figure 31). The country has been the most active

Figure 31: Solomon Islands Spending by Focus Area, 2007–2014 (\$3,926,934)



EEOW = economic empowerment of women, SOE = state-owned enterprise.

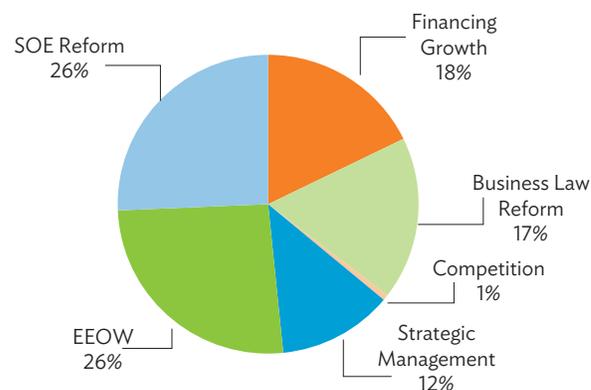
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

reformer in the region. Government has actively sought—and implemented—reform initiatives. This is remarkable because Solomon Islands could be considered a postconflict, fragile state.

Business law reform accounts for 43% of spending, primarily on customs and company law reform. Over 30% of total spending was on SOE reform, including installing a CSO framework, developing shared accounting services, and successful privatizing three SOEs. Financing growth accounted for 16%, specifically on secured transactions reform and a review of the regulatory framework for microfinance and mobile banking. The private sector assessment and competition policy have both commenced, accounting for 3% of spending. Pilot research and development to support women’s economic empowerment is well underway, with close to \$200,000 committed since 2013.

In 2013–2014, SOE reform and EEW both accounted for 26% of spending, with financing growth (18%), business law reform (17%), strategic management activities (12%), and competition policy (1%) forming the year’s balance (Figure 32).

Figure 32: Solomon Islands Spending by Focus Area, 2013–2014 (\$731,831)



EEOW = economic empowerment of women, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

In September 2013, PSDI appointed a Honiara-based implementation support expert to work closely with the core team business law, SOE, and financing growth experts to progress law reforms and implementation activities. Based in the Solomon Islands Development Coordination Office, the PSDI implementation support expert also supports the Ministry of Commerce, the Ministry of Finance, the Central Bank of Solomon Islands, and the Attorney General's Chambers in progressing ongoing legal reforms underway through PSDI, as well as their implementation. This work is ongoing.

Analytical Work

A private sector assessment, including a financial sector assessment, will be published in 2014. Solomon Islands appears as a case study in PSDI's regional secured transactions report, published in 2014.⁵¹

Financing Growth

PSDI supported the passage of the Secured Transactions Act in 2008, and the electronic registry launched in 2009. The secured transactions framework is actively used; finance companies have embraced it and quadrupled their loans. Yet, a reform outcomes review has strongly recommended further implementation for the framework to achieve its full potential.

Ongoing and Future Projects

In 2014, PSDI supported secured transactions framework implementation, including designing

financial products to expand its use. PSDI is also supporting the Central Bank of Solomon Islands (CBSI) and the Ministry of Finance and Treasury in developing a credit union policy and legal reform. Consultations were completed in 2014. PSDI is also working with a commercial bank on a mobile banking pilot. The pilot will use coastal vessels on regular shipping routes to bring banking services to remote rural communities.

The Ministry of Finance and Treasury has requested PSDI assistance to draft new legislation for the Solomon Islands National Provident Fund (SINPF). In 2014, PSDI began discussions with SINPF and CBSI on benchmarking fund performance and strengthening the regulatory framework.

Business Law Reform

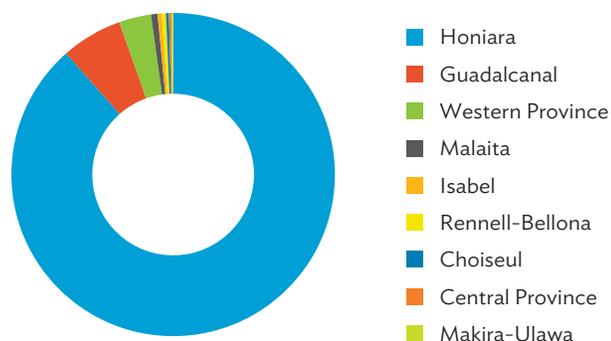
PSDI's most extensive business law reform activity has been in Solomon Islands. PSDI assistance and extended advocacy saw the Companies Act passed in 2010, along with a fully electronic company registry, Company Haus.⁵²

Launched in 2010, Company Haus is accessible 24/7 from anywhere with internet access. Key registry features:

- Cheaper and faster for new businesses to incorporate;
- No ministerial approvals for company names;
- No requirements to produce company seals; and
- No need to travel to Honiara (Figure 33).

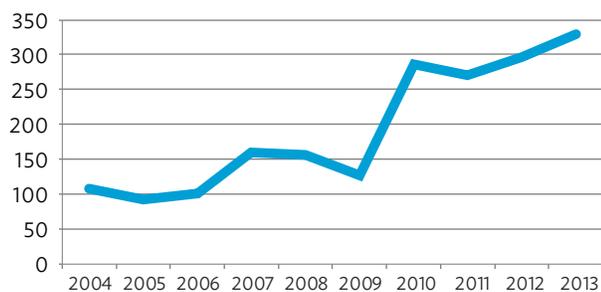
⁵¹ ADB. 2014. *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies*. Manila.

⁵² Solomon Islands Company Haus. <http://www.companyhaus.gov.sb>

Figure 33: Solomon Islands Location of Companies

Source: Solomon Islands Company Haus

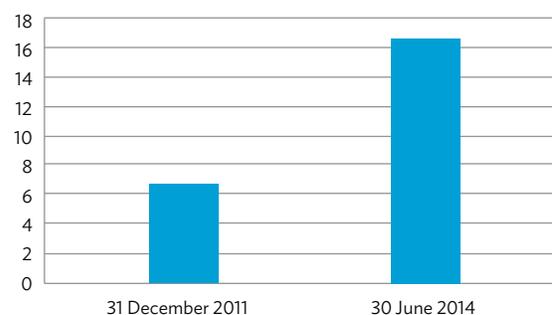
The average time to form a company has been reduced from nearly 3 months, to less than 36 hours. On average, 271 new companies have incorporated annually between 2010 and mid-2014. This is more than double the pre-reform annual registration rate (Figure 34).

Figure 34: Solomon Islands New Company Incorporations, 2004–2013

Source: Solomon Islands Company Haus

The new company laws also introduced innovative structures, including the single shareholder company. This allows entrepreneurs maximum flexibility to start and manage a business without other external ownership influences. Women will particularly benefit from the ability to start a business without needing a co-director.

The community company structure is a more transparent and accountable alternative to

Figure 35: Solomon Islands Number of Community Companies, 2011–2014

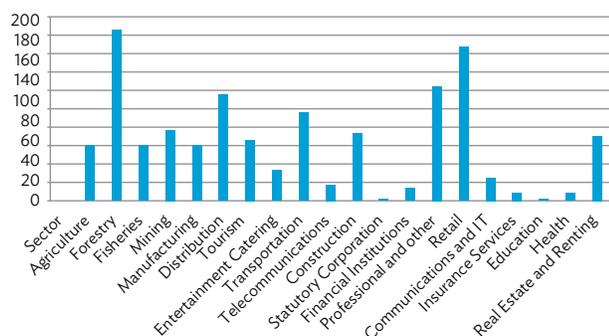
Source: Solomon Islands Company Haus

informality, establishing trusts, or cooperatives. It has great potential for managing resources royalties and customary land lease payments. By mid-2014, 17 community companies had been established in Solomon Islands (Figure 35).

PSDI also identified a complementary reform to the company law reform; simplifying the business names registration system. Business names are a form of license used extensively by small and medium enterprises across Solomon Islands. The successful passage of the Business Names Bill through Parliament would:

- allow significant reductions in processing nearly 1,000 new licenses per year;
- save small business owners significant time and money;
- remove the need to travel large distances to formally register businesses;
- enable small business owners to register through an online registry from anywhere, including their home; and
- streamline license processing, operating costs, and payment procedures through an interface with the existing Company Haus.

Figure 36: Solomon Islands Number of Registered Companies by Sector



IT = information technology

Source: Solomon Islands Company Haus

PSDI's ongoing policy guidance and support in drafting this legislation led to it successfully completing the bills committee phase. Parliament passed the Registration of Business Names Bill into law on 20 August 2014.⁵³

Records show that company registrations are dominated by forestry and retail, followed by the distribution and professional sectors (Figure 36).

Ongoing and Future Projects

Following passage of the new Registration of Business Names Act 2014 in August 2014, PSDI will begin procurement, design, and testing, towards launching the new online registry. PSDI will also support the Act's implementation phase through ongoing policy advice and advocacy activities.

PSDI has also undertaken foreign investment regime diagnostic, towards building a common online registry platform encompassing foreign investment, companies, and business name registrations. The ultimate goal is an integrated, streamlined investment start-up process.

PSDI is assisting the government with a modernized customs and excise regime, currently operating in an outdated legislative framework. The reform promotes faster clearing procedures, improves revenue collections, reduces process informality, improves border protection, and facilitates trade. The final stages of the bill's technical consultation will be followed by Cabinet and Attorney General's Chambers approvals. Tabling in Parliament is planned by early 2015.

State-Owned Enterprise Reform and Public-Private Partnerships

Since 2008, Solomon Islands' SOEs have registered dramatic improvements in efficiency and profitability. Rates of return on assets and equity, both negative from 2002–2009, were positive in mid-2014. With strong government commitment, SOE reform is demonstrably one of the best opportunities to improve economic performance. Momentum will increase as Solomon Islands develops greater awareness of positive SOE reform outcomes.

PSDI supported the SOE monitoring unit in implementing the CSO framework, piloting CSO guidelines in four SOEs. The first CSO contracts were signed in 2011. PSDI has provided ongoing training for SOEs and officials responsible for SOE monitoring, and supported the development of shared accounting services for the smaller SOEs. PSDI advised and facilitated the successful privatizations of Home Finance in 2008, Sasape Marina in 2010, and Solomon Islands Printers in 2012. Solomon Islands participated in the 2011, 2012, and 2014 Finding Balance studies.

⁵³ Footnote 19.

Ongoing and Future Projects

PSDI continues assist the government toward implementing the SOE Act and developing individual SOE restructuring strategies. The Solomon Islands Ports Authority has sought PSDI support to restructure and commercialize. This work is planned for 2014.

Economic Empowerment of Women

In 2013, PSDI reviewed constraints to women's economic empowerment in Solomon Islands, identified the following project pilots, and completed feasibility assessments.

- **Boosting women's technical skills.** PSDI is working with the West Are'Are Rokotanikeni Association, the Ministry of Mines, Energy and Rural Electrification, community organizations, and government agencies to train women on solar panel maintenance. The solar panels were installed in the West Are'Are region of South West Malaita through other donor initiatives.

The pilot has created rural businesses, and empowered women with technical and income-generating skills. In May 2014, the pilot was selected for the Asia-Pacific Economic Cooperation's Women and the Economy Forum Photo Exhibition, and exhibited in Beijing.

- **Improving inclusive governance.** Together with the Solomon Islands Chamber of Commerce, PSDI is developing a gender-sensitive training program on corporate governance. The women-targeted program aims to create promotion ready employees, upskilled for senior management positions. The first stage was

implemented in July 2014, with 70% women participants. A 'train the trainer' component develops women's instruction capacity, while an SOE module improves their ability to effectively occupy SOE board positions.

- **Empowering women in the informal sector.** PSDI is working with other development stakeholders to examine how barriers faced by women market vendors can be eased through legal reforms and women-friendly business structures. PSDI is also working with UN Women⁵⁴ to examine women's business association effectiveness in Solomon Islands.
- **Collaborating with businesses to encourage women's entrepreneurship.** PSDI is developing a pilot to engage established businesses to encourage women's entrepreneurship. Discussions with several large corporations to further this work began in 2014.

Ongoing and Future Projects

In 2014 and 2015, PSDI plans to replicate the solar panel maintenance pilot in Choiseul, North Malaita, and Isabel provinces.

The second stage of the inclusive governance program will be implemented toward end 2014. Special sessions for SOE directors on duties owed, and for women in the informal sector on financial management, will be held in conjunction with these sessions to expand reach and determine the need for more targeted programs. PSDI will continue implementation in 2015.

PSDI will continue collaborative information sharing with other development partners, examining constraints to women's economic participation in

⁵⁴ UN Women is the United Nations agency dedicated solely to gender equality and the economic advancement of women and girls. UN Women hosts a field office in Solomon Islands; the program is managed through UN Women's Fiji Multi-Country Office.

Solomon Islands. Further detailed examination of legal avenues to address systemic inequalities will be undertaken in 2014 and 2015. The economic empowerment of women focus area will provide ongoing gender inputs to ensure PSDI's other core focus area initiatives in Solomon Islands continue to incorporate gender equality as a key outcome.

In 2014, PSDI will continue developing the women's entrepreneurship pilot in collaboration with large corporations. Implementation will begin in 2015. PSDI will be working with Guadalcanal Plains Palm Oil Limited in 2015 to engage women in a range of business ventures.

TIMOR-LESTE

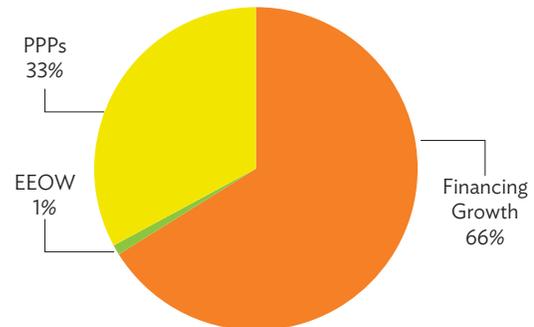
Resources and Spending

PSDI spending in Timor-Leste in 2007–2014 was over \$2 million (Figure 37). The focus was financing growth at 66%, with the majority spent on assisting the National Commercial Bank of Timor-Leste (BNCTL). PPP pre-feasibility assessments and developing the policy, legal, and institutional framework for PPPs absorbed 33% of total funds over the same period. Analysis and an initial review of women's economic empowerment constraints account for around 1%.

In 2013–2014, financing growth activities received the largest budget allocation at 56%, with EOW pilot scoping initiatives increasing the spending in this focus area to 10% of the year's total (Figure 38).

In 2013, PSDI appointed a Dili-based private sector development coordinator. Based in the Timor-Leste Resident Mission, the PSDI private sector development coordinator works closely with PSDI's core team to improve the business

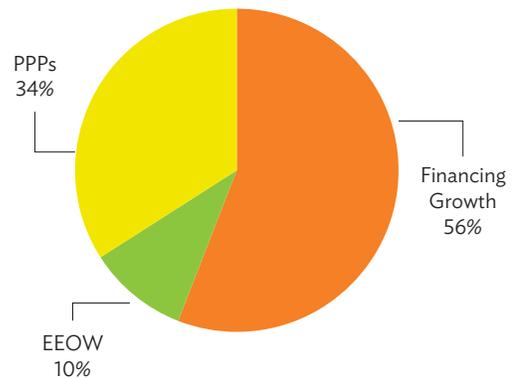
Figure 37: Timor-Leste Spending by Focus Area, 2007–2014 (\$2,019,155)



EOW = economic empowerment of women, PPPs = public-private partnerships.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 38: Timor-Leste Spending by Focus Area, 2013–2014 (\$203,038)



EOW = economic empowerment of women, PPPs = public-private partnerships.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

environment in Timor-Leste by promoting effective private sector development policies and practices. Being resident in-country allows the coordinator to better undertake ongoing discussions with the government, private sector, and key stakeholders, assist with PSDI implementation and advocacy activities, and identify potential private sector reform opportunities. The coordinator also works closely alongside ADB's sovereign operations team

members within the Timor-Leste Resident Mission to ensure collaboration and information sharing—bringing a more cohesive, aligned approach to regional TA and country-based activities.

Analytical Work

A private sector assessment will be published in 2015. Future work will be guided by the findings.

Financing Growth

PSDI was instrumental in the transformation of the Microfinance Institute of Timor-Leste to BNCTL in 2011. BNCTL is Timor-Leste's first locally-owned commercial bank. Since the change, PSDI has supported BNCTL's institutional capacity strengthening through targeted advisory support for board strengthening, human resource development, risk management, and strengthened accounting frameworks.

In 2012, PSDI reviewed laws and policies affecting branchless banking operations for the Central Bank of Timor-Leste. Also in 2012, PSDI assessed the potential for introducing a third-party provider for branchless banking services. Based on initial research from the Inclusive Finance for the Under-Served Economy (INFUSE) program, PSDI produced a report and presented it to the government in June 2013.

PSDI has commenced work with government agencies on introducing a secured transactions framework. A taskforce of stakeholders has been formed, a baseline assessment of current lending practices has been completed, and the legal diagnostic was finalized in mid-2014.

Ongoing and Future Projects

Following a 2013 review of BNCTL's operations, PSDI continues to support BNCTL's evolution into a fully commercial financial services provider. PSDI will recruit an operations advisor and an internal audit advisor in 2014. PSDI will also work with the Central Bank of Timor-Leste to support the National Commission for the implementation of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures in 2014. The financing growth team will complete a national risk assessment for Timor-Leste and prepare an AML/CFT strategy.

PSDI will prepare a discussion paper and conduct further consultations in 2014 on issues to be addressed by the secured transactions reform. This will occur prior to advising on draft legislation in 2015.

PSDI remains ready to support the Central Bank of Timor-Leste in developing the legal and regulatory framework for branchless banking.

State-Owned Enterprise Reform and Public-Private Partnerships

PSDI has supported the preparation of a new PPP policy and laws; the first decree law was approved by Council of Ministers and promulgated in 2012. The amendment to the first decree law and the second decree law were both approved by the Council of Ministers in 2013, and both were promulgated in early 2014.

PSDI is assisting the government with PPP policy and legal framework implementation. In 2012–2013, PSDI financed a PPP prefeasibility analysis for the Dili Water Supply System. The analysis concluded that a PPP could be structured for Dili.

The Council for the Infrastructure Fund endorsed the recommendations in early 2014, and the government is now funding a full PPP feasibility study. PSDI supported the terms of reference development, and will assist the PPP Unit and Project Team to manage the study.

The Dili Water Supply full PPP feasibility study work is in parallel with ADB's Urban Water Supply and Sanitation Enhancement Sector Project, and the Directorate of Water and Sanitation's ongoing system upgrade planning.

Ongoing and Future Projects

PSDI continues to support the new PPP framework, with ongoing advocacy to improve understanding of PPP concepts. This includes developing detailed PPP project cycle procedures, a business plan for the PPP Unit, and ongoing technical support to the Unit in managing the project cycle.

PSDI continues to work with the PPP Unit and Ministry of Finance to implement the PPP Policy and legal framework, including capacity development for the PPP Unit, technical support for the development of the Dili Water Supply PPP, and identifying other PPP opportunities. This work will include the preparation of detailed PPP Project Cycle procedures, which the Ministry of Finance will formally issue in 2015.

At government request, PSDI is also working with ADB to develop a power sector policy framework. This includes identifying opportunities for increased private sector participation in generation, transmission, and distribution.

Economic Empowerment of Women

In early 2014, PSDI assessed barriers women faced when attempting to engage in business. This led to the Supermarket and Large Buyers Forum organized by Empreza Di'ak, with supermarkets, shops, hotels and restaurants. The Forum aimed to identify ways to improve the supply chain and link grass roots producers with retailers.

Ongoing and Future Projects

In 2014 and 2015, PSDI will continue designing strategies to link retailers to grassroots producers, and proceed with building networks with nongovernment organizations to identify retailer needs and women's economic opportunities.

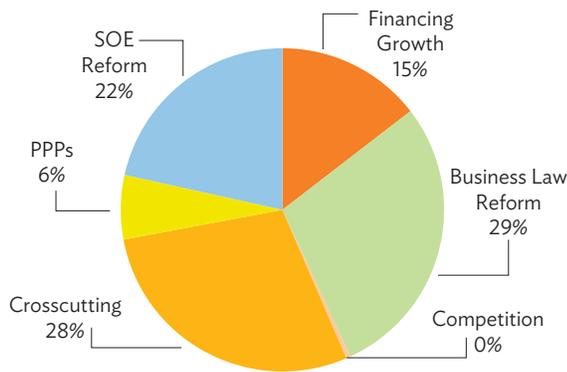
TONGA

Resources and Spending

PSDI's spending commitments in Tonga in 2007–2014 were over \$2.9 million, with 28% on analytical work and crosscutting initiatives, and 22% for SOE reform (Figure 39). Business law reform spending more than doubled over the year since 2012–2013, with multiple entity registry development and other legal reforms. Financing growth—primarily secured transactions reform—accounts for around 15% of the portfolio, with PPPs and competition at just over 6%.

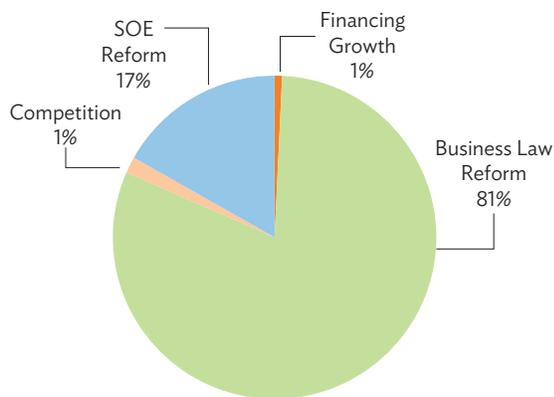
In 2013–2014, increased business law reform activities took the funding allocation for that focus area to 81% (Figure 40). SOE reform accounted for 17%, with competition and financing growth initiatives at 1% each for the year.

Figure 39: Tonga Spending by Focus Area, 2007–2014 (\$2,909,340)



PPPs = public–private partnerships, SOE = state-owned enterprise.
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 40: Tonga Spending by Focus Area, 2013–2014 (\$570,915)



SOE = state-owned enterprise
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Financing Growth

PSDI assistance has focused on secured transactions reform. The Personal Property

Securities Act was enacted in September 2010, and the online registry went live in April 2011.⁵⁵ PSDI also supported amendments to the Act, passed in December 2012, and a registry upgrade. While the secured transactions framework is being used, it is not yet fulfilling its potential.

Ongoing and Future Projects

In 2014, PSDI will begin secured transactions implementation support, including designing financial products to expand secured transactions framework use.

Business Law Reform

In 2009, PSDI assisted in preparing the Companies (Amendment) Bill. Approved by Cabinet and the Legislative Assembly in September 2009, the bill streamlines the Companies Act 1995 and provides for an electronic registry.

A hybrid paper/electronic registry went live in December 2009. In 2012, the government requested PSDI to undertake registry design and implementation of a fully electronic company registry.⁵⁶ Electronic registry procurement began in 2014 (Figure 41).

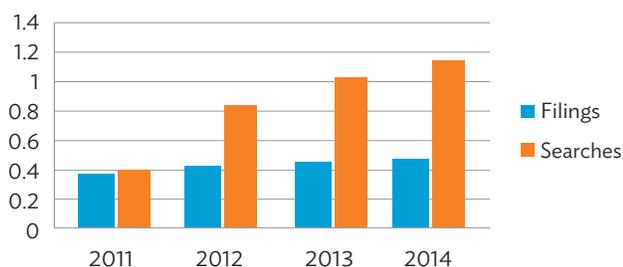
The 2012 private sector assessment identified business licensing laws as one of the private sector's most significant constraints.⁵⁷ PSDI subsequently assisted the government with business licensing reform, completing a diagnostic and drafting amendments to the Business License Act. Parliament passed the amendments in late 2012,

⁵⁵ Tonga's Personal Property Securities Registry Office is online at <https://ppsra.to>

⁵⁶ Similar to Solomon Islands' online companies registry, Company Haus.

⁵⁷ Footnote 20.

Figure 41: Tonga Cumulative Net Filings and Number of Searches, 2011–2014



Source: Tonga Personal Property Securities Registry Office

simplifying the entire licensing regime and reducing transaction costs for business. PSDI also drafted regulations and assisted with advocacy.

Ongoing and Future Projects

PSDI will support a new electronic registry, to combine companies, business names, and business licenses. A Receiverships Bill has been finalized, was with Cabinet in mid-2014, and will be re-tabled in Parliament in 2015.

Policy consultations and drafting of a Bankruptcy Bill follow in 2015, after the Receiverships Bill has passed. PSDI commenced consultations on the foreign investment policy and possible amendments to the Foreign Investment Act in 2014.

Competition and Consumer Protection

In 2013, PSDI undertook a diagnostic of Tonga's competition framework.

Ongoing and Future Projects

Competition framework policy design will be completed by end 2015.

State-Owned Enterprise Reform and Public-Private Partnerships

PSDI has supported a broad based SOE reform program impacting all Tonga's SOEs. This included: preparing an amended SOE Act; governance training; developing a director performance appraisal system and a skilled director selection process; developing and implementing community service obligation guidelines; and training to assist with implementing the amended SOE Act. Tonga is the first Pacific DMC to publish SOE financial and operational performance information in local newspapers.

PSDI supported the partial liquidation of Tonga Print Limited, commencing in 2012 and culminating in the sale (merge) of the residual assets to Tonga Post Limited in October 2013. PSDI's assistance to the corporatized and commercialized biosecurity heat treatment facility and Small Industries Centre finished in September 2012. Also in 2012, PSDI's support to the Small Industries Center corporatization process and the new Tonga Asset Managers and Associates Limited ended. PSDI developed restructuring options for Tonga Communications Corporation; Cabinet subsequently approved these recommendations in August 2013. In the first quarter of 2014, PSDI completed an outsourcing scoping study for the Tonga Water Board, with implementation to begin later in 2014.

PSDI has also worked closely with the Pacific Subregional Office and other donor partners to design SOE reform policy actions for inclusion in ADB's Tonga program grants and loans. Due to ongoing policy dialogue with PSDI, Tonga has agreed to undertake further SOE restructuring and governance reforms in 2014. Also, outsourcing subsidized ferry services has demonstrated to the

government the benefits of contracting with the private sector through PPPs.

Ongoing and Future Projects

Tonga has participated in all four Finding Balance studies (Footnote 16).

In July 2014, PSDI began technical assistance to deliver further SOE reform support and capacity development. PSDI will:

- complete the Tonga Water Board outsourcing transaction;
- advise on Tonga Forest Products Limited's financial restructuring and privatization options;
- assist Tonga Broadcasting Commission to identify and cost CSOs; and
- train SOE directors and Ministry of Public Enterprises SOE monitoring staff in capacity development.

Economic Empowerment of Women

In 2014, PSDI developed a business leadership for women program with three main features. These are developing women's capacity for senior positions in business; forming networks among Tongan businesses and stakeholders; and developing linkages between Tongan and Australian businesswomen and private sectors. This pilot aims to transfer knowledge, build resilience, and encourage women toward leadership positions.

Ongoing and Future Projects

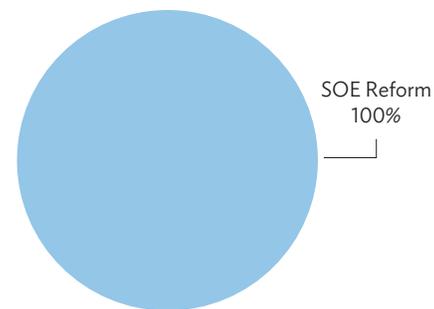
The business leadership for women program will begin in 2014 and continue in 2015.

TUVALU

Resources and Spending

PSDI spent just over \$16,000 on SOE reform in Tuvalu in 2007–2014 (Figure 42).

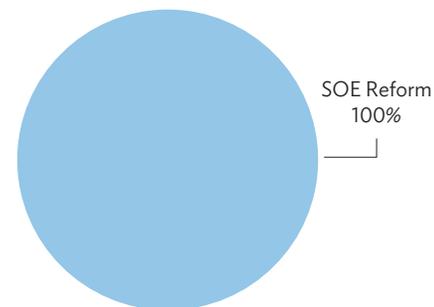
Figure 42: Tuvalu Spending by Focus Area, 2007–2014 (\$16,449)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 43: Tuvalu Spending by Focus Area, 2013–2014 (\$71)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

State-Owned Enterprise Reform and Public-Private Partnerships

In 2012 and 2013, PSDI provided peer review and high level support to the Pacific Subregional

Office with contracting out management of the government owned Vaiaku Lagi Hotel. PSDI also supported the office with work on the merger of the Tuvalu Philatelic Bureau, Tuvalu Post Office, and Tuvalu Ticketing Office into one entity.

Ongoing and Future Projects

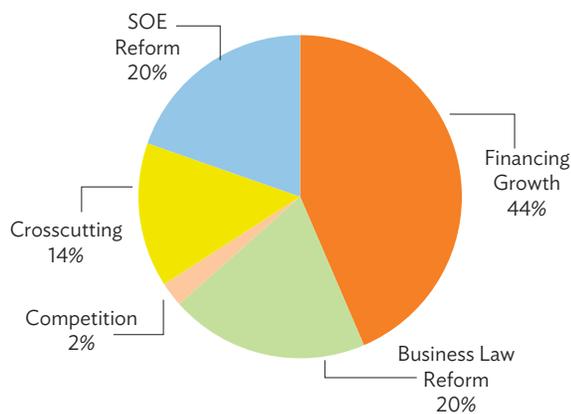
PSDI stands ready to support the Pacific Subregional Office with ongoing policy advice and peer review.

VANUATU

Resources and Spending

The majority of spending in Vanuatu in 2007–2014 was on financing growth (Figure 44). More than \$560,000 was spent on strengthening the Vanuatu Financial Services Commission's (VFSC) institutional capacity, secured transactions reform, and microfinance related activities. Business law reform—drafting and passage of the Companies Act, Companies (Insolvency and Receiverships) Act, and the Cross-Border Insolvency Act—

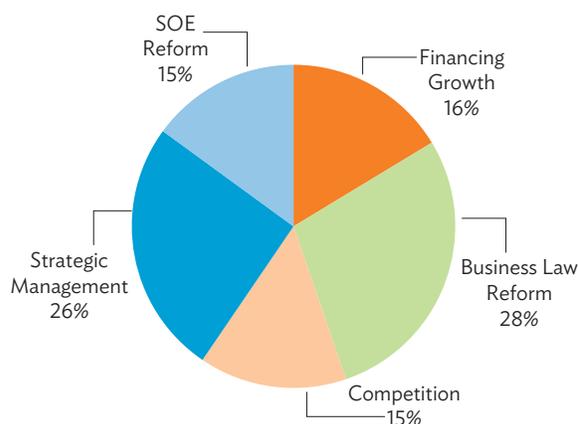
Figure 44: Vanuatu Spending by Focus Area, 2007–2014 (\$1,289,987)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Figure 45: Vanuatu Spending by Focus Area, 2013–2014 (\$214,631)



SOE = state-owned enterprise

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

received around 20% of PSDI's Vanuatu resources. Preparation of the SOE Policy and Act absorbed a further 20%, while initial analysis for the Vanuatu private sector assessment accounted for 14%. About 2% of total country commitments were spent on maritime sector competition work.

In 2013–2014, spending was more evenly split between business law reform and strategic management, being 28% and 26% of the total annual budget, respectively (Figure 45). Competition's growth as a PSDI core area is reflected by increased spending of 15% (equal to SOE reform's allocation), while financial growth activities attracted 16% of the total country spending for the year.

Analytical Work

A financial sector assessment forms part of the Vanuatu private sector assessment update, to be published in 2015. Vanuatu also appears as a case study in PSDI's regional secured transactions report, published in 2014 (Footnote 51).

Financing Growth

PSDI provided assistance to strengthen VFSC's institutional capacity. VFSC is Vanuatu's main regulatory and supervisory body of the nonbanking financial services industry (both off- and onshore). PSDI also reviewed the International Financial Centre's structure and operations, and recommended actions for its corporate strategy.

PSDI supported the secured transactions framework reform through the drafting and passage of the Personal Property Securities Act, which government passed in July 2008. Through PSDI, an electronic registry was installed in April 2009 to record the filing of security interests (Figure 46). PSDI also supported a registry upgrade in February 2012. Lenders are using the new framework, but further implementation is necessary to maximize its benefits. Interviews with companies in Vanuatu revealed that the most active users of the new framework have been wholesaler businesses who have increased the credit granting by a factor of 10 by securing their loans.

In 2012, PSDI completed a diagnostic for the Reserve Bank of Vanuatu and VFSC on the

legislative framework for microfinance. The diagnostic identified legal provisions to ensure that unregulated microfinance institutions taking deposits are adequately regulated, to protect the interests of deposit holders.

In 2012, PSDI assisted the Vanuatu Women's Development Scheme to strengthen its strategy and governance. PSDI facilitated workshops with the management and board, and introduced the organization to international microfinance practices.

Ongoing and Future Projects

PSDI is assisting the Reserve Bank of Vanuatu with improving the legal and regulatory framework for finance, including microfinance. PSDI and the Vanuatu National Provident Fund are also discussing potential assistance to strengthen portfolio and investment management.

In 2014, PSDI is assisting with drafting a new trustee bill to improve Vanuatu's compliance with international commitments, and its reputation as an offshore financial center. PSDI is also in ongoing discussions with VFSC about issues related to the financial action task force guidelines, ensuring that the international companies regime is best practice.

PSDI will commence secured transactions implementation support in 2014, including designing financial products to expand secured transactions framework use.

Business Law Reform

PSDI is supporting VFSC and State Law Office in introducing the new Companies Act, passed by Parliament in September 2012, and the Companies (Insolvency and Receiverships) Act and Insolvency (Cross Border) Act, passed by Parliament in 2013.

Figure 46: Vanuatu Cumulative Net Filings and Number of Searches, 2009–2014



Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Ongoing and Future Projects

At the end of June 2014, a significant registry implementation project is in final preparatory stages. The project entails a single electronic registry encompassing multiple business entity types, including companies and business name registrations. Project implementation will begin in 2014, with extensive PSDI implementation support throughout 2015.

While PSDI supported the drafting of a Personal Insolvency Bill as part of the insolvency reform package, the government has indicated that, in 2014, this has become a lower priority. PSDI stands ready to reengage when government priorities change.

Competition and Consumer Protection

PSDI is reviewing the economic and competition implications of Vanuatu's proposed new maritime regulatory arrangements. This work will continue through to end 2014.

State-Owned Enterprise Reform and Public-Private Partnerships

PSDI supported preparation of an SOE reform policy, approved by Cabinet in October 2013. The policy will guide subsequent SOE legislation, and is designed to place SOEs on a firm commercial footing and enhance governance, monitoring, and accountability frameworks.

Ongoing and Future Projects

PSDI continues to support a separate ADB technical assistance project on SOE reform in Vanuatu.⁵⁸ The project concentrates on eight priority SOEs, and began in April 2014. Three SOEs are targeted for liquidation, and the project will provide reform options for the remaining five. These include privatization options, where practical. The project will also draft the SOE Bill, and provide capacity development training for SOE directors and monitoring staff.

At government request, PSDI will also conduct a PPP assessment for a proposed new slipway in 2014. The government has identified two potential sites, and PSDI will develop an outline business case for structuring the project as a PPP.

⁵⁸ ADB. 2010. *Technical Assistance to Vanuatu for State-Owned Enterprise Rationalization Program*. Manila.

APPENDIX 1: PSDI PORTFOLIO SUMMARY, 2007–2014

Country	Initiatives and Projects ^a										Total (2007–2014) ^b		Total Funding Disbursed, 2007–2014 (\$)	Total Funding Committed, 2007–2014 (\$)	Total Funding Disbursed, 2013–2014 (\$)	Project Status		
	Financing Growth	Business Law Reform	SOE Reform	Public-Private Partnerships	Competition	Economic Empowerment of Women	Crosscutting	Initiatives	Projects	Projects	Complete	Ongoing				Pipeline		
Cook Islands		1 (2)	1 (2)		2 (2)		1 (1)	5	7	155,516	155,516	61,459	61,459	2	2	3		
Fiji	3 (5)		1 (2)	1 (1)			1 (1)	6	9	393,142	393,142	39,343	39,343	4	2	3		
Kiribati		1 (1)	1 (2)					2	3	20,071	20,071	2,396	2,396	1	2	0		
The Marshall Islands	1 (2)		1 (4)					2	6	123,120	123,120	10,375	10,375	1	2	3		
Federated States of Micronesia	1 (2)			1 (1)				2	3	30,790	30,790	14,759	14,759		1	2		
Nauru	1 (4)		1 (2)			1 (1)		3	7	323,679	306,994	95,327	115,546	5	1	1		
Palau	1 (3)	1 (2)	1 (6)	1 (1)			1 (1)	5	13	463,497	424,854	167,574	128,931	3	6	4		
Papua New Guinea	5 (10)		2 (5)	6 (11)	1 (2)		4 (5)	19	35	2,773,261	2,773,261	356,528	528,274	11	15	9		
Samoa	2 (3)	3 (5)	2 (4)	1 (1)	1 (1)	1 (1)	2 (2)	13	18	1,769,433	1,769,432	333,726	340,196	4	10	3		
Solomon Islands	6 (12)	7 (11)	3 (8)		1 (1)		1 (2)	19	38	3,715,968	3,440,430	731,831	775,519	9	19	10		
Timor-Leste	4 (14)			1 (6)		1 (1)	1 (1)	7	22	2,019,155	1,984,155	203,038	215,196	11	7	4		
Tonga	2 (5)	7 (10)	2 (5)	2 (3)	1 (1)		3 (3)	17	27	2,819,340	2,687,196	570,915	438,771	12	9	6		
Tuvalu			1 (2)					1	2	16,449	16,449	71	71	2	0	0		
Vanuatu	9 (18)	4 (8)	1 (6)	2 (3)	1 (1)		2 (3)	19	39	974,945	865,145	214,631	222,486	7	17	15		
Regional	14 (16)	8 (10)	6 (8)	5 (6)	2 (3)	3 (4)	9 (12)	47	59	7,723,211	7,372,307	2,004,294	1,962,737	34	18	13		
Miscellaneous ^c										9,627,551	2,060,523	-	-					
TOTAL								167	288	32,949,128	24,423,385	4,806,267	4,856,059	106	111	76		

^a Number of initiatives with number of projects in parenthesis.

^b Cumulative at 30 June 2014.

^c Includes administration costs, core team undistributed, outreach, and other miscellaneous costs for 2007–2014.

- = not able to be calculated for single year reporting period (see ^a); () = number of projects, [] = not applicable, PSDI = Pacific Private Sector Development Initiative, SOE = state-owned enterprise.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

APPENDIX 2: INITIATIVES AND PROJECTS IN 2013 AND 2014

The following shows the Pacific Private Sector Development Initiative's ongoing and pipeline activities. Closed initiatives and projects refer to activities completed by 30 June 2014.

Cook Islands		
Focus Area	Initiative/Project Name	Status
Business Law Reform	Company Law Reform – Review of Existing Act and Drafting of Amendments – Company Registry Design and Implementation	Ongoing Ongoing Pipeline
Competition	Competition Reform – Review of Competition Law Telecommunications Reform – Diagnostic	Ongoing Ongoing On Hold On Hold
Crosscutting	Private Sector Assessment (PSA) – Drafting of the Cook Islands PSA	Pipeline Pipeline

Fiji ^a		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Scoping – Capital Raisings – Diagnostic	Pipeline Pipeline Pipeline Pipeline
Economic Empowerment of Women	Skills Development and Mentoring – Diagnostic	Pipeline Pipeline
Public-Private Partnerships (PPPs)	Review and Implementation of Outsourcing Opportunities – Diagnostic	Pipeline Pipeline
State-Owned Enterprise (SOE) Reform	SOE Reform – General – Scoping	Ongoing Ongoing Ongoing
Kiribati		
Focus Area	Initiative/Project Name	Status
Business Law Reform	Company Law Reform/Business Law Diagnostic – Company Law and Registry Reform	Ongoing Ongoing
SOE Reform	SOE Reform – Peer Review for SOE Act – Support for Implementation of SOE Reform technical assistance project	Ongoing Closed Ongoing

^a Participated in ADB. 2014. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila. See regional initiatives.

Table continued

The Marshall Islands^b		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Registry Application Upgrades – Review and Implementation of the Law and Registry	Ongoing Ongoing Pipeline
SOE Reform	SOE Reform – Drafting and Passage of the SOE Act – Support for the SOE Act Implementation – Director Training Program	Ongoing Ongoing Pipeline Pipeline
Federated States of Micronesia		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Registry Application Upgrades – Increasing Lenders’ Uptake of the Secured Transactions Framework	Ongoing Ongoing Pipeline
PPPs	Review and Implementation of Outsourcing Opportunities – Diagnostic	Pipeline Pipeline
SOE Reform	SOE Reform – Pohnpei Utilities Corporation Analysis	Ongoing Ongoing
Nauru		
Focus Area	Initiative/Project Name	Status
Financing Growth	Introduction of Banking Services to Nauru – Drafting of Information Memorandum – Improving the Financial Sector Regulatory Framework – Establishment of the Financial Services Commission	Ongoing Closed Ongoing Pipeline
Economic Empowerment of Women (EOW)	Support for Gender Issues – Peer Review of Gender Plan	Closed Closed
Palau		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Registry Design and Implementation – Increasing Lenders’ Uptake of the Secured Transactions Framework	Ongoing Ongoing Ongoing
Business Law Reform	Company Law Reform – Drafting and Passage of the Law – Registry Design and Implementation	Ongoing Ongoing Pipeline
Crosscutting	Private Sector Assessment – Drafting of the Palau PSA	Pipeline Pipeline
PPPS	Power/Solar Farm PPP Development – PPP Development	Pipeline Pipeline
SOE Reform	SOE Reform – Assessment of Corporatization Opportunities – Corporate Governance Strengthening Program – Development of SOE Policy – Drafting of SOE Act – Support for Palau Public Utilities Corporation Merger	Ongoing Ongoing Ongoing Ongoing Pipeline Closed

^b Footnote a.

Papua New Guinea ^c		
Focus Area	Initiative/Project Name	Status
Financing Growth	Support to Nationwide Microbank – Mobile Phone Banking—MiCash Expansion – Commercial Expansion Model	Ongoing Closed Pipeline
	Anti-Money Laundering/Counter Terrorism Financing	Pipeline
	Secured Transactions Reform – Drafting and Passage of the Secured Transactions Law – Filing Archive (Registry) Design and Implementation	Ongoing Ongoing Ongoing
	Support for the Microfinance Expansion Project – Implementation Support	Ongoing Ongoing
	Capital Raisings – Diagnostic	Pipeline Ongoing
	Supporting Bank of Papua New Guinea to Strengthen Prudential Framework (National Provident Funds) – Monitoring Investment Managers – Interconnectedness of Financial System	Pipeline Pipeline Pipeline
Competition	Support for the Independent Consumer and Competition Commission (ICCC) – Capacity Building for the ICCC – ICCC Policy Review	Ongoing Ongoing Ongoing
	Legal Framework for Competition – Review of Competition Policy	Ongoing Ongoing
Crosscutting	Institute of National Affairs (INA) Private Sector Survey 2012 – Drafting and Publication of the INA Business Survey	Closed Closed
	Private Sector Assessment Update (2014) – PSA Update – Financial Sector Assessment	Ongoing Ongoing Ongoing
EEOW	Gender Pilot Research and Development – Strengthening the Supply Chain – Assisting Women in the Informal Sector with Product Diversification and Access to New Markets	Ongoing Ongoing Pipeline
PPPs	Jackson and Nadzab Airport PPP – Assessment and Feasibility	Ongoing Closed
	Lae Port PPP – Assessment – Options Analysis – Transaction Structuring	Ongoing Closed Ongoing Pipeline
	PPP Framework – Legal Framework for PPPs – PPP Centre – PPP Pipeline Development – Establishment of the Project Development Facility	Ongoing Ongoing Ongoing Ongoing Pipeline

^c Footnote a.

Table continued

Regional		
Focus Area	Initiative/Project Name	Status
SOE Reform	Community Service Obligation (CSO) Framework <ul style="list-style-type: none"> - Phase I—CSO Policy - Phase II—Legal Amendments to Implement the SOE Policy - Phase III—Implementation of the CSO Policy 	Ongoing Ongoing Ongoing Pipeline
	SOE Reform <ul style="list-style-type: none"> - SOE Policy Dialogue - SOE Holding Company Law 	Ongoing Ongoing Pipeline
Financing Growth	Pacific Business Investment Facility <ul style="list-style-type: none"> - Assessment of Private Equity Facilities in the Pacific - Facility Design 	Ongoing Closed Ongoing
	Pacific Insurance Regulation Workshop <ul style="list-style-type: none"> - Workshops June 2012 and August 2013 	Closed Closed
	Pacific Islands Working Group Meeting <ul style="list-style-type: none"> - Workshop with Alliance for Financial Inclusion and Reserve Bank of Fiji, March 2014 	Closed Closed
	Enhancing Regional Capacity for Risk Management <ul style="list-style-type: none"> - Workshop with ADB's Office of Risk Management July/August 2014 	Closed Closed
	Pacific Microfinance Week <ul style="list-style-type: none"> - Workshop October 2013 	Closed Closed
	Branchless Banking Workshop <ul style="list-style-type: none"> - Workshop November 2013 	Closed Closed
	Secured Transactions Conference <ul style="list-style-type: none"> - Preparation and Logistics 	Pipeline Pipeline
	Access to Finance Data Portal <ul style="list-style-type: none"> - Initial Work 	Ongoing Ongoing
	Pacific National Provident Funds (NPFs) <ul style="list-style-type: none"> - Analytical Work - NPF Forum - Technical Support for Chief Executive Officer Forum 	Pipeline Pipeline Pipeline Pipeline
	Pacific Branchless Banking Regulation <ul style="list-style-type: none"> - Diagnostics 	Pipeline Pipeline

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Table continued

Regional		
Focus Area	Initiative/Project Name	Status
Business Law Reform	Contracting Framework (Papua New Guinea, Solomon Islands, Tonga, and Vanuatu) – Contracting, Sale of Goods Bill and Arbitration Bill for Tonga – Contract Enforcement in the Pacific	On Hold On Hold Pipeline
	Electronic Registries – Regional Cloud Solution	Ongoing Ongoing
	Company Registry for Kiribati, the Marshall Islands, and Federated States of Micronesia – Small States Registry	Pipeline Pipeline Pipeline
	Pacific Judicial Reform Program – Workshop	Pipeline Pipeline
	Business Registries Workshop (March 2015) – Workshop	Pipeline Pipeline
	Regional Foreign Investment Policy Review – Policy Review	Ongoing Ongoing
Competition	Competition Framework – Regional Analysis	Ongoing Ongoing
Crosscutting	PSDI Communications and Publications – Communications Strategy and Implementation – Publications	Ongoing Ongoing Ongoing
	Gender Strategy for the Pacific Private Sector Development Initiative – Gender Strategy for PSDI III	Ongoing Ongoing
	Journalists' Workshop – Workshop March 2014	Closed Closed
	Monitoring and Evaluation for the Pacific Private Sector Development Initiative – Preparation and Implementation of the Monitoring and Evaluation Framework – Client Surveys	Ongoing Ongoing Pipeline
EOW	Diagnostics on Discriminatory Legal Provisions in the Pacific – Diagnostics for Solomon Islands and Timor-Leste	Closed Closed
	Support for the Mapping of the Needs of Women Small and Medium Sized Enterprises across six Pacific Countries – Mapping and Needs Assessment	Ongoing Ongoing
PPPs	Review of Outsourcing in the Pacific (Publication) – Review of Outsourcing in the Pacific – Launch and Publicity	Pipeline Pipeline Pipeline
	Pacific Power Association Energy Investor's Forum – Workshop July 2014	Closed Closed
SOE Reform	Finding Balance 2014 and Regional Conference – SOE Benchmarking Study (with Cape Verde, Jamaica, and Mauritius) – Leaders' Seminar and Other Workshops	Ongoing Closed Ongoing

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Table continued

Samoa ^d		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Drafting and Passage of the Secured Transactions Law – Filing Archive (Registry) Design and Implementation	Ongoing Ongoing Pipeline
	Capital Raisings – Diagnostic	Pipeline Pipeline
Business Law Reform	Business Licensing (Registry) – Registry Design and Implementation	Pipeline Pipeline
	Company Law Reform (Registry and Amendment) – Registry Design and Implementation – Amendments to the Companies Act – E-Payments Pilot	Ongoing Ongoing Ongoing Ongoing
	Support for the Establishment of the Customary Land Advisory Commission (CLAC) – Support for the Establishment of the CLAC	Closed Closed
Competition	Competition Reform – Competition Policy and New Legislation	Ongoing Ongoing
Crosscutting	Private Sector Assessment Update – Drafting of the Samoa PSA Update	Ongoing Ongoing
EEOW	Assessment of Constraints to Women’s Economic Empowerment – Diagnostic	Ongoing Ongoing
PPPs	Review and Implementation of Outsourcing Opportunities – Diagnostic	Pipeline Pipeline
SOE Reform	SOE Reform – SOE Reform General – Privatization Transaction Support – SOE Policy Development and Implementation	Ongoing Ongoing On Hold Ongoing
Solomon Islands ^e		
Focus Area	Initiative/Project Name	Status
Financing Growth	Agricultural Finance/Value Chain Finance – Rural Finance with Cocoa Value Chain Stakeholders – Branchless Banking Pilot/Agent Set Up with Westpac	Ongoing Closed Ongoing
	Financial Sector Regulation – Credit Union Policy and Law	Ongoing Ongoing
	Secured Transactions Reform – Review, Amendment, and Implementation of the Secured Transactions Act – Increasing Lenders’ Uptake of the Secured Transactions Framework	Ongoing Ongoing Ongoing
	Capital Raisings – Diagnostic	Pipeline Pipeline
	Solomon Islands National Provident Fund – Drafting of the NPF Bill – Investment Management	Ongoing Ongoing Pipeline

^d Footnote a.^e Footnote a; planned to take part in a regional contracting framework (see regional initiatives).

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Table continued

Solomon Islands ^e		
Focus Area	Initiative/Project Name	Status
Business Law Reform	Business Licensing – Business Licensing Diagnostic	On Hold On Hold
	Company Law Reform – Support for the Implementation of the Companies Act – Review of the Companies Act 2009 and Companies (Insolvency and Receiverships) Act 2009	Ongoing Ongoing Ongoing
	Customs and Excise Act Reform – Review, Drafting and Passage of the Law – Customs Act Implementation	Ongoing Ongoing Pipeline
	Foreign Investment Registry – Diagnostic	Ongoing Ongoing
	Registration of Business Names Act – Review of Act and Drafting of New Bill	Ongoing Ongoing
	Trustee Law Reform – Drafting and Passage of the Law	On Hold On Hold
	Multiple Entities Registry (Companies Upgrade, Business Names, and Foreign Investment) – Design and Implementation of the Registries – E-Payments Pilot	Pipeline Pipeline Pipeline
Competition	Competition Reform – Competition Policy and New Legislation	Ongoing Ongoing
Crosscutting	Private Sector Assessment – Drafting of the Solomon Islands private sector assessment – Financial Sector Assessment	Ongoing Ongoing Ongoing
EOW	Gender Pilot Research and Development – Boosting Women's Technical Skills to Engage in the Private Sector (Solar Maintenance) – Improving Inclusive Governance	Ongoing Ongoing
	– Mentoring Women in the Informal Sector – Empowering Women in the Informal Sector	Ongoing Pipeline Pipeline
SOE Reform	SOE Reform – Support for the Implementation of the SOE Act (including CSOs) – Liquidation of Solomon Island Printers – Upgrade of Accounting Systems (Shared Accounting Systems) – Solomon Islands Port Authority Commercialization – Solomon Islands Postal Corporation Restructuring – SOE Restructuring	Ongoing Ongoing Closed Ongoing Pipeline Closed Pipeline

^e Footnote a; planned to take part in a regional contracting framework (see regional initiatives).

Table continued

Timor-Leste		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Legal Review and Diagnostic – Drafting and Passage of the Law	Ongoing Ongoing Pipeline
	Support to the National Commercial Bank of Timor-Leste (BNCTL) – Advisory Support (Operations and Audit)	Ongoing Pipeline
	Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Assistance to Central Bank of Timor-Leste – Preparation of the AML/CFT Strategy – Completion of National Risk Assessment	Pipeline Pipeline Pipeline
Crosscutting	Private Sector Assessment – Drafting of the Timor-Leste PSA	Ongoing Ongoing
EEOW	Gender Pilot Research and Development – Strengthening the Supply Chain	Ongoing Ongoing
PPPs	PPP Framework – PPP Legal Instrument – PPP Assessments and Pre-Feasibility – Implementation of the PPP Law – PPP Project Development (Power and Water) – PPP Transaction Support (Dili Water)	Ongoing Closed Ongoing Ongoing Ongoing Pipeline
Tonga^f		
Focus Area	Initiative/Project Name	Status
Financing Growth	Secured Transactions Reform – Filing Registry Design and Implementation – Increasing Lenders' Uptake of the Secured Transactions Framework	Ongoing Ongoing Ongoing
Business Law Reform	Bankruptcy Reform – Drafting and Passage of the Bankruptcy Bill	On Hold On Hold
	Business License Reform – Implementation of the Business License (Amendment) Act	Ongoing Pipeline
	Business Names Act – Review of Law	Ongoing Ongoing
	Company Law Reform – Companies Act Implementation	Ongoing Ongoing
	Foreign Investment Act – Foreign Investment Policy Review – Registry Design	Ongoing Ongoing Pipeline
	Receiverships Bill – Drafting and Passage of the Receiverships Bill	On Hold On Hold
	Multiple Business Entity Registry (Companies, Business Licenses, and Business Names) – Design and Implementation of the Registry – E-Payments Pilot	Ongoing Ongoing Pipeline

^f Footnote e.

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Table continued

Tonga^f		
Focus Area	Initiative/Project Name	Status
Competition	Competition Reform – Competition Diagnostic and Policy Preparation	Ongoing Ongoing
PPPs	Review and Implementation of Outsourcing Opportunities – Diagnostic	Pipeline Pipeline
SOE Reform	SOE Reform – 2013/2014 – SOE Restructuring and Privatization Ministry of Public Enterprises (MPE) Capacity Building – MPE Capacity Building	Ongoing Ongoing Pipeline Ongoing Ongoing
Tuvalu		
Focus Area	Initiative/Project Name	Status
SOE Reform	SOE Reform – Peer Review for Vaiaku Lagi Hotel Privatization – Peer Review for Tuvalu Philatelic Bureau, Tuvalu Post Office, and Tuvalu Ticketing Office Merger	Closed Closed Closed
Vanuatu^g		
Focus Area	Initiative/Project Name	Status
Financing Growth	Legal and Regulatory Framework for Finance – Microfinance Legislative Framework—Diagnostic – Microfinance Legislative Framework—Drafting of Amendments and Consultations – Review of the Financial Institutions Act – Review of International Banking Act – Review of Nonbank Prudential Guidelines Secured Transactions Reform – Implementation of the Law and Registry – Increasing Lenders' Uptake of the Secured Transactions Framework Improving the Integrity of the Offshore Financial Center (AML/CFT) – Assessment of the Economic Impact of the Offshore Center – Aligning International Companies Regime with Best Practices Strengthening Portfolio and Investment Management of the National Provident Fund – Diagnostic Supporting the Financial Inclusion Taskforce – Diagnostic Collateral Guarantees Frameworks for Financial Inclusion – Diagnostics/Discussion Document Interest Rate Disclosure Regulations (Flat versus Effective Interest Rates) – Diagnostic Vanuatu National Provident Fund – Identifying, Valuing and Guidance on Selling Methods for Underperforming Assets	Ongoing Ongoing Pipeline Pipeline Pipeline Pipeline Ongoing Ongoing Ongoing Pipeline Pipeline Pipeline Pipeline Pipeline Pipeline Pipeline Pipeline Pipeline Pipeline

^g Footnote e.

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Table continued

Vanuatu ^g		
Focus Area	Initiative/Project Name	Status
Business Law Reform	Business Names Act – Review of the Law and Drafting of Regulations	Ongoing Ongoing
	Company Law Reform – Drafting and Passage of the Companies Act – Drafting and Passage of the Companies (Insolvency and Receiverships) Act – Drafting and Passage of the Personal Insolvency Act – Drafting and Passage of the Cross-Border Insolvency Act – Support for the Implementation of the Companies Act	Ongoing Closed Closed On Hold Closed Pipeline
	Trustee Law Reform – Drafting and Passage of the Law	On Hold On Hold
	Multiple Business Entity Registry (six Registries) – Design and Implementation of the Registries	Ongoing Ongoing
Competition	Support for Reviewing Maritime Regulatory Arrangements – Peer Review	Ongoing Ongoing
Crosscutting	Private Sector Assessment Update – Drafting of the PSA Update – Financial Sector Assessment	Ongoing Ongoing Ongoing
PPPs	PPP Opportunities PPP Opportunities in the Power Sector PPP Opportunities in the Water Sector Slipway PPP Slipway PPP Assessment	Ongoing Ongoing Ongoing Pipeline Pipeline
SOE Reform	SOE Reform SOE Policy Drafting of the SOE Act SOE Restructuring and Privatization (liquidation of four SOEs) Capacity Building of Government Business Enterprise Unit Director Training Drafting of the SOE Act	Ongoing Ongoing Pipeline Ongoing Ongoing Pipeline Pipeline

APPENDIX 3: MONITORING AND EVALUATION

MONITORING

The Pacific Private Sector Development Initiative (PSDI) systematically collects information in the Monitoring and Evaluation (M&E) Tool to enable sound monitoring of its technical assistance (TA) portfolio. It monitors inputs at the initiative/project level, which are then aggregated to determine spending within country and focus area portfolios. Accurate, up to date cost information allows PSDI to be accountable and demonstrate development impact. Besides monitoring progress in each initiative/project, outputs are tracked against indicators and deliverables set out in consultant terms of reference (TORs). Initiative level outcomes are then documented, analyzed, and evaluated.

PSDI also tracks annually the indicators in its design and monitoring framework, which are incorporated into the M&E Tool. However, PSDI's M&E framework avoids an overemphasis on measurement indicators, which can bias reform efforts toward easy to measure initiatives. Similarly, the M&E framework does not use broader measures of cross country competitiveness. That approach risks directing policies toward improving country rankings, rather than basing reforms on priorities identified by in-depth analysis.

Information on all initiative impacts are collected beyond the lifetime of any one reform initiative. This enables a longer term impact analysis than is usual in M&E frameworks.

EVALUATION

PSDI continually self evaluates its initiatives and projects. This allows PSDI to derive lessons to benefit other similar interventions, and enhances PSDI management and task managers' ability to make any adjustments required during the course of the reforms. PSDI's M&E framework supports targeted beneficiary surveys to provide a "reality check" on reform effectiveness, and to show where and how these might be modified to be fully effective. PSDI also performs detailed onsite impact evaluation of selected initiatives.

M&E TOOL UPGRADES AND INTEGRATION WITH ADB SYSTEMS

Beginning in 2013, PSDI undertook the following major upgrades to the M&E Tool in anticipation of the increased scale and scope of PSDI Phase III:

- **Interface with the ADB Technical Assistance Information System.** The Technical Assistance Information System (TAIS) stores all ADB TA contract and financial information. Financial information by TA is now imported from TAIS monthly into the M&E Tool, allowing better financial analysis and contract monitoring.¹
- **Detailed contract sheets.** The M&E Tool now contains detailed contract sheets. In addition

¹ PSDI uses a spreadsheet based budget framework while development and testing continues to fully incorporate budgeting into the M&E Tool.

to commitment and disbursement figures and other basic information,² full contracts and additional TORs (as applicable) are attached to each consultant's contract sheet. Contract allocations under each cost category are now encoded in the M&E Tool.

- **Claims feature.** Beginning in 2014, all PSDI consultants are required to submit claims monthly through the M&E Tool.³ This gives PSDI's Project Administration Unit and the consultant an electronic record of all the claims under their PSDI contract/s, as well as a printed form for processing.
- **Encoding contract allocations and all claim details in the M&E Tool supports iterative resource tracking for each contract.** Project managers and administrators can see—at a glance and for each consultant—number of days used and remaining, as well as comprehensive data on reimbursable expenses, including air travel, allowances,

and communications expenses. This greatly simplifies contract administration and operational workflow planning for initiative task managers.

- **Contract variations feature.** From 2014, the M&E Tool contains an electronic record of all contract variations for all PSDI contracts. This way, each contract's status is updated to the latest variation and there is a searchable, historical record of any adjustments.

Together, the claims and the contract variations feature enable efficient resources tracking under the cost categories within each contract (including number of working days, number of international or domestic trips, and United States dollar equivalents). These new features significantly improve contract and financial management, reduce administrative burden, and ensure that activities are adequately (and appropriately) resourced. Further development and testing of the M&E Tool will continue in 2014 and 2015.

² Information includes contract number, contract name, position, TA name, contract status, focus area, type, contract commencement date, and contract completion date.

³ This applies to consultants hired under PSDI Phase III, and subsequent TAs. Only short term consultants (i.e., with contracts less than 3 months) and consultants on lump sum contracts are exempt from claiming monthly.

APPENDIX 4: DESIGN AND MONITORING FRAMEWORK TARGETS

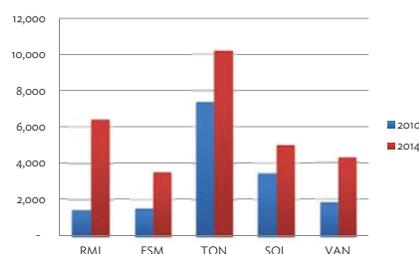
OUTPUT 1—FINANCING GROWTH

Output 1: Businesses and households in selected Pacific DMCs have improved access to financial services

Target: By May 2019, number of secured loans by financial institutions increases by 30% over 4 years (disaggregated by gender) and percentage of secured loans rises by 10 points in at least four countries

- Average increase of 135% in five countries
- Gender disaggregated data now available in
 - Palau, Solomon Islands, Tonga, and Vanuatu
 - To be rolled out in the Marshall Islands and Federated States of Micronesia

Cumulative Number of Secured Loans by Pacific Financial Institutions



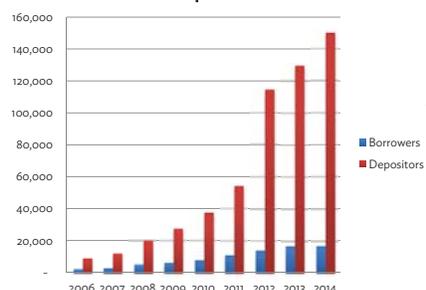
% = percentage, DMCs = developing member countries, RMI = Republic of the Marshall Islands, FSM = Federated States of Micronesia, SOL = Solomon Islands, TON = Tonga, VAN = Vanuatu.

Sources: Pacific secured transactions registries

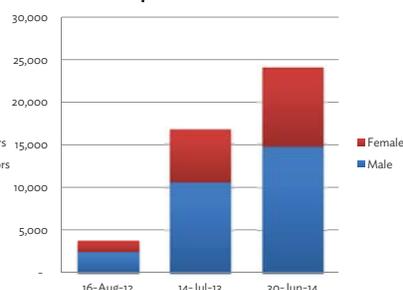
Output 1: Businesses and households in selected Pacific DMCs have improved access to financial services

Target: By May 2019, number of people with access to financial services (disaggregated by gender) through partner institutions rises by 30% in at least four countries

BNCTL: Number of Borrowers and Depositors



Number of Mi-Cash Users in Papua New Guinea



% = percentage, Aug = August, BNCTL = Banco Nacional de Comércio de Timor Leste (National Commercial Bank of Timor-Leste), DMCs = developing member countries, Jun = June, Jul = July. Sources: BNCTL (Timor-Leste) and Nationwide Microbank (Papua New Guinea).

Output 1: Businesses and households in selected Pacific DMCs have improved access to financial services

Activities with Milestones

Performance Targets and Indicators with Baselines	Status
1.1. Implement secured transactions reform	Ongoing
<ul style="list-style-type: none"> Draft at least two secured transactions laws and associated regulations 	Diagnostics undertaken in Timor-Leste Official request received from Fiji
<ul style="list-style-type: none"> Install at least three new secured transactions registries and train registry staff 	Samoa and Papua New Guinea on track for 2014 Planned for Fiji and Timor-Leste as reforms progress
<ul style="list-style-type: none"> Disseminate information to lenders and borrowers on the application of the reform 	Commenced in Palau, Solomon Islands, and Vanuatu

DMCs = developing member countries

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

Output 1: Businesses and households in selected Pacific DMCs have improved access to financial services

Activities with Milestones

Performance Targets and Indicators with Baselines	Completed
1.2. Expand access to financial services	Ongoing
<ul style="list-style-type: none"> Undertake financial sector assessments, legal diagnostics of financial sector laws, and regulations 	Ongoing
<ul style="list-style-type: none"> Reform laws, regulations, and policies in at least two Pacific DMCs 	Nauru banking legislation Solomon Islands credit union policy
<ul style="list-style-type: none"> Initiate five pilot initiatives for new financial products or service delivery channels in three Pacific DMCs 	Civil contracts finance facility with ANZ in Solomon Islands Investigation into other applications, including value chain financing
<ul style="list-style-type: none"> Pilot test mobile and/or branchless banking products and services by at least two partner institutions 	Solomon Islands Branchless Banking Pilot/Agent Setup with Westpac
<ul style="list-style-type: none"> Undertake institutional strengthening of at least four partner institutions and/or central banks 	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> Facilitate the provision of financial education for clients in at least three Pacific DMCs 	<input checked="" type="checkbox"/>

DMCs = developing member countries

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 2—BUSINESS LAW REFORM

Output 2: Selected business laws in Pacific DMCs promote inclusive business formation, investment, entrepreneurship, and trade

Target: The number of women shareholders and directors increases to at least 20% of directors and shareholders in four assisted countries



% = percentage, DMCs = developing member countries, SAM = Samoa, SOL = Solomon Islands. Sources: Companies registries in Samoa and Solomon Islands.

Output 2: Selected business laws in Pacific DMCs promote inclusive business formation, investment, entrepreneurship, and trade

Activities with Milestones

Performance Targets and Indicators with Baselines	Completed
1.3. Reform commercial laws	Ongoing
<ul style="list-style-type: none"> Undertake at least seven country consultations on business law reform issues 	35 initiatives and 50 projects requiring regular consultations
<ul style="list-style-type: none"> Draft at least 12 bills by 2019 	10 of 12 bills drafted
<ul style="list-style-type: none"> Draft regulations for all laws passed 	Regulations drafted for three laws Drafting of regulations for the Solomon Islands Registration of Business Names Act ongoing

DMCs = developing member countries

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 2 *continued*

Output 2: Selected business laws in Pacific DMCs promote inclusive business formation, investment, entrepreneurship, and trade

Activities with Milestones

Performance Targets and Indicators with Baselines	Completed
1.4. Establish business registries	Ongoing
<ul style="list-style-type: none"> Procure and install at least six business registries 	20 new registries are in the PSDI program for 9 countries
<ul style="list-style-type: none"> Organize two regional conferences for staff of national registries in the Pacific and selected other countries 	First of two planned for March 2015
1.5. Identify legal constraints to the economic empowerment of women	Assessments completed in Solomon Islands and Timor-Leste; ongoing in PNG; to commence in Tonga

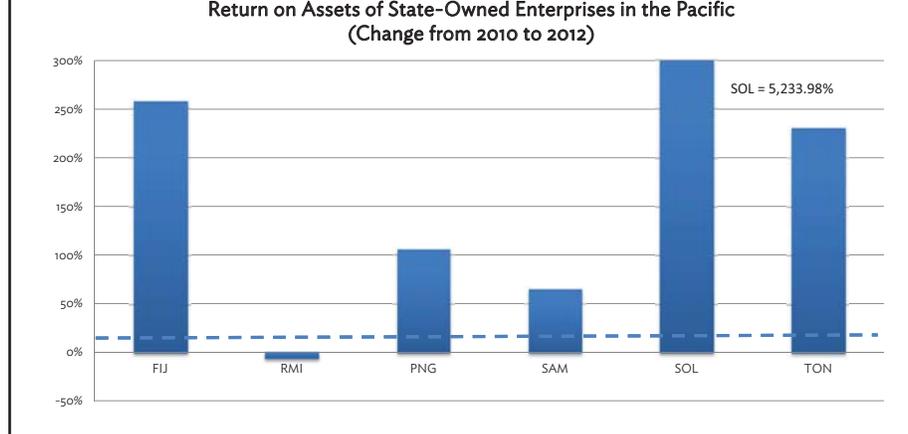
DMCs = developing member countries, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 3—STATE-OWNED ENTERPRISES AND PUBLIC-PRIVATE PARTNERSHIPS

Output 3: The delivery of infrastructure services will be made more efficient and cost-effective

Target: By May 2019, a 15% rate of return on infrastructure SOE assets as a result of PSDI reforms in at least three countries compared with 2010 baseline

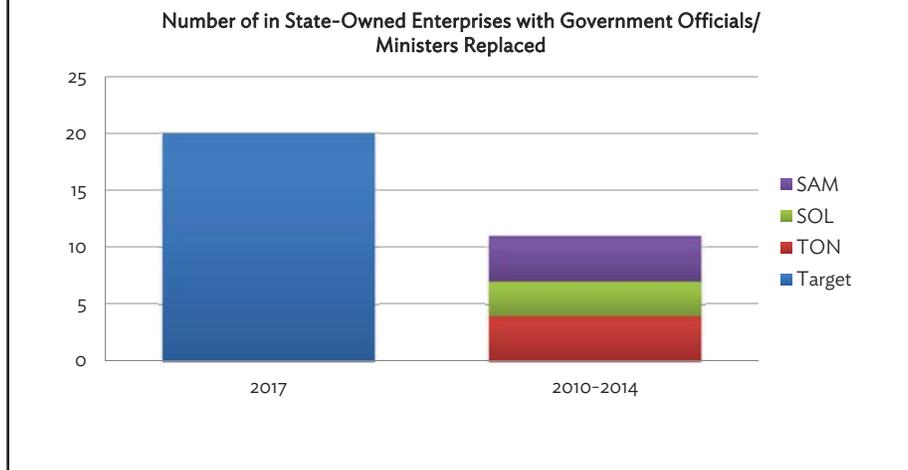


% = percentage, --- = 15% rate of return, FIJ = Fiji, RMI = Republic of the Marshall Islands, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative, SAM = Samoa, SOL = Solomon Islands, TON = Tonga.

Source: ADB. 2014. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

Output 3: The delivery of infrastructure services will be made more efficient and cost-effective

Target: Government officials and politicians replaced on 20 infrastructure SOE boards by 2017 in at least three countries



SAM = Samoa, SOE = state-owned enterprise, SOL = Solomon Islands, TON = Tonga.

Source: ADB. 2014. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

OUTPUT 3 *continued*

Output 3: The delivery of infrastructure services will be made more efficient and cost-effective

Activities with Milestones

Performance Targets and Indicators with Baselines	Completed
1.7. Facilitate the implementation of selected PPPs	Ongoing
<ul style="list-style-type: none"> Prepare at least two PPP legal frameworks by 2019 	PNG PPP law passed in 2014 Work in Fiji programmed for 2015
<ul style="list-style-type: none"> Support the establishment of PPP units in PNG and Timor-Leste by 2019 	Ongoing
<ul style="list-style-type: none"> Identify PPP transaction opportunities in at least five countries by 2019 (completed pre-feasibility). 	Opportunities being pursued in Fiji, PNG, Solomon Islands, Timor-Leste, and Vanuatu
<ul style="list-style-type: none"> Facilitate the development of five PPP transactions by 2019 	Planned

PNG = Papua New Guinea, PPP = public-private partnership.

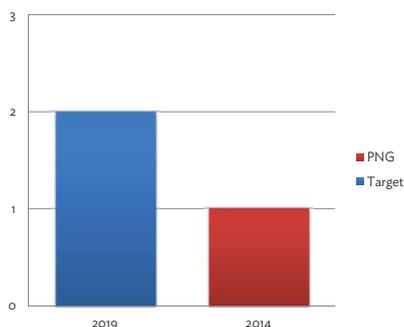
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 4—COMPETITION POLICY

Output 4: Selected Pacific DMC governments establish a framework that promotes competition

Target: Competition commissions in place and issuing judgments in at least two Pacific DMCs by 2018

PSDI Partnership with Competition Commissions in the Pacific
(as of 30 June 2014)



- PSDI support to PNG’s Independent Consumer & Competition Commission:
 - formulating competition policy
 - promoting competition
 - investigating violations
 - prosecuting enforcement actions

DMCs = developing member countries, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative.

Source: Pacific Private Sector Development Initiative

Output 4: Selected Pacific DMC governments establish a framework that promotes competition

Activities with Milestones

Performance Targets and Indicators with Baselines	Completed
1.8. Undertake at least five assessments of competition and regulatory frameworks in Pacific DMCs	Four of five completed in 2013/2014 PNG and regional assessment underway
1.9. Initiate the passing of new competition laws and regulatory offices	☑
1.10. Assist in implementing regulatory frameworks to support the acts in at least two Pacific DMCs	PSDI will support implementation upon passage of the Samoa Competition and Consumer Bill

DMCs = developing member countries, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative.

Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 5—ECONOMIC EMPOWERMENT OF WOMEN

Output 5: Successful pilot initiatives promoting the economic empowerment of women are implemented in selected Pacific DMCs

Target: At least four EEW pilot initiatives completed by May 2019

As of 30 June 2014

– **Solomon Islands**

Boosting women's technical skills

- Solar panel maintenance training in South West Malaita
- To be replicated in Choiseul, North Malaita, and Isabel

Improving inclusive governance

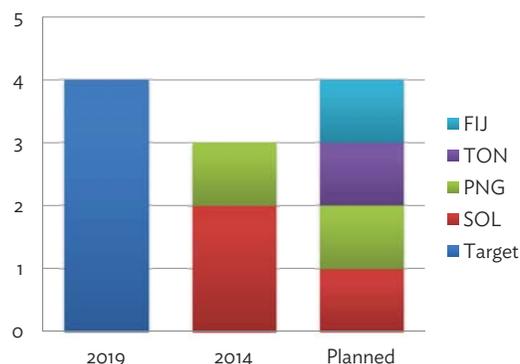
- Gender sensitive corporate governance training

• **Papua New Guinea**

Strengthening the supply chain

- Assisting women in the informal sector to formalize and access finance
- Skills and product development training

Pilot Initiatives Supporting Women's Economic Empowerment
(as of 30 June 2014)



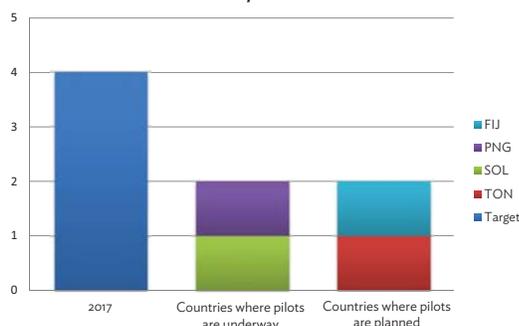
DMCs = developing member countries, EEW = economic empowerment of women, FIJ = Fiji, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative, SOL = Solomon Islands, TON = Tonga.

Source: Pacific Private Sector Development Initiative

Output 5: Successful pilot initiatives promoting the economic empowerment of women are implemented in selected Pacific DMCs

Target: Findings of pilot initiatives mainstreamed into gender and/or PSD policies by 2017 in at least four Pacific DMCs

Pacific DMCs Where Pilot Initiatives Findings will be Mainstreamed into Gender and/or PSD Policies



- To be explored upon completion of each pilot initiative

DMCs = developing member countries, PSD = private sector development, FIJ = Fiji, PNG = Papua New Guinea, SOL = Solomon Islands, TON = Tonga.

Source: Pacific Private Sector Development Initiative

OUTPUT 5 *continued***Output 5: Successful pilot initiatives promoting the economic empowerment of women are implemented in selected Pacific DMCs****Activities with Milestones**

Performance Targets and Indicators with Baselines	Completed
1.11. Undertake research in at least six areas of gender constraints in at least four Pacific DMCs	Assessments completed in Solomon Islands and Timor-Leste; ongoing in PNG and to commence in Tonga
1.12. Utilize the findings to design at least four gender pilot initiatives	Nine pilots designed in five countries Commenced implementation of three pilots
1.13. Evaluate pilot initiatives to identify success factors promoting the economic empowerment of women	M&E ongoing as implementation continues
1.14 Assist ADB and other development partners in replicating and scaling up successful pilot initiatives	Ongoing

DMCs = developing member countries, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative.

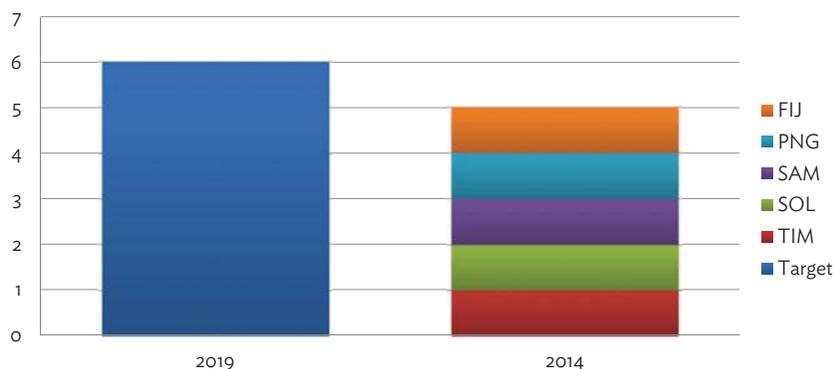
Source: Pacific Private Sector Development Initiative Monitoring and Evaluation Tool

OUTPUT 6—STRATEGIC MANAGEMENT

Output 6: Strategic and knowledge management services are effectively provided

Target: PSDI analytical work is used by ADB and development partners for country programming (at least six times)

Pacific Countries where PSDI supported Private Sector Assessments are used for Country Programming



ADB = Asian Development Bank, FIJ = Fiji, PNG = Papua New Guinea, PSDI = Pacific Private Sector Development Initiative, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste.

Source: Pacific Private Sector Development Initiative

Output 6: Strategic and knowledge management services are effectively provided

Target: At least 80% of the recommendations of the private sector assessments are adopted and acted on by the respective Pacific DMCs

- As of 30 June 2014, private sector assessments are underway for
 - Papua New Guinea
 - Samoa
 - Solomon Islands
- Planned for
 - Cook Islands, Timor-Leste, and Vanuatu
- PSDI will track adoption of recommendations as the PSAs are published

% = percentage, DMCs = developing member countries, PSAs = private sector assessments, PSDI = Pacific Private Sector Development Initiative.

Source: Pacific Private Sector Development Initiative

OUTPUT 6 *continued***Output 6: Strategic and knowledge management services are effectively provided****Activities with Milestones**

Performance Targets and Indicators with Baselines	Completed
1.15. Provide knowledge management	Ongoing
• Refine and coordinate TA operational processes by July 2013	☑
• Hold annual retreats with cofinancing partners and ADB country team leaders	Retreats held in Aug 2013 and 2014
• Update M&E framework	☑
• Establish formal dissemination mechanism for publicizing PSDI lessons learned	☑
• Hold at least two regional journalist workshops to disseminate PSDI achievements by 2019	First of two held in March 2014

ADB = Asian Development Bank, Aug = August, M&E = monitoring and evaluation, PSDI = Pacific Private Sector Development Initiative, TA = technical assistance.

Source: Pacific Private Sector Development Initiative

Output 6: Strategic and knowledge management services are effectively provided**Activities with Milestones**

Performance Targets and Indicators with Baselines	Completed
1.16. Provide advocacy support	Ongoing
• Provide advisory support on private sector development oriented reforms in eight Pacific DMC governments and private sector bodies	Providing advisory support in 14 Pacific DMCs
• Prepare ad hoc policy briefing notes on business environment issues for cabinet members, ministers, and senior government officials in DMCs as requested	☑
• Hold regular biannual PSDI roundtable meetings in at least seven Pacific DMCs by 2019	☑
• Prepare private sector assessment reports	☑

DMCs = developing member countries, PSDI = Pacific Private Sector Development Initiative.

Source: Pacific Private Sector Development Initiative

Pacific Private Sector Development Initiative

Progress Report 2013–2014

Since 2006, the Pacific Private Sector Development Initiative (PSDI) has worked to alleviate poverty and promote growth in the Pacific region through reforms that encourage private sector investment and entrepreneurship. This report describes developments and progress for PSDI Phase III's first year, and covers the period July 2013 to end-June 2014. PSDI is a regional technical assistance facility cofinanced by the Asian Development Bank, the Government of Australia, and the New Zealand Government.

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 approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 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.



ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org