

The Pacific Facility III Trust Fund (PF3)

Independent Review Report

May 2012

Aid Activity Summary

Aid Activity Name	Pacific Facility III Trust Fund (PF3)		
Initiative number	INI 976		
Commencement date	1 July 2005	Completion date	30 June 2013
Total Australian \$	A\$33.19 million		
Total other \$	NZ \$ 3.75 million		
Delivery organisation	The World Bank Group		
Implementing Partners	The Australian Agency for International Development (AusAID); New Zealand Ministry of Foreign Affairs and Trade (NZMFAT)		
Country/Region	Pacific		
Primary Sector	Economic and Policy		

Draft Report

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Abbreviations and Acronyms

AAA	Analytic and Advisory Activities
ADAB	Australian Development Assistance Bureau
ADB	Asian Development Bank
ANU	Australian National University
AusAID	Australian Agency for International Development
BB	Bank Budget
BOP	Balance of Payments
CAS	Country Assistance Strategy
CEWG	Core Economic Working Group (Solomon Islands)
CN	Concept Note
CPS	Country Partnership Strategy (WB)
EAP	East Asia and the Pacific Vice-Presidency in the WB
EC	European Commission
EFA-FTI	Education for All Fast Track Facility (WB TF)
EFO	Externally Funded Output (WB)
EGRA	Early Grade Reading Assessment
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ESW	Economic and Sector Work
FCPF	Forest Carbon Preparation Facility
FSM	Federated States of Micronesia
FY	Financial Year
GEF	Global Environment Fund
GFCRP	Global Food Crisis Response Programme (WB TF)
GFDRR	Global Fund for Disaster Reduction and Recovery
HEP	Hydro-Electric Power
IBRD	International Bank for Reconstruction and Development (WB)
IDA	International Development Association (WB)
IDF	Institutional Development Fund (WB TF)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation (member of WB Group)
IR	Independent Review
ISN	Interim Strategy Note (WB)
J4P	Justice for the Poor (WB TF)
LDC	Least Developed Countries (WB TF)
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDTF	Multi-Donor TF
NZMFAT	New Zealand Ministry of Foreign Affairs and Trade
PAC-FS	Pacific Free Standing (TF program)
PF3	Pacific Facility III Trust Fund
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PIAC	Pacific Infrastructure Advisory Centre
PIFS	Pacific Islands Forum Secretariat
PNA	Parties to the Nauru Agreement
PNG	Papua New Guinea
PPCR	Pilot Program for Climate Resilience
PPD	Pacific Partnership for Development (AusAID)

PRIF	Pacific Region Infrastructure Facility
RAMSI	Regional Assistance Mission to the Solomon Islands
RMI	Republic of the Marshall Islands
SABER	System Assessment and Benchmarking for Education Results
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
SOPAC	SPC Applied Geoscience and Technology Division
SPBF	State and Peace-Building Fund (WB TF)
SPC	Secretariat of the Pacific Community
TA	Technical Assistance
TF	Trust Fund
TTL	Task Team Leader
ToR	Terms of Reference
UAE	United Arab Emirates
VP	Vice President
WB	World Bank
WPA	Work Program Agreement (WB)

Executive Summary

Background and Program Objectives

The Pacific Facility III Trust Fund (PF3) is a multi-donor trust fund managed by the World Bank (WB) on behalf of the contributing development partners, the Australian Agency for International Development (AusAID) and the New Zealand Aid Programme, under the New Zealand Ministry of Foreign Affairs and Trade (NZMFAT). The PF3 has supported the expansion of the WB's presence in the Pacific region. Between 2005 and March 2012, AusAID contributed over A\$33 million to the Bank for PF3. New Zealand has contributed NZ\$3.75 million

The overall development objectives of the PF3 are to: (i) help to create an environment conducive to generating growth and employment opportunities for the Pacific Island countries; (ii) promote development dialogue, stem the decline in social indicators, and build the foundation for improved governance and sustained recovery in Papua New Guinea; and (iii) strengthen governance, service delivery, and employment generation in Timor-Leste. In June 2011 a fourth development objective was added: "bringing global practices to the Pacific Region".

This Report presents the findings of an independent review of the PF3 by a team of two international consultants who consulted with AusAID, WB and NZMFAT in Canberra and Sydney 5 – 22 March 2012 (some by telephone). The team visited the Solomon Islands 12-16 March, and one consultant each visited Samoa and Tonga 17 – 21 March where they consulted with Government officials, project implementers and stakeholders, and staff of AusAID, Australian High Commissions, NZMFAT, the WB, and the Asian Development Bank (ADB).

Key Facility Achievements

The support provided to the WB through PF3 has broadly achieved the donors' objectives to induce a scaling up of the WB's presence in the Pacific and thus help to create an environment conducive to generating growth and creating employment opportunities.

The WB has substantially scaled up its IDA and Trust Fund portfolios in the Pacific, has developed country-level strategies in several Pacific Island countries, has played an increasing and highly appreciated role in macroeconomic policy, economic dialogue and donor coordination around budget support operations, and has expanded its Analytic and Advisory Activities (AAA), responding to the donors' aim of bringing more of the WB's global knowledge to the Pacific region.

Findings and Conclusions

PF3 has been an integral part of the WB's operations, and these have been fully relevant to and aligned with the objectives of the Australia and New Zealand governments and the context, needs and priorities of Pacific Island and Papua New Guinea governments.

The original intention of the PF3 was to provide resources that were fully fungible with the WB's own resources for the Pacific, with all resources being allocated according to agreed priorities. In practice there have been limits to resource fungibility and these have constrained efficiency. The WB manages its Pacific operations well, and the establishment of new offices has enhanced performance, but there are still areas where more effective support could be provided in a context of thin implementation capacity. Overall however PF3 seems to be delivering value for money, given that the WB's portfolio has at least trebled in scale while PF3 has increased core resources by about 40%.

The current partnership relationship between AusAID and WB is valued. However, care needs to be taken in ensuring that a balance is maintained between AusAID's desire for improved reporting and

for additional earmarking of funds for sectors, and the need to maintain a collaborative partnership, avoiding the risk of creeping development of a managing contractor relationship.

Coordination with bilateral donors has generally been good, but this has been less true of coordination with regional agencies such as SPC and the Pacific Forum, and reporting to the donors has not been fully satisfactory.

The future relationship between AusAID, New Zealand and the World Bank needs to ensure that all three partners in the Multi-Donor Trust Fund are equally fully informed and agreed on changes to the partnership.

Recommendations

Recommendation 1: The relationship between AusAID, New Zealand and the World Bank needs to ensure that all three partners in the Multi-Donor Trust Fund are equally fully informed and agreed on changes to the partnership.

Recommendation 2: Given the effectiveness of PF3 in inducing a scaling up of the WB's presence in the Pacific which is highly valued by Governments and donors alike, it would be highly undesirable for the current level of presence to be reduced, and thus it is recommended that at a minimum the recent levels of PF3 support should be retained (but see also recommendation 3 below).

Recommendation 3: It is recommended that the future WB program in the Pacific should be rebalanced. While preparation of new operations will remain important there should be greater relative emphasis on the effective implementation of the current portfolio. Effective implementation support might require increased presence in the Pacific Islands, and this could justify increased support from the PF3 donors to strengthen WB offices. The staffing and role of the liaison offices should be re-visited.

Recommendation 4: There are various options for possible change in both the diversity of funding instruments and the increasing complexity of PF3. The IR recommends that the use of AusAID Externally Funded Outputs (EFOs) in the Pacific be eliminated and that in the future equivalent resources should be channelled through PF3. "Soft earmarks" should only be retained for large activities, such as those agreed/proposed for the education and health sectors. It is not recommended that any "small" activities (below A\$1m in size perhaps) be explicitly earmarked.

Recommendation 5: If recommendation 4 is accepted, and recognizing that the original PF3 objectives have already changed, and that the structure of PF3 is no longer uniquely providing core resources, there is a strong argument for developing a new PF4 rather than indefinitely continuing PF3. It is thus recommended that PF4 be established as soon as possible; this will allow the fund and modalities to be adjusted consistent with the new objectives and monitoring and reporting arrangements. Unused "soft-earmarked" PF3 resources will need to be rolled over into PF4 - the recent and currently proposed "soft earmarks" in PF3 have a life through to FY15. Bilateral donors and the WB recognize that commitments to support development in the Pacific are long term. The WB should expect to maintain its current (or an expanded) level of presence for at least the next ten years, and this would require a long term commitment by bilateral donors to keep the WB's resources above the level that could be expected to be allocated from Washington.

Recommendation 6: Analytic and advisory activities (AAA) should be discussed in the six-monthly consultations between the WB and the donors; the WB should give a sympathetic hearing to AAA proposals that the donors consider should have high priority, and might otherwise have been directly supported through EFOs. However, this should be based on medium-term programming of AAA to ensure priorities are addressed and consistency across the WB Pacific programme maintained. It should include any major regional work such as Pacific Futures, and on other

emerging issues. Coordination of AAA activities amongst donors and regional institutions needs to be maintained, and efforts made to avoid differing advice, although contestability should not be discouraged.

Recommendation 7: The WB needs to increase the use of seasoned permanent staff with global experience, in addition to using experienced Pacific based consultants. PF3 structures should thus not provide disincentives for the use of permanent staff, and there should be no restrictions on eligible expenditures.

Recommendation 8: The WB needs to improve its interaction and coordination with other Pacific agencies, particularly the Secretariat of the Pacific Community (SPC) and the Pacific Islands Forum Secretariat (PIFS). There are currently organizational reviews underway for both these organizations, and the WB will need to find improved ways of engaging with these organizations in the light of the results of the reviews.

Recommendation 9: Reporting by WB to AusAID and NZ needs to be improved. Annex 7 provides a suggested format for this. This format includes provision of a six-monthly update on the communications materials produced by the WB Sydney office. A results framework should be agreed, with a focus on outputs and outcomes, and subsequent reporting should be based on this framework. The results framework will need to include measures of portfolio quality, as these will partly reflect the performance of the WB in supporting implementation. The improved reporting should be provided in advance of the 6-monthly meetings to facilitate more effective joint consultation and decision making in line with a partnership.

Recommendation 10: Wherever possible the WB should continue to invite representatives of the donors to participate in Concept Reviews for new operations and AAA activities.

Evaluation Criteria Ratings

Evaluation Criteria	Rating (1-6)
Relevance	5
Effectiveness	5
Efficiency	5
Reporting, Monitoring and Evaluation	4
Sustainability	4
Gender Equality	3
Analysis & Learning	3

The Review Team is most appreciative of the cooperation, views and time given by those consulted in Sydney, Canberra, Honiara, Apia and Nuku'alofa, and by telephone/skype/video-conference in Bangkok, Port Moresby, Port Vila, Washington and Wellington.

I. Introduction - Activity Background

1. The Pacific Facility III Trust Fund (PF3) is a multi-donor trust fund managed by the World Bank (WB) on behalf of the contributing development partners, the Australian Agency for International Development (AusAID) and the New Zealand Aid Programme, under the New Zealand Ministry of Foreign Affairs and Trade (NZMFAT). The PF3 has supported the expansion of the WB's presence in the Pacific region and plays a major role in supporting continued WB engagement in the Pacific. Between 2005 and March 2012, AusAID contributed over A\$33 million to the WB for PF3. New Zealand has contributed NZ\$3.75 million (see section III A below, and Annex 1).

2. This Report presents the findings of an independent review of the PF3 by a team of two international consultants¹ who consulted with and liaised closely with AusAID and WB officials in Canberra and Sydney 5 – 22 March 2012. Consultations were conducted by telephone with NZMFAT. The team visited the Solomon Islands 12-16 March, and one consultant each visited Samoa and Tonga 17 – 21 March, and consulted with Government officials and a limited number of project implementers and stakeholders as well as staff of AusAID, Australian High Commissions, NZMFAT, the WB, and the Asian Development Bank (ADB). A list of key persons met is at Annex 2.

3. The overall development objectives of the PF3² are to: (i) help to create an environment conducive to generating growth and employment opportunities for the Pacific island countries; (ii) promote development dialogue, stem the decline in social indicators, and build the foundation for improved governance and sustained recovery in Papua New Guinea; and (iii) strengthen governance, service delivery, and employment generation in Timor-Leste. AusAID and the World Bank identified additional specific objectives as annual contributions were made (in June 2011 a fourth development objective was added: "bringing global practices to the Pacific Region"), and these are set out in section III A below.

4. PF3 has supported WB executed³ activities in two areas: (i) analytic and advisory activities (AAA) and economic and sector work (ESW); and (ii) strengthening the operations of the Bank's Pacific Islands support unit including supervision of activities financed by PF3. While some expected areas of AAA and ESW activities were specified in the initial agreement⁴ it was understood that detailed annual work programs would be drafted by the WB and that PF3 donors would be regularly consulted on these.

5. Responsibility for WB activities in the Pacific, and for PF3 financed work, lies with the WB's Sydney office, which also arranges 6 monthly progress review meetings with the donors, and stakeholder participation in the concept note (CN) reviews for specific activities.

6. The Review Team is most appreciative of the cooperation, views and time given by staff of AusAID and NZMFAT, and the excellent support provided by the World Bank offices in the Solomon Islands, Samoa and Tonga (including arrangements for meetings and field visits). The team thanks those met in Sydney, Canberra, Honiara, Apia and Nuku'alofa, and by telephone/skype/video-conference in Bangkok, Port Vila, Wellington, Washington and Port Moresby, for their valued time and inputs.

¹ Graham Walter – M&E Specialist and Team Leader; David Potten – Trust Funds Specialist.

² AusAID terms of reference for review mission and PF3 Agreement

³ WB TFs distinguish between "Bank execution" when disbursements are made directly by the Bank following the same processes as used in spending its own resources (Bank Budget or "BB") and "Recipient Execution" when resources are transferred to another organization (often a developing country government) using a grant agreement following the same procedures as a lending agreement.

⁴ Signed by AusAID on 28th July 2005

II. Review Objectives and Approach

A. Review Objectives and Scope

7. The Terms of Reference (ToRs) provided by AusAID for this Independent Review (IR) state that the objectives are to: (i) assess the PF3's impact; (ii) assess the functioning of the PF3 (including consultation, management, coordination, reporting and administrative arrangements); and (iii) set out options and recommendations on the structure and approach of any potential future phase of the facility (i.e. a PF4).

8. The ToRs requested in particular that the Review should focus on assessing and providing recommendations on: (i) the impact of the PF3 and of the WB's operations in the Pacific (including PNG); (ii) key difficulties or issues in the operation of the PF3, and options for resolving these difficulties or issues; (iii) the effectiveness of the PF3, including the effectiveness of: (a) the relationships between the WB, the donors (Australia and New Zealand) and the Pacific Island countries; and (b) the PF3's outcomes (including whether these outcomes have been achieved efficiently and delivered value for money); (iv) the relevance of the WB's work in the Pacific; and (v) options for a potential future phase of the facility. The IR team members were specifically asked by AusAID not to include the Bank's work in Timor-Leste within the scope of their review, as this is not handled by the Pacific Division of AusAID. This review therefore makes no comment on achievements under the third original objective of PF3, although this was included in PF3 financed activities during the early years of the Trust Fund.

9. The ToRs are quite broad and, as discussed further below, after initial analysis and discussions with the WB in Sydney and with AusAID and NZMFAT⁵ in Canberra, it was decided that the Review should be more focused. It was clarified in particular that the review should be an assessment of the impact of PF3 and not an assessment of the impact of WB operations in the Pacific – this would require significant time and resources, well beyond the scope of the intended review. It was noted, however, that PF3 objectives could only be achieved if the WB's operations in the Pacific increased significantly, and all stakeholders met confirmed that both AusAID and NZMFAT anticipated that a substantial expansion in the WB's presence and activities in the Pacific region would occur and was indeed the clear underlying objective. It was agreed that the review should focus on three key areas:

(i) *Relevance*. For example⁶: Is the PF3's strategy clear and appropriate? Are the PF3's objectives relevant to the Australian and New Zealand Governments' aid and development priorities? Are the PF3's objectives relevant to the context, needs and priorities of Pacific Island countries?

(ii) *Efficiency*. Is the Facility providing the best value for money? (e.g. is PF3 tapping effectively into the WB's specialised analytical and private sector expertise – and bringing this to bear in the region? Are the right sectors and countries being targeted for greatest development impact?)

(iii) *M&E/Reporting & management systems*. Are the donors getting the information they need to understand how donor resources are being spent? If not, how can it be improved?

10. It was agreed that lesser priority would be given to effectiveness⁷ and impact. However some of the 'impact-related' questions are key to this review and will be addressed to the extent

⁵ Telephone discussion only

⁶ The Evaluation Plan quoted 2 questions raised by AusAID as key for relevance [What role has PF3 had in drawing the Bank into the Pacific? Is this the best mechanism to keep engaging the WB in the region?] but these are better dealt with under effectiveness and conclusions.

⁷ See footnote 6

possible under effectiveness⁸ (e.g. what impact has PF3 had on the WB's operations in the Pacific? To what extent have the activities funded by the PF3 contributed to achievement of its development objectives? Has the PF3 enabled the WB to achieve outcomes that would not have been able to be achieved otherwise, including through leveraging the WB's baseline budget for the Pacific region?). It was agreed that gender and sustainability are of lesser priority for this Review.

B. Target Audience and Utilisation of Findings and Recommendations

11. Based on discussions with AusAID, NZMFAT and the WB it is clear that the review outcomes will help inform the two donors and the WB on the benefits (and any weaknesses) of the PF3 operations, and also on implementation arrangements and concerns, enabling them to make a better informed decision on possible future funding. It is intended that the Review Report will be sensitive to the current and emerging contexts and will be forward looking in findings and recommendations to inform and shape possible further funding of activities under the Pacific Facility, either as an augmentation of PF3 or as a new PF4.

C. Approach and Methodology

1. Approach

12. The ToRs provided by AusAID detailed nine areas of focus (Criteria 1 to 9 – see Evaluation Plan⁹). As noted in para.9 above, it was agreed that while these questions covered key areas that deserve attention, a more focused approach that could better reflect the immediate concerns and key issues that emerged during initial review work as critical to the evaluation would be more appropriate and useful. These issues included the concern that PF3 objectives have changed over time and are not quantified, and that activities and associated funding arrangements have also changed over time. In addition it was noted that the current approach to public communication of PF3 activities and donor involvement may involve some reputational risk for the stakeholders (these issues are briefly discussed in para.15 below - see also Annex 3 which summarises these issues, together with related evaluation questions and methodology). The Review thus does not try to address all questions but focuses on those more important for immediate decision making and which could be addressed within the review resources and available documentation and analysis. The Criteria questions were retained as a guide in case significant issues related to them arose during the course of the Review.

13. The IR is primarily reliant on reviews of existing reports and interviews with key stakeholders and informants. The IR is largely based on qualitative assessments, with quantitative assessments only provided where appropriate data exists. The objectives and targets of the PF3 themselves were not set out in any quantitative terms, rendering assessment of impact problematic, as a result of which, as noted in para.9, the Review Team agreed with AusAID that assessment of relevance and efficiency, and to a lesser extent effectiveness, were of more importance and value¹⁰ to the review's objectives. Accordingly, while the Review assesses the program's overall progress and performance to date by assessing against AusAID's standard eight evaluation criteria (relevance, effectiveness, efficiency, impact, sustainability, gender equality, monitoring and evaluation, and analysis and learning), more attention is given to relevance and efficiency and to M&E, in the context of reporting.

14. The report structure thus analyses the relevance, effectiveness, efficiency, and reporting (M&E) criteria first before briefly discussing the other criteria. It concludes with a section on conclusions, issues, and recommendations (included in the evaluation questions under Criteria 9 as "lessons and potential future phases").

⁸ Lack of quantitative targets and data are a constraint on such an assessment; in addition it is premature to assess impact

⁹ Final version submitted to AusAID on 12 March

¹⁰ Impact is not rated anyway in completion evaluations or Reviews.

2. Specific Focus

15. As noted above, initial work of the Review team identified several specific issues that would have an impact on the review and its methodology¹¹. In response to these issues, specific evaluation focus was given to the following (see Evaluation Plan):

- (i) Review of the overarching partnership agreement between AusAID and the WB – particularly in relationship to approaches adopted to communications and consultation;
- (ii) Review of documentation on PF3 agreements and amendments, particularly in relationship to identification of the PF3's history and agreed objectives and activities;
- (iii) Analysis of reports provided by the WB to the donors, both to assess progress and results against agreed targets and to evaluate the quality of reporting as a means of effectively keeping stakeholders aware of PF3 developments;
- (iv) Review of CASs and Pacific Island policy documents, in order to assess alignment of WB activities with both agreed programs and Pacific Island priorities (while noting the broader aid context within which the WB is only one, and not the largest, donor). Focus was on the three countries visited, Samoa, the Solomon Islands and Tonga, and to a limited extent PNG;
- (v) Review of documentation on PF3 donor activities in the Pacific, again with particular emphasis on the four countries noted above, and on the AusAID Pacific Partnership for Development (PDD) agreements;
- (vi) Meetings with Pacific Island government staff and other stakeholders in the three field visit countries to evaluate alignment of PF3 activities with Pacific Island government priorities and the effectiveness of public communications related to PF3;
- (vii) Review of public relations materials developed by the WB Sydney office (websites, documentaries, TV programs, blogs, reports) to assess the extent to which PF3 communications objectives are being met;
- (viii) Review of information available to the stakeholders on WB external and limited access websites (e.g. the “client connection” website) both to assess the position of PF3 in the broader WB operational context and to evaluate the quality of financial information provided to donors;
- (ix) Meetings with field (“post”) staff representing the donors to assess country level alignment and partnership effectiveness;
- (x) Meetings with staff of “associated” agencies such as ADB, The International Finance Corporation (IFC) and Pacific Regional Infrastructure Facility (PRIF) staff, whose work is closely associated with work funded through PF3.

3. Summary Methodology

16. In summary, the methodology included:

- (i) review of relevant documentation (see Annex 4).
- (ii) semi-structured interviews with key stakeholders – staff of AusAID and the WB, (including those posted in Papua New Guinea, Samoa, Solomon Islands and Tonga), and Government officials and other development agency representatives in Samoa, Solomon Islands and Tonga. Where possible, consultations were arranged with other stakeholders in these countries.

¹¹ These are identified in the Evaluation Plan at which time the team had found that implementation of PF3 had been flexible and activities had covered four broad areas: (i) strengthening the operations of the WB's Pacific Islands support unit; (ii) expanding AAA and ESW activities carried out by the WB in the Pacific; (iii) building a partnership between the PF3 donors and the WB; and (iv) supporting specific thematic initiatives in agreed sectors.

- (iii) consultation visits to Samoa, Solomon Islands and Tonga, including project site visits in Samoa and the Solomon Islands. Limited consultations were arranged with communities and other stakeholders in these project sites.

17. In addressing the issues discussed above, and the related evaluation questions, multiple sources of information were used to “triangulate” response in every case. Interviews with donor and World Bank staff were relevant to every aspect of the evaluation. More details of methodology, including interview approaches (e.g. triangulation; judgemental concerns, confidentiality) and data collection and analysis, are provided in the Evaluation Plan.

18. The report generally expresses all figures in Australian Dollars (A\$) as these are more familiar to the donor stakeholders

D. Challenges and Limitations of the Review

19. The greatest limitation on the evaluation, as identified in the Evaluation Plan, was the lack of detail and quantification in the originally specified objectives and activities, and the subsequent changing nature of these, including the addition of thematic earmarked funds and the changes in limits on eligible expenditure categories.

20. Other constraints on the evaluation included:

- (i) the inherent difficulties of attribution when funds are provided on an un-earmarked basis to substantially increase core operating resources. Nevertheless as PF3 has roughly increased WB Pacific Island operating resources by 40%, an associated step-up in “inputs” (staffing, offices etc.) was observed (see section III A) and in “outputs” such as the scale of the lending and resource mobilization programs and the number and quality of AAA and ESW activities. However, lack of quantitative information limited assessment of outcomes and impacts;
- (ii) the lack of historical information on the origins of PF3 (despite efforts by AusAID staff to find available documentation) prevented an assessment of whether lessons from earlier TFs had been considered when PF3 was designed;
- (iii) logistical constraints meant that a field visit to PNG (the largest Pacific Island country) was not possible, but brief visits were made to three other Pacific Island countries. Telephone and video conferences and email contacts were used to cover some PNG aspects, but consultations with Government and other stakeholders were not possible;
- (iv) as gender activities were only explicitly added to the PF3 scope in June 2011 it was premature to attempt to evaluate the impact of these.

III. Review Findings

A. Background to the PF3 and Recent Developments

21. The Pacific Facility III (PF3) Trust Fund (TF) was established in July 2005. This was the fourth in a series of funds supporting the WB’s work in the Pacific (for more detail on these TFs see Annex 1; Annex 5 includes details of the WB portfolio in the Pacific).

22. The PF3 TF was “created with the purpose of supporting, in particular, the implementation of the following: (a) the Pacific Islands Regional Strategy, (b) the Papua New Guinea Interim Strategy Note and the subsequent Country Assistance Strategy, and (c) the Timor-Leste Country Assistance Strategy.” The development objectives were stated as (a) helping to create an environment

conductive to generating growth and employment opportunities for the Pacific Island countries ; (b) promoting development dialogue, stemming the decline in social indicators, and building the foundation for improved governance and sustained recovery in Papua New Guinea; and (c) strengthening governance, service delivery ,and employment generation in Timor-Leste.”

23. The TF agreement noted that donors’ contributions “will be used to support WB-executed advisory and analytic work and economic and sector work including: (a) Pacific islands public expenditure management; (b) Pacific islands private sector development; (c) development dialogue and service delivery in Papua New Guinea; (d) governance and economic recovery in Papua New Guinea; and (e) public expenditure and service delivery in Timor-Leste.” In addition it noted that contributions “will also be used to support the operations of the WB’s Pacific islands support unit and the Bank’s supervision of the activities to be financed by the contributions.”

24. While the reasoning for the design of PF3 is not well documented, it represented a clear move by the two donors away from support limited to WB-executed technical assistance for analytic and advisory Activities (AAA) and towards broader overall support to the WB’s core operations in the Pacific, with the aim of encouraging the WB to expand its overall activities and portfolio in the Region.

25. The use of PF3 funds was limited by a series of “informal understandings” (see Annex 1 for more detail):

- (i) An initial “informal understanding” that no more than 10% of Australia’s contribution to the Facility would be spent on Timor-Leste and that the proportion to be spent on PNG would not be overwhelming and would be the subject of regular discussion;
- (ii) A subsequent agreement to raise the Timor-Leste maximum to 20%, followed in May 2007 by an agreement that no funds from subsequent contributions would be allocated to Timor-Leste;
- (iii) An agreement to limit disbursements for Papua New Guinea to a maximum of 20% of PF3 contributions;
- (iv) Agreement in 2007 to limit the amount of contributions that could be used to cover Bank staff salaries to 30%.

26. In June 2011 there was a substantial amendment to the original PF3 agreement. Changes from the 2005 agreement included (see Annex 1 for more detail):

- (i) A fourth development objective was added: “bringing global practices to the Pacific Region”;
- (ii) Two additional areas of activity were added: “(a) priority education activities, including early grade reading assessment work and the extension of the SABER benchmarking system to the Pacific; and (b) gender activities.”
- (iii) The maximum amount to finance staff costs “shall not exceed ... US\$ 13,200,000”

27. Between 2005 and 2011 all contributions from Australia and New Zealand had been un-earmarked contributions to the WB’s core budget, and therefore fully fungible with the WB’s own resources (“BB” or Bank Budget). In June 2011 AusAID added A\$9m to the A\$24.2m contributed up to that date, but this included A\$0.5m “soft-earmarked” for gender activities and A\$4.5m “soft-earmarked” for Education sector work. An activity framework specified what was planned under these heads in some detail.

28. The review team was advised that a further amendment was under preparation in March 2012, and that this would add a further three “soft earmarks”, for health (A\$5.5m), labour mobility (A\$0.5m) and the Tonga Policy Matrix (A\$0.5m).

29. Three unusual features emerge from the changing nature of PF3:

- (i) Formal TF agreements have been supplemented by various informal agreements, which seem to be fully understood by the WB and AusAID, and to have been observed carefully by the WB, although they do not appear to have been well documented;
- (ii) There has been a move away from un-earmarked core funding of the WB's work program in the Pacific towards more clearly (if “informally”) earmarked funding. If the amendment under discussion in March 2012 is agreed as proposed, about 29% of cumulative Australian contributions would be subject to “soft earmarks”;
- (iii) It is not clear if New Zealand was always party to the changing agreements. While these appear to have applied mainly to the Australian contributions, changes to Standard Conditions for a Multi-Donor Trust Fund should normally be approved by all donors.

30. Between 2005 and 2009 PF3 was the only significant additional source of funds for WB work in the infrastructure sector. In 2009 the Pacific Region Infrastructure Facility (PRIF) commenced operations. PRIF provides a framework for responding to the priority infrastructure needs of Pacific Island governments. It includes a source of technical advice (PIAC, the Pacific Infrastructure Advisory Centre) and is complemented by donor funding for infrastructure development activities, including a PRIF Trust Fund. PRIF resources complement the WB's efforts to support infrastructure development and reduce (but do not eliminate) the need for Bank Budget and PF3 to finance infrastructure related technical assistance¹².

B. Relevance

31. PF3 relevance is rated as 5. As discussed in the Effectiveness section (C below), the PF3 has been pivotal in inducing a scaling up of the WB's presence and operations in the Pacific. The PF3's development objectives as set out in para.22, and its purpose of supporting regional development, through the increased presence and activities of the WB, are clear and appropriate for the region. PF3 has been an integral part of the WB's operations, helping to create an environment conducive to generating growth and employment opportunities for the Pacific Island countries, and these are fully relevant to the objectives of the Australia and New Zealand governments and to the context, needs and priorities of Pacific Island and Papua New Guinea governments. The analytic and advisory activities (AAA)¹³ have been particularly relevant, both at regional and country levels, and have strengthened the foundations of sector programs and projects.

32. Analysis in this section, and in the Effectiveness and Efficiency sections below, is based on document reviews and interviews with key stakeholders. This included field visits to the Solomon Islands, Samoa and Tonga which provide specific examples for much of the analysis. Summary notes on these field visits are included as Annex 6. This was supplemented by telephone and video conferences with WB officials in PNG and elsewhere, and a brief meeting in Canberra on Kiribati. The field visits were particularly valuable as they provided opportunities for triangulation of views and perspectives, involving others from outside the WB and AusAID.

¹² See also “Review of the Pacific Region Infrastructure Facility – Final Report, March 2012”

¹³ Prior to PF3 this work was largely conducted by consultants (partly because of restrictions on eligibility of expenditures), and often referred to as TA (technical assistance) but now Washington-based WB staff play a major role.

1. Regional Strategies, Plans and Partnerships

33. PF3's development objectives (and in particular promoting economic growth and improved governance) are clear and in line with the Australian and New Zealand Governments' aid priorities. Australia's policy focuses on delivering real results for poor people in developing countries by maximising the effectiveness of Australia's aid. Its fundamental purpose is to help people in developing countries overcome poverty. It is guided by five strategic goals: saving lives, promoting opportunities for all, sustainable economic development, effective governance, and humanitarian and disaster response¹⁴. New Zealand's core focus is on sustainable economic development, with four priority themes of investing in economic development, promoting human development, improving resilience and responding to disaster, and building safe and secure communities¹⁵.

34. Both Governments' policies support close cooperation with each other and other donors, and with multilateral agencies, and are in line with commitments to the Cairns Compact¹⁶, the Paris Declaration and the MDGs. Australia's Regional Program to the Pacific (2011 – 2015)¹⁷ focuses on improving development outcomes in the Pacific by investing in activities that promote regional cooperation, regional provision of public goods and services, and regional integration, in line with the Pacific Plan¹⁸. The WB is committed to the Cairns Compact, with its emphasis on better coordination to improve use of development resources. However, while PF3 is in alignment with the objectives in the Compact and the Pacific Plan, some respondents considered that the WB does not give sufficient attention to the regional structure established by the Pacific Plan, including the Pacific Islands Forum Secretariat and the Secretariat of the Pacific Community (SPC). However, as discussed under effectiveness below, the WB now works more closely with SOPAC (part of SPC) and with PFTAC regionally. There has also been progress in strengthening partnerships with other agencies, with increasingly coordinated economic policy dialogue in the Solomon Islands, Samoa and Tonga and jointly co-financed activities with ADB in Kiribati and Tonga. Infrastructure investments and related reform discussions have been coordinated through PRIF.

35. A Partnership Framework was signed between AusAID and the WB Group in September 2011 which provides a structure within which the parties can develop and undertake collaborative activities at country, regional, and global levels. It sets out priority areas for collaboration, and indicates that for the Pacific the main objective is to strengthen development coordination and improve development results consistent with the Cairns Compact. While PF3 is not specifically referred to (and PF3 agreements do not refer to the Cairns Compact), PF3's objectives and implementation mechanisms are clearly in line with this.

2. Country Level Partnerships, Strategies and Operations

36. The PF3 has been pivotal in the increased presence of the WB in the Pacific and scaling up of its operations as discussed below (Effectiveness). PF3 is totally integrated into the overall WB

¹⁴ An Effective Aid Program for Australia: Making a real difference—Delivering real results, July 2011

¹⁵ International Development Policy Statement, March 2011

¹⁶ **The Cairns Compact** focuses on achieving better progress on aid effectiveness and the MDGs, calling for a new determination and an invigorated commitment to lift the economic and development performance of the region, through driving more effective coordination of all development resources from both countries and development partners. It seeks to strengthen Forum Island countries' leadership of their own development agendas, and encourage better donor coordination. Its intent is to make both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action relevant to the region, tailoring global approaches to the unique needs and challenges of the Pacific.

¹⁷ Australia's Regional Program to the Pacific (2011 – 2015), December 2010

¹⁸ **The Pacific Plan** for Strengthening Regional Cooperation and Integration is the fundamental document underpinning Pacific regionalism, and articulates the regional priorities of the Leaders of the Pacific Islands Forum. It refers to three different kinds of regionalism: regional cooperation, regional provision of public goods and services, and regional integration. It does not impose a 'one-size-fits-all' model of regionalism, and allows countries in the region to still pursue their own nationally based policies. A regional governance framework and process has been established under the Plan that brings together Leaders, Pacific regional organisations, multilateral institutions and bilateral aid donors. The framework will provide policy cohesion across countries and Pacific regional organisations on the critical issues facing the region, rather than operating independently.

program and thus is fully integrated with other WB activities. WB lending operations have also been coordinated with those of other donor funding agencies, with several co-financed projects, as discussed in Effectiveness below.

37. AusAID has entered into Partnership Agreements (Pacific Partnership for Development – PPD) with many Pacific countries¹⁹ which establish a shared vision of cooperation in those countries, and sets out priority outcomes for each, which guides AusAID country operations.

38. WB engagement in the Pacific is structured around the themes of: (i) generating opportunities through greater global and regional integration, (ii) building resilience against external shocks, and (iii) encouraging economic reform and private sector development.²⁰ Over the period from 2005 the WB has moved away from its previous *modus operandi* with a regional Pacific strategy (for all clients except PNG) to a more conventional approach of individual agreed country assistance strategies (CAS). This has facilitated better identification of investment needs and of priority policy dialogue and reform needs in individual countries. The focus on mitigating country volatility (economic/BOP shocks, natural disasters, political turmoil) and helping improve weak implementation capacity, is very appropriate and relevant to current needs.

39. The WB had agreed a CAS for PNG in 2008 after a three year Interim Strategy Note (ISN). A new CAS for PNG is now under preparation. A Country Partnership Strategy (CPS) is in its final stages of agreement for Samoa. The Solomon Islands has an agreed Interim Strategy (2010) and Tonga has an agreed CAS (2010). A CAS was agreed for Kiribati in 2011 and the WB anticipates having individual agreed country strategies for almost all of its Pacific countries by the end of 2012/2013.

40. The WB CAS, CPS and ISN include macro and sector analyses and show how the chosen priorities meet identified country needs and priorities. The AusAID's Partnership Agreements are generally broader, with identified priority outcomes responding to country priorities but covering more areas of engagement than the priority areas identified in the WB strategies. However, those examined by the team are consistent with each other. For example in the Solomon Islands the WB Interim Strategy defines three areas of strategic engagement: (i) addressing surmountable barriers to growth; (ii) enhancing benefits of regional and global engagement; and (iii) supporting improved public administration and management. Its lending program includes sustainable energy and hydro electricity development, rural development, rapid employment creation (at time of the crisis in Honiara) and support for the health sector. AAA work is described in paras.50-51 below. These are all included within AusAID's identified partnership priority outcomes which include improved service delivery in health, improved economic livelihoods and infrastructure and improved economic and fiscal governance

41. In Samoa the proposed CPS focuses on building resilience against shocks: (i) rebuild macro-economic resilience and encourage inclusive growth; (ii) generate opportunities from global and regional integration, and (iii) strengthen resilience against natural disasters. The AusAID Partnership prioritises the need to address vulnerability to economic shocks and climate, and focuses on growth and employment, and sectors such as health, education and improved governance. The WB program in Samoa includes a post-tsunami support program, an infrastructure asset management program, an agricultural competitiveness enhancement program and a health sector program, all compatible with the AusAID partnership priorities. AAA work is described in para.52 below.

42. The PNG CAS has poverty reduction as its overarching objective and consists of two pillars: (i) promoting and maintaining sound economic and natural resource management, and (ii) improving livelihoods and service delivery, especially for the rural poor. Strengthening governance

¹⁹ FSM, Kiribati, Nauru, Palau, PNG, RMI, Samoa, Solomons, Tonga, Tuvalu and Vanuatu,

²⁰ See e.g. Pacific Facility 3 Report to AusAID and NZMFAT, March 2011, para. 9

is a key part of (i). The CAS is being adjusted to accommodate the changes in the country's economic dynamics posed by the global economic crisis and the new large-scale natural gas projects, and takes into account capacity constraints as the portfolio is rebuilt. The program has also been adjusted to be responsive to the Government's development agenda as set out in the National Vision 2050 and the Long-Term Development Strategy (2010-2030). AusAID's partnership agreement dates from 2008 and priority outcomes include economic development interventions in infrastructure to improve market access, and development in key social sectors including education and health. Improved public service administration is a key element in improving service delivery. The two are thus consistent; the WB portfolio now puts some emphasis on development of the mining sector but has complementary programs to AusAID in community infrastructure, and to AusAID and ADB in transport infrastructure. The program includes education, urban youth and open education projects, an SME Access to Finance project, a second Road Maintenance and Rehabilitation project, an Energy sector development project and a Smallholder Agricultural Development project. Both the WB and AusAID confirmed that the substantial emphasis on agriculture in the WB's programme, and its exclusion from AusAID's activities, reflected a joint agreement on the WB's comparative advantage in this sector, not an inconsistency in approaches. AAA work is described in para.54 below.

43. In Tonga, WB engagement is structured around the themes of supporting economic reform; generating opportunities through greater global and regional integration; and building resilience against shocks. AusAID's Partnership (2009) priority outcomes include a more effective public sector, improved health and technical/vocational skills, and improved infrastructure for livelihoods. The WB program complements the AusAID partnership priorities with its focus on supporting policy reform to strengthen growth prospects and improve service delivery and its substantial support to the infrastructure sector. AAA work is described in para.53 below.

44. The WB CAS in Kiribati is new and reflects the isolated nature of the country and its vulnerability to threats of climate change. WB activities will focus on climate change adaptation and growth and regional integration. Structural economic reform is a key element. AusAID's Partnership (2009) priorities include improved basic education and work skills development, and improved growth and economic management, including public sector reform. While the WB is planning a different approach to its operations in Kiribati, a key element includes transport and energy infrastructure (co-financed with ADB/PRIF) which are supportive of economic growth, in line with AusAID's program. AAA work is described in para.55 below.

45. As discussed in para.59 below, PF3 funding has facilitated opening/strengthening of WB offices in the Pacific which has added to the credibility and hence relevance of the WB, greatly strengthening country engagement, and has facilitated policy dialogue and helped improve coordination with other donors.

3. Analytical and Advisory Activities (AAA)

46. Apart from its regular IDA and IBRD lending operations, the WB has provided a significant amount of analytic and advisory activities (AAA – i.e. conventional technical assistance activities), at the macroeconomic and budget management levels, and at sector levels. The budget and economic analytical work has underpinned policy dialogue and has been greatly appreciated, as discussed below. The WB is seen to have a comparative advantage in this (the unanimous view of those met by the IR Team), and in some countries has effectively shared budget management work with PFTAC, which has skills and experience in the region. Given the development constraints facing the region, in particular following the global financial crisis, this analytical activity and resulting coordinated policy dialogue has been and remains very relevant. As discussed further in para.62 below, the WB's focus now is on producing 'user-friendly' analytical products for partner governments, rather than large analytical studies.

47. The WB has also undertaken significant amounts of sector level work, which is considered very important and relevant for any grant or lending activity, helping ensure an appropriate environment is established for further operations in the sector. It has strengthened the foundations of sector programs and projects. Some of this work is shared with other agencies (e.g. ADB, PFTAC, PRIF, SOPAC/SPC), recognising their skills and experience, helping to ensure consistency of advice and avoiding duplication and competition.

48. **At a regional level**, the WB's AAA work included a report "At Home and Away" that encouraged the introduction of temporary migration schemes in Australia and NZ. This has been followed by work on its new "flagship" study "Pacific Futures", focusing on the likely continued vulnerability of small Pacific Island countries. This analysis is being revised, working closely with other partners, including Australia, NZ and ADB. The WB has also built on recent migration and remittances work in developing a policy paper on reducing the costs of remittances. A fisheries engagement strategy for the Pacific is being developed, following a request for support from the newly established Parties to the Nauru Agreement (PNA) Office. This is a regional initiative aimed at increasing the fisheries revenues of Pacific Island nations, while reducing incentives for over-fishing of key species. The PNA is seeking to establish a secretariat to support the new fisheries regime. The WB and IFC will collaborate in providing technical assistance to the initiative once an engagement strategy has been developed and approved by both institutions.

49. The WB (together with IFC) has supported telecoms market liberalisation throughout the Pacific, including in Samoa where an IDA credit supported the market opening process. The WB plans to scale up AAA work on early grade reading assessment (EGRA) in PNG and the Pacific, consistent with demand from such countries. As noted below, to date relatively limited AAA work has been conducted on gender issues, but this is now being increased with PF3 funding.

50. **At the country level**, the WB's AAA work has contributed substantially to economic and financial management in the **Solomon Islands**. An important 2008 study, 'The Sources of Growth', provided a basis for Government to enact policy changes and target public spending, including donor funds, toward investments which support economic growth, which were incorporated in the National Strategy Planning Framework. The study found that potential growth in the tourism, fisheries, mining, and agricultural sectors was unlikely in the short term to compensate for the loss of logging in terms of employment, exports, or government revenue. Improved macroeconomic and public expenditure management is vital in the Solomon Islands. A Public Expenditure and Financial Accountability report in 2008 gave the country low scores in most areas. Areas of particular concern were budget credibility and relationship of allocation to output; transparency and oversight of provincial and SOE budgets; forecasting and multi-year planning; orderliness of budget process; and allocation of tax exemptions.

51. A key element in current economic and financial management in the Solomon Islands is the Core Economic Working Group (CEWG). The success of the CEWG initiative is partly linked to the coincidence of the establishment of the WB Honiara office with the Global Financial Crisis, and related economic work conducted by ADB highlighting the pending government fiscal and foreign reserves crisis. The WB's role in supporting its establishment has been particularly appreciated. While this is a multi-donor initiative, with RAMSI (Regional Assistance Mission to the Solomon Islands) and ADB partners playing important roles, the WB brought additional high level independent technical expertise and analytic quality to the CEWG. The CEWG has become an important forum for economic policy dialogue and has contributed to improved donor coordination. It was emphasised to the IR team that the effectiveness of the CEWG is based on the close formal and informal working relationships that have been developed and the clear understanding that this is a multi-donor and Solomon Islands Government initiative which is not dominated by any one stakeholder. Other AAA supports SOE reform in the energy sector and improved governance in the mining sector.

52. AAA work in **Samoa** is assisting in addressing the need for fiscal consolidation, and working with other partners in agreeing on a joint policy matrix on public expenditure reform; this provided a foundation for budget support from other donors including Australia and NZ. As noted below, the WB is also assisting policy work in Tonga and in both cases the WB's engagement provided momentum at a time when the reform agendas could have gone off-track due to the multiple challenges then facing the governments. Other TA in Samoa is helping over 1,000 Samoans a year participate in the NZ temporary migration scheme, generating over \$4.5 million a year.

53. In **Tonga** the WB has worked closely with the Ministry of Finance on macro-fiscal analysis, which strengthened the ability of the Ministry of Finance to inform the new government about Tonga's challenging economic and fiscal environment. At the request of the Government, the WB has taken the lead in coordinating the dialogue with key development partners, in support of a joint policy matrix. A PFM assessment by PFTAC in 2010 had provided clarity on weaknesses and guidance on the appropriate sequencing of PFM reforms. The WB has been the lead development partner in the energy sector, this engagement underpinning the WB's Energy Sector Development Policy Operation in late 2010. Two studies by the WB on the petroleum sector identify existing weaknesses in the regulatory structure and supply chain for petroleum, and lay out a series of reforms to remedy these weaknesses. Other policy work has been shared. The ADB has played the lead role among development partners on analytical work and technical assistance on public enterprise reform in Tonga. Analytical work by the International Finance Corporation (IFC) and the ADB has highlighted areas of Tonga's business licensing system that are in need of reform.

54. In **PNG** the Government has welcomed in particular WB analytical work on the challenges in macroeconomic management of minerals wealth; the Government considers this the highest priority for WB involvement, and a renewed policy dialogue process is underway based on the WB's Economic Note on Managing Resource-Induced Volatility,

55. In **Kiribati**, The WB is significantly scaling up analytical and financial support to help Kiribati reduce the constraints of economic geography and make the most of economic opportunities. A key challenge is climate change adaptation, and the WB proposes to allocate the bulk of the IDA-16 resources available to Kiribati toward a multi-donor climate change adaptation investment, informed by coordinated analytical work. The challenge of applying the Paris Declaration principles is thrown into starkest relief in small states such as Kiribati and support to Kiribati will require a new way of doing business.

4. PF3 Modality

56. The flexibility of the PF3 funds modality through its core budget support has been particularly appreciated, and is relevant to operational needs, allowing relatively quick response to changing/developing circumstances, priorities and needs. As discussed under Efficiency below, the modality is efficient and thus seen as appropriate and relevant.

C. Effectiveness

57. Overall PF3 effectiveness is rated as 5. As noted in para.22 above, PF3 was created with the purpose of supporting the implementation of the Pacific Islands Regional Strategy and the Papua New Guinea and Timor-Leste Country Assistance Strategies. These objectives could only be achieved if the WB's operations in the Pacific increased significantly and all stakeholders met confirmed that both AusAID and NZMFAT expected that an underlying clear objective was a substantial expansion in the WB's presence and activities in the Pacific region. As discussed below, the 40% increase in the WB's core resources has been associated with a far greater increase in the size of its active portfolio, development and implementation of individual country strategies, an expanded program of Analytical and Advisory Activities (AAA) and a stronger regional presence through new full and shared offices.

58. The WB's Pacific portfolio (including Papua New Guinea) and the role of PF3 are discussed in detail in Annex 5. The key aim of the donors in supporting PF3 was to induce the WB to expand its operations in the region, and this seems to have been solidly achieved.

59. The WB has opened a full office in Honiara in the Solomon Islands, and established new joint offices with the Asian Development Bank (ADB) in Kiribati, Samoa, Tonga and Vanuatu. It has also scaled up its presence in Papua New Guinea, has resident staff in Fiji (accommodated in the SOPAC and PFTAC offices), has developed a major project in Tuvalu and is now strengthening its relations with the Marshall Islands (RMI) and Micronesia (FSM). The increased presence on the ground has clearly improved the WB's understanding of the Pacific (respondents referred to a change in tone and engagement), allowed it to expand its portfolio and improved responsiveness to country-level requirements. This has also allowed country-level coordination with other donors (particularly Australia and New Zealand) to improve significantly.

60. The WB is now often seen as having three core businesses, its two "lending" programs (IBRD and IDA) and its administration of Trust Funds, which in recent years have disbursed almost as much annually as IDA. Annex 5 shows that the WB Group's portfolio in the Pacific Islands plus Papua New Guinea has expanded very substantially since 2005, both over the whole area and in each of the countries reviewed by the mission. Comparing the three years FY02 to FY04 (pre PF3) and the three years FY09 to FY11 for the Region as a whole, IDA commitments increased from US\$27.7m to US\$205m (over 7 times) and TF commitments increased from US\$3.7m to US\$66.6m (18 times). If IBRD commitments (to PNG in FY02) are included and the three years FY10 to FY12 (estimated) are used, the increases are from US\$102.1m to US\$299.2m (almost 3 times) for the IBRD+IDA portfolio and from US\$3.7m to US\$87.9m (over 23 times) for the TF portfolio. The scale of increase at individual country level in some cases has been extraordinary – in Tonga the mission was told that "over thirty years prior to establishment of an office the WB's commitments totaled \$30m, whereas in the past three years \$100m had been committed". While this might have been a slight over-statement, the huge scale of expansion is not disputed.

61. The scaling up of the WB's own core lending and TF programmes in the Pacific has also facilitated additional activities by other donors. The IFC (part of the WB Group) has substantially expanded its level of commitments – from nothing before FY04 to US\$52m between FY05 and FY08 and to almost US\$250m between FY10 and FY12 (see Annex 5). IFC staff emphasized that the increased presence of the WB in Pacific countries made a major difference to IFC operations, and noted that there were several projects where WB and IFC activities were closely complementary. Other donors including Australia, New Zealand, the EC, IFAD and UAE have co-financed WB projects and budget operations, either through trust funds or parallel financing. (For more detail, see Annex 5 para.8).

62. One of the key aims of PF3, emphasized even more clearly in the June 2011 addition of a fourth development objective ("bringing global practices to the Pacific Region"), is to ensure that the WB's comparative advantage in AAA benefits the region. It is clear from the WB's progress reports to the donors, from the mission visits and from stakeholder comments that this is being broadly achieved. Sectors in which the WB has been particularly active include Pacific Futures, energy, mining, telecommunications, reducing vulnerabilities to food and fuel price shocks, migration and remittances, household incomes and expenditure surveys, education and recently fisheries as part of a new Global Initiative. In the early years of PF3 there were a very large number of AAA activities approved in a wide range of disciplines, many of which were delayed or inadequately completed. In recent years the number of AAA activities has been reduced, with an increased focus on relevance to policy, linkage to ongoing or proposed operations and the output of short policy notes. AAA activities aim to produce fairly brief and user-friendly analytic products rather than big analytic pieces of work.

63. The stakeholders the mission met with emphasized that the most important area of AAA the WB has provided is in the area of macroeconomic policy, economic policy dialogue, and budget

management. The WB has supported the development of policy matrices (sometimes replacing several separate single donor policy matrices), support to public financial management (PFM), advice on debt management, the development of budget support operations, and the coordination of donor activities in budget support. This was unanimously seen by stakeholders as an area where the WB has strong comparative advantage, and it was appreciated that the WB generally did not try to “go it alone”, rather building on work done by other agencies, collaborating with inputs from other bilateral and multilateral partners (ADB, PFTAC) and helping to build country capacity.

64. Discussions with Governments around budget issues are sometimes difficult. A key role the WB sometimes has to play is that of “bearer of bad news” – often in the context of what needs to be done to resolve budgetary imbalances or failures to observe agreed policy matrix targets. The WB’s independence, its reputation and the perceived strength of its analytical capabilities underpinning its policy prescriptions place it in a strong position to convey difficult messages. Other donors often sympathise with the messages, but would prefer not to have to convey or to be closely identified with the messages themselves, in order to minimize damage to bilateral relationships.

65. A natural concern for donors to core budget operations is that the resources provided may be used to displace funds that would otherwise have been provided by the WB. In recent years the WB as a whole has had a “flat budget” policy and every unit has been under pressure to find savings. The Sydney WB office provided data on staffing in the Region and on trends in the Bank Budget (BB) provided through the East Asia and Pacific (EAP) Region for activities in the Pacific Islands and PNG. This shows that the totals provided have been rising steadily both in US dollar terms and as a proportion of the total EAP budget.²¹ Since FY05 the annual allocation for PNG and the Pacific has increased by 59% while the total EAP budget has increased by only 16%. There is therefore no evidence that PF3 has been used to displace BB resources.

66. The WB’s country based work is supported from offices in Sydney and Washington. These provide managerial support and coordination, fiduciary support, sectoral leadership and communications support. The basic costs of these offices are covered from BB, but PF3 provides some additional resources, and one EFO has been used to support communications work in the Sydney office. These two offices were seen to provide effective support to the country-based programs and to have been strengthened significantly since the start of PF3.

67. While the overall effectiveness of the WB’s PF3 supported activities is evident, there were some areas of concern (see also points made under “Efficiency” below). The scale of the increase in the WB’s portfolio is placing significant stress on “thin” national implementation capacity. The WB has started to respond to this, for example in organizing “implementation workshops”. In order to ensure that portfolio quality does not deteriorate the WB will need to change the balance in its activities, reducing the effort to further expand the portfolio and increasing the weight given to supporting implementation of current operations. The role of country-based staff here will be critical, and several interlocutors argued that the WB should be further scaling up its physical presence in the Pacific. Certainly it would be highly undesirable for the current level of presence to be reduced, and this is a strong argument for at a minimum retaining the recent levels of PF3 support.

68. Other issues raised with the mission included a perception in some disciplines that the WB was still not bringing in enough seasoned permanent staff with global experience, and relying too heavily on Pacific based consultants. This underlines the importance of ensuring that PF3 structures do not provide any disincentive for the use of permanent staff. There was also concern that there has sometimes been inadequate coordination with other agencies, particularly the Secretariat of the Pacific Community (SPC) and the Pacific Islands Forum Secretariat (PIFS). There are currently organizational reviews underway for both these organizations, and the WB will need to find improved ways of engaging with these organizations in the light of the results of the reviews.

²¹ See Annex 5, para.18 and Figures 5.7 and 5.8

D. Efficiency

69. Overall PF3 efficiency is rated as 5. As discussed below, the design of PF3 could have provided resources that were fully fungible with the WB's own budget for the Pacific, allowing donor contributions to expand the scale of funds that could be allocated according to agreed priorities. In practice there have been limits to resource fungibility and many of the donor contributions to the WB's work in the Pacific have passed through other channels. The WB manages its Pacific region operations well, and the establishment of new offices has enhanced performance, but there are still areas in which the WB could provide more effective support in a context of thin implementation capacity. Given that PF3 has expanded the WB's core operating resources in the Pacific Island countries and PNG by around 40%, and that the WB's portfolio of active operations has more than trebled in size (IDA+TF commitments) over the 2005 to 2012 period, PF3 seems to be delivering value for money.

70. PF3 was basically intended to allow the WB to expand its Pacific area activities by increasing its core budget resources. The contributions were not earmarked to any specific activities and the range of eligible expenditures was wide, in particular allowing PF3 resources to be used for WB staff costs and "associated overheads" including office space. To a large extent therefore PF3 contributions were intended to be fully fungible with the WB's own resources ("BB" or Bank Budget). The use of incremental resources was therefore to be determined by the WB, based on its strategic priorities for expanding work in the Pacific, which would be discussed at regular intervals with the donors.

71. Although this appears to be a very strategic approach, various factors have limited the efficiency of its implementation:

- (i) Informal agreements to limit expenditures on Timor-Leste and Papua New Guinea (see Annex 1);
- (ii) Informal (and more recently formal) agreements to limit expenditures on staff salaries;
- (iii) The diverse range of ways in which the donors (particularly AusAID) also support the WB's Pacific program, supplementing PF3 but limiting the fungibility of resources;
- (iv) The recent (2011) introduction of "soft-earmarking" for specified sectoral activities.

72. The geographical limitations on the use of PF3 funds do not seem to have caused much difficulty, although they required additional work in monitoring and reporting on expenditures from the TF. The WB observed the "informal agreements" carefully and reported regularly on their application. The limits on staff salaries were to some extent contradictory to achievement of the donors' intentions, which were to encourage the WB to bring its global experience and knowledge to the Region. This means (inter alia) bringing seasoned WB staff with global experience to the Pacific. Any limits on staff salaries provide the WB with an incentive to use consultants (often from the Pacific region) rather than its own staff. In June 2011 an amendment raised the limit from 30% of contributions to US\$ 13.2 million, or just over 41% of total contributions. The WB advised that for the time being this has effectively eliminated the constraint. However if the limit is not raised in each future amendment it could again constrain the use of permanent WB staff.

73. The donors' (particularly AusAID) support to the WB's activities goes well beyond PF3, as Annex 5 shows. AusAID's financial support includes its contributions to IDA, contributions to global partnerships which support activities in the Pacific (e.g. GFDRR, the Global Fund for Disaster Reduction and Recovery), contributions to East Asia and Pacific regional funds that support activities in the Pacific (e.g. J4P, Justice for the Poor), Pacific-wide Trust Funds (e.g. PRIF), specific TFs to support activities in individual countries (e.g. Tina River Hydro-Electric Power in the Solomon Islands) and EFOs (Externally Financed Outputs, 10 of which have been financed in the Pacific

region since 2008). Each of these instruments has advantages, and many complement the PF3 objective of bringing global expertise to the Pacific region. The Australian involvement in global and regional programmes as donor, and hence in their governance, ensures that the programme is less likely to ignore the Pacific. Nevertheless the number and variety of funding instruments, and the lack of any fungibility between them, certainly adds to a lack of transparency and may mean that some resources go to relatively low priority areas.

74. Within PF3 the June 2011 amendment added two areas of “soft-earmarking” and, as noted above, in March 2012 three further areas of “soft ear-marking” were under consideration. In practice the WB treats “soft earmarks” as more or less legally binding constraints, and would be unlikely to use the funds thus earmarked for other activities without explicit written agreement from AusAID.²² “Soft earmarks” therefore in practice significantly reduce the fungibility of resources, and could lead to development of a complex TF structure if they become numerous.

75. There are various options for possible change in both the diversity of funding instruments and the increasing complexity of PF3:

- (i) Substantially reducing the number of TFs used and channelling more resources through PF3, earmarked or unearmarked;
- (ii) Eliminating the use of AusAID EFOs in the Pacific and channelling these resources through PF3;
- (iii) Ceasing to have ‘soft earmarks’ and allocating all funds through the WB’s prioritization processes, complemented by consultation with donors;
- (iv) Retaining the current situation.

76. The IR recommends that option (ii) above be adopted. However “soft earmarks” should only be retained for large activities, such as those agreed/proposed for the education and health sectors. AusAID has provided over A\$1 million a year for EFOs since FY08, and adding this to the PF3 funding would substantially expand the WB’s overall resources for AAA activities. It is not recommended that any “small” activities (below A\$1m in size perhaps) be explicitly earmarked. However in the six-monthly consultations between the WB and the donors the ongoing and planned programs of AAA activities should be discussed and the WB should give a sympathetic hearing to any AAA proposals that the donors consider should have high priority, and might otherwise have been directly supported through EFOs.

77. Other efficiency aspects of PF3 that have been reviewed include overall management (including risk management), coordination with donors (discussed in the next section on Reporting and M&E), the efficiency of supervision and technical assistance activities and the speed of PF3 implementation and disbursements.

78. The WB’s structures and approaches for management of its Pacific program are clearly established, in line with its global management systems, and well understood by WB staff. The WB is accustomed to working in multiple time-zones and locations, and uses video-conferencing extensively (often at unsocial hours) to enhance collaboration between offices worldwide. The WB has a range of risk management procedures in place, and regularly reviews portfolio risks (to ensure that it “is doing the right thing and doing things right”) and security risks. There are substantial fiduciary controls in place, as well as global guidelines in such areas as environmental and resettlement risk. At times the WB is seen as too risk averse, but this may reflect inadequate understanding of the operating environment (see below).

²² This is in line with practice on Multi-Donor Trust Funds where donors express “preferences” for their funds to be used in specific windows but the WB would never use these funds in other windows without the donors’ consent.

79. The Pacific Islands and PNG are very unusual operating environments. Their geographical, cultural, social and economic environments are very different from those to which most WB staff are accustomed. One of the reasons for promoting the establishment of WB offices in Pacific Island countries was to improve the understanding of the operating environment and hence increase the efficiency of operation. As noted in the section above on “Effectiveness”, the new offices have had significant impact. However the IR encountered quite a few examples of situations where WB staff did not appear to be adequately allowing for Pacific Island circumstances (see Annex 5). There was a general consensus that there had been an improvement in the WB’s understanding of the region, but that there was significant room for improvement. In the Solomon Islands it seemed that the establishment of a full WB office with several resident international staff had made a great difference, and it was suggested to the IR by several interlocutors that opening further “full” offices would make a significant difference.

80. This argument may be strengthened by the need for the WB to adjust the balance of its activities between preparation of new operations and support to the implementation of activities in its current portfolio. As noted in Annex 5, the WB’s active portfolio has expanded almost exponentially, with IDA 16 (2011 to 2014) commitments at least five times those made under IDA 14 (2005 to 2008) and TF commitments (many for recipient executed activities which require the same supervision as IDA financed operations) approximately doubled over the same period. In some countries (e.g. Tonga) the rate of growth is even higher. Local implementation capacity is “thin” (highly qualified, experienced and competent individuals, but very few in number) and the WB will need to provide close and understanding support to implementation of many projects. This will need both close support by TTLs and considerate support by legal, financial and procurement staff. If more of these staff are located in Pacific Island states their understanding of the operating environment – and their ability to ensure clients are aware of the limits on their flexibility – will be improved. Greater understanding is needed on both sides.

81. In the early years of PF3 disbursements of TF resources were slower than had originally been expected. However in recent years disbursements have been quite rapid, by WB TF standards, and the PF3 contributions for the WB’s core resources planned for the period to end June 2012 will have been almost fully utilized by that date (see Annex 1). While funds are undisbursed they are invested by the WB and the income from these investments is added in full to the TF balance. This has added almost US\$1.5 million to the TF resources since 2005. Undisbursed TF resources cannot be added or accounted for temporarily as part of the WB’s reserves as funds held in trust are kept completely separate from the WB’s own assets.

E. Reporting, Monitoring and Evaluation

82. Overall PF3 reporting, monitoring and evaluation is rated as 4. As discussed below, the WB has reported regularly and comprehensively on its activities in the Pacific to the donors. However the reporting has not always been timely, it has not focused specifically on PF3 and it has not been presented in a manner that is easily understood by the donors.

83. The original agreement on PF3 provided for consultations on allocations of the contributions to the Pacific Islands, Timor-Leste and Papua New Guinea, for semi-annual reporting on activities financed by PF3 and for annual consultations on progress and priorities²³.

84. Consultation arrangements seem to have been satisfactory. There was a series of agreed changes in PF3 country allocations (see Annex 1) and annual or more frequent meetings have taken place between the Sydney WB team and AusAID staff in Canberra. In addition feedback from stakeholders in the three countries visited by the mission highlighted the close formal and informal coordination between the WB and the representatives of Australia and New Zealand. Donors were always substantially involved in the development of WB country strategies (ISN, CAS, and CPS).

²³ Standard provisions as agreed in July 2005, Section 9

AusAID staff highlighted the responsiveness of WB colleagues to requests for specific meetings in Canberra or Sydney at short notice. Donor representatives noted in particular that when they have participated in Concept Note reviews they have found this informative and appreciated the opportunity to contribute to the formulation of approaches to operations or AAA work at the design stage. In the Solomon Islands the CEWG that the WB helped to facilitate was widely cited as a highly successful coordination mechanism, bringing the government, multilateral partners and bilateral donors together around the resolution of challenging issues.

85. The IR team reviewed reports that had been provided to the donors since 2008. These included annual progress reports²⁴, copies of internal six-monthly reports²⁵ and detailed budget data²⁶. The team also reviewed material available to the donors on the Internet – general information on the WB program in the Pacific on the WB's external website and detailed project and trust fund information available to designated donor staff on the WB's "client connection" website²⁷. The team also discussed the quality and user-friendliness of this reporting with stakeholders.

86. The WB's reporting has the positive features of comprehensiveness and transparency. However it is not user-friendly:

- (i) The reports often use WB acronyms and jargon, and budget data reflects the WB's internal budget categories, Work Program Agreement (WPA) systems and Trust Fund terminology, which is opaque to non-WB readers;
- (ii) Most of the reports are required internal WB documents and follow requirements that may not be meaningful to non-WB readers;
- (iii) The annual progress reports seem to have been produced about once every 14 months;
- (iv) There are inadequate links in the reporting to the role of PF3. Even though PF3 provides core budget support that is not directly attributable to specific activities, the increase in the WB's portfolio and activities over the last 7 years could be more explicitly linked to the expanded core resource envelope;
- (v) There are few users of "client connection" in AusAID and none in the Pacific unit. As a result the detailed picture of WB programs in the region and Australian and New Zealand assistance is not readily available to these staff;
- (vi) The WB's Sydney office produces excellent public relations materials including well documented accounts of project activities in the Pacific. These were not on the radar screens of AusAID Pacific Unit staff.

87. The WB's reporting on PF3 clearly needs improvement. It is not recommended that the WB ceases to provide its comprehensive reporting, but that this is supplemented by a brief (1 to 2 page) six-monthly summary report which focuses on key deliverables from the WB's programs in PNG and the Pacific Islands. This should accompany the other reports submitted (and cross-reference to them when appropriate). The report should provide a straightforward background to the six or twelve-monthly meetings with the donors and might also include: (i) an Annex listing ongoing and proposed AAA activities (this would permit the donors to contribute to the review of priorities for AAA activities and to highlight suggestions which they might otherwise have wished to finance through EFOs); and (ii) a summary of the past six months Public Communications activities (including links

²⁴ December 2008, January 2010, March 2011 – as of end March 2012 the latest report had not been finalized.

²⁵ EACNF Operational Midyear Performance Review, December 2011 (?); EACNF FY12 and FY13 MOU and FY11 Retrospective Review, June 2011 (?)

²⁶ Overall EACNF Budget Summaries (FY10-13) and WPA Summary, May 2011 – 13 page spreadsheet

²⁷ The latter site is the source for the financial data in Annex 1 and the table at the end of Annex 5.

to videos, links to or reproduction of stories on the Internet, etc.) A possible format for this is provided in Annex 7.

F. Sustainability

88. Overall PF3 sustainability is rated as 4. However, this is very dependent on continued AusAID (and NZ) funding. The WB's own budget is not likely to be increased (para.65 above noted the "flat" budget in recent years, and the pressure to find savings).

89. The WB would not be able to sustain current level of operations based solely on BB without external funding and would have to reduce some operations; this would be likely to include a reduction in field office presence. Cooperation and coordination with other donors, however, whether in policy dialogue or operational activities, is not likely to be discontinued, but the WB's contribution to economic and budget management analysis as part of policy dialogue would face risks of reduction in scale/intensity. PFTAC, the IMF and ADB could compensate to a certain extent, but their budgets are also limited.

90. It is almost certain that the WB would complete studies such as the Pacific Futures study and remittance work, but it is unclear whether any major new studies would be initiated without some additional financing, or co-financing. It is very uncertain that studies on cross-cutting concerns such as gender would continue at a large scale, perhaps being reduced to those supporting a specific country activity.

G. Gender

91. Overall PF3 gender equality is rated as 3. This section is relatively brief partly as the agreed ToRs placed a lower priority on gender assessment, but also because there is very little to actually review and report on in the context of PF3. The low rating is not a reflection of a lack of importance given to gender by AusAID or the WB, rather the reality that gender is a cross cutting concern of AusAID handled separately and was not identified as an area for earmarked PF3 funding until 2011. Thus rating it as 3 is largely because PF3 did not address gender concerns until very recently, and in addition there is very little to examine and rate as part of PF3.

92. Nevertheless, gender is an important concern of the WB and gender issues are integrated throughout most interventions in the region²⁸. Efforts aim to increase young women's participation in community programs and enhance their access to the labour market, and women and girls appear to have particularly benefited from health and education investments.

93. Gender issues have been central to discussion of social protection policy dialogue in Fiji and Timor-Leste. PNG is one of the pilot countries for the Country Gender Action Plans, which will be supported through a country gender assessment undertaken in collaboration with the government and key donor partners.

94. The incremental PF3 financing provided in June 2011 is helping the WB expand its focus on gender issues in analytical work and investments, particularly in PNG and Solomon Islands. In the first half of FY12, the WB co-hosted a gender dialogue in PNG with Australia and the US, participated in a dialogue in Australia on violence against women in the Pacific, and initiated sector-specific work on mainstreaming gender in the PNG Roads program, in addition to facilitating the multi-stakeholder Country Gender Assessment for PNG. In the Solomon Islands, analytical work will incorporate gender-specific data and analysis. Projects such as the large-scale community projects under the Rural Development Program (RDP) and the Rapid Employment Program (REP) include measures to ensure women's participation and benefits. The WB will also undertake analytical and advisory activities specifically aimed at increasing women's participation in the formal economy.

²⁸ On the other hand, it might be noted that the WB CAS and ISN generally did not highlight gender concerns, nor do the AusAID Pacific Partnerships for Development (PPD) reviewed (all 2008/9).

While there are numerous donor supported gender efforts, there is a striking lack of data on the role of women in the formal economy and activities specifically targeted at helping women overcome barriers to starting businesses.

95. *The East Asia Pacific Gender companion piece to the World Development Report (WDR) 2012 on Gender Equality and Development*, which was supported by AusAID, was launched in Vietnam and Indonesia in December 2011, and in the Pacific in March 2012. A WB team of gender experts visited PNG, Solomon Islands, and Fiji, to speak with policy makers, civil society, and opinion leaders to share the findings of the reports and to advocate for policy options to promote gender equality. The main policy suggestions include:

- (i) Addressing human capital issues, including excess deaths of girls and women and gender gaps in education ;
- (ii) closing earning and productivity gaps between women and men;
- (iii) giving women greater voice within households and societies; and
- (iv) limiting the perpetuation of gender inequality across generations.

96. The WB is working to incorporate gender more systematically into its programs, both at the country strategy as well as the project level. A recent WB evaluation of gender mainstreaming in projects shows that of 21 projects rated in the Pacific, 15 of them (71%) are gender-informed on at least one dimension (compared to 50% for overall for the East Asia and Pacific region) and the majority of those gender-informed projects qualify for 2 or 3 of the three dimensions reviewed, rather than just one.

H. Analysis and Learning

97. Overall PF3 analysis and learning is rated as 3. As with gender, this section is brief partly as the agreed ToRs placed a lower priority on this, but also because there is very little to actually review and report on in the context of PF3. Section E above reviews 'Reporting, Monitoring and Evaluation' and shows that while WB reporting has provided a lot of detail, it has not always been timely, has not focused specifically on PF3, and it has not been presented in a manner that is easily understood by the donors. As a consequence there appears to have been little analysis and discussion in the 6 monthly review meetings of what can be learned from ongoing activities other than the successes or otherwise of what is covered in the WB reports.

98. The original ToRs called for a review of lessons learned from previous Pacific TFs in designing the PF3. As noted above, AusAID staff were unable to provide documentation showing the design process and whether lessons learned informed the new design. As such, the IR team cannot comment on this aspect.

99. But at a different level, the AAA work conducted to date, at both regional and country/sector levels, has provided valuable analysis (as noted above in relevance and effectiveness) which has provided the basis for improved policy dialogue, particularly on economic and budget management concerns, involving governments and other donor agencies, helping improve both countries economic and financial management and donor coordination. Work at sector levels has also informed sector and project operations, improving effectiveness. This AAA aspect would be rated as "5" but the overall rating of "3" relates to current and past internal PF3 analysis and learning and whether this has informed the PF3 design and amendments.

IV. Conclusions, Issues, and Recommendations

A. Conclusions

100. The support provided to the WB through PF3 has broadly achieved the donors' objectives (para.2 above) to induce a scaling up of the WB's presence in the Pacific and thus (i) help create an environment conducive to generating growth and creating employment opportunities in the Pacific, and (ii) promote development dialogue, stem the decline in social indicators, and build the foundation for improved governance and sustained recovery in Papua New Guinea.

101. PF3 has been an integral part of the WB's operations, and these have been fully relevant to the objectives of the Australia and New Zealand governments and to the context, needs and priorities of Pacific Island and Papua New Guinea governments, and aligned with their priorities.

102. The WB has substantially scaled up its IDA and TF portfolios in the Region, has developed country-level strategies in several Pacific island countries, has played an increasing and highly appreciated role in macroeconomic policy, economic dialogue and donor coordination around budget support operations, and has expanded its Analytical and Advisory Activities, responding to the donors' aim of bringing more of the WB's global knowledge to the Pacific region.

103. The original intention of the PF3 was to provide resources that were fully fungible with WB's own resources for the Pacific, with all resources being allocated according to agreed priorities. In practice there have been limits to resource fungibility and these have constrained efficiency. The WB manages its Pacific operations well, and the establishment of new offices has enhanced performance, but there are still areas where more effective support could be provided in a context of thin implementation capacity. Overall however PF3 seems to be delivering value for money, given that the WB's portfolio has at least trebled in scale while PF3 has increased core resources by about 40%.

104. Coordination with bilateral donors has generally been good, but this has been less true of coordination with regional agencies such as SPC and the PIFS, and reporting to the donors has not been fully satisfactory.

B. Issues

105. *Overall Strategic Objectives:* Discussions with AusAID and NZMFAT staff indicated that the overall strategic objective of wishing to see the WB operating in the Pacific at a significantly greater level than would be possible if it was limited to BB for core operating resources remains valid. The IR has found that this objective has been achieved by PF3, and that the WB's portfolio and work program have expanded very substantially since 2005 when PF3 commenced. The main implication of a much larger IDA and TF program is that the WB will now have to place significantly greater emphasis on support of implementation simply in order to ensure that its current portfolio is smoothly managed. The thin capacity of Pacific region governments means that the WB will need an understanding and proactive approach to support implementation. This in turn places a premium on the presence of staff "on the ground". The current network of full and shared offices needs to be at least maintained, and there is a case for the network to be strengthened with at least one further full office in a strategically located Pacific Island country if and when the opportunity arises and the resources are available.

106. *Partnership relationship:* The current partnership relationship between AusAID and WB is valued. Care needs to be taken in ensuring that a balance is maintained between AusAID's desire for improved reporting and more earmarking of funds for sectors, and the need to maintain a collaborative partnership, avoiding the risk of creeping development of a managing contractor relationship. The PF3 partnership with New Zealand has been somewhat less active, and it is not clear that New Zealand has always been party to changes in PF3 that would normally be expected

to be sanctioned by all donors to a Multi-Donor Trust Fund (MDTF). This aspect of partnership relations clearly needs attention.

107. *Earmarking of Funds:* During the mission there was considerable discussion over the advantages and desirability of the “soft earmarking” for specific sectors that was introduced to PF3 in June 2011, and expected to expand in scope in 2012. The debates over the virtues of un-earmarked funding versus the advantages of earmarking are long running and well summarized in the recent study of Australia’s Approach to Assessing Multilateral Effectiveness.²⁹ The broad conclusion is that there is a much stronger argument for support for un-earmarked funding when donors have high levels of confidence in the Multilaterals’ overall performance. In the case of the WB, both this narrow study and the broader recent “AMA” review³⁰ suggest that the WB is amongst the Multilaterals with the best perceived performance records, and this strengthens the case for emphasis on support to un-earmarked funding rather than a proliferation of aid activities and earmarks that reduce flexibility and may lead to funding of low priority activities. In recent years the diversity of funding instruments has increased and there has been increasing complexity of PF3. This has significant impact on the WB’s administrative burden. There is a proliferation of TF accounts, increasing work for both accounting and supervisory staff. There is increased risk of duplication, partly because TF and EFO accounts are managed separately. Resource fungibility is undermined leading to inefficient use of donor contributions. The monitoring and reporting workload is increased, as WB staff have to ensure that every agreement (even if “informal”) is rigorously observed. Field staff have to cope with a diversity of possible funding sources leading to both inefficiency and possible “gaming” of the system. This trend should be reversed, and the IR recommends a changed balance is needed between earmarked PF3 funds and the number of separate EFOs and small trust funds.

108. *Limits on Eligible Expenditures:* The limits on PF3 use for staff salaries provided a constraint to bringing seasoned WB staff with global experience to the Pacific (a donor expectation), with consultants used (often from the Pacific region) rather than WB staff. A June 2011 amendment raised the limit and for the time being this has effectively eliminated the constraint. However if the limit is not raised in each future amendment it could again constrain the use of permanent WB staff.

109. *Pacific Experience:* It should also be noted, however, that while the donors may want an increased use of seasoned WB staff, several interlocutors stressed the need for any specialists involved in the Pacific to have regional experience and understanding, and supported the increased use of consultants from regional countries. The issue is one of balance.

110. *Reporting:* The WB’s reporting on PF3 has not met the donors’ needs. Substantial amounts of information have been provided but it has been lengthy, used WB jargon and acronyms, and often consisted of internal reports with a logic that is not evident to outside readers. At the same time the quality of the public communications work on Pacific region activities has not been evident to the donors. Coordination with donors (both formal and informal) has been good, and when donor representatives have been involved in Concept Note reviews³¹ this has been highly appreciated, as it both informs external stakeholders and allows them to comment at the activity design stage.

111. *Monitoring success in the future:* The achievements under PF3 so far can be clearly seen in terms of the scale of the expanded WB program and the quality and impact of the AAA work that has been carried out. In the future the WB should not be expected to continue to expand its program substantially, and means of monitoring portfolio quality should be clearly identified and agreed by the WB and the donors. These should include some of the WB’s internal processes for monitoring portfolio quality (disbursement ratios, projects at risk, problem projects, and realism indices).

²⁹ Martin Dinham, February 2011, see e.g. paras. 2.5 to 2.8

³⁰ Australian Multilateral Assessment, March 2012

³¹ All WB activities, lending or AAA, are the subject of a Concept Note review at an early stage. This is an internal process aimed to ensure that quality, high priority work is delivered and subjected to peer review at an early stage.

112. *Visibility*: The WB Sydney office produces a wide range of good quality (in some cases prize-winning) communications materials, using a variety of media, and these usually highlight bilateral donor activities that are complementary to (or helping to fund) the WB operations that are being described. However there is little awareness of PF3 or of the role of Australia and New Zealand in providing core support to the WB in the region. Overall this is probably a good thing. As noted earlier, the WB's effectiveness in policy advice and dialogue partly results from the WB's widely recognised reputation for independence and integrity. The WB's occasional necessary role in delivering difficult messages is one where other donors may often wish to be at a distance in order to avoid damaging bilateral relationships. In the circumstances it is appropriate that Australian and New Zealand support to other WB activities be well highlighted in WB documentation but that this support to PF3 does not receive special attention³².

113. *Pacific Architecture*: Some stakeholders have expressed the concern that the WB did not work enough with the "regional architecture", and that there has been inadequate coordination with other agencies, particularly the Secretariat of the Pacific Community (SPC) and the Pacific Islands Forum Secretariat (PIFS). There are currently organizational reviews underway for both these organizations, and the WB will need to find improved ways of engaging with these organizations in the light of the results of the reviews.

114. *WB's comparative advantage and sector work*: AAA activities are well appreciated, particularly in macroeconomic work and budget management. AAA at sector levels is also appreciated and the WB should focus on those where it has a comparative advantage, and also where other agencies are not engaged. Such sector work can be shared among other agencies where they have the expertise or comparative advantage, such as ADB, PFTAC and SOPAC. The WB and other agencies need to ensure that sufficient analysis of critical sector constraints, capacities and other needs is conducted in sectors where they are operational to ensure the sector environment is sound.

115. *AAA activities*: Some concerns were expressed that AAA work appeared ad hoc and needed programming. Section III B above (Relevance) describes how AAA work has in fact been important elements of both regional and country operations, and has strengthened the foundations of sector programs and projects, but improved medium-term programming, and review during the 6 monthly consultations, would be beneficial to ensure priorities are addressed and consistency across the WB Pacific programme maintained.

C. Recommendations

116. **Recommendation 1**: The relationship between AusAID, New Zealand and the World Bank needs to ensure that all three partners in the Multi-Donor Trust Fund are equally fully informed and agreed on changes to the partnership.

117. **Recommendation 2**: Given the effectiveness of PF3 in inducing a scaling up of the WB's presence in the Pacific which is highly valued by Governments and donors alike, it would be highly undesirable for the current level of presence to be reduced, and thus it is recommended that at a minimum the recent levels of PF3 support should be retained (but see also recommendation 3 below).

118. **Recommendation 3**: It is recommended that the future WB program in the Pacific should be rebalanced. While preparation of new operations will remain important there should be greater relative emphasis on the effective implementation of the current portfolio. Effective implementation support might require increased presence in the Pacific Islands, and this could justify increased

³² Para.17 of the Partnership Framework between AusAID and the WB Group (23 September, 2011) notes that "where AusAID contributes to a multi-donor trust fund managed by the WBG, AusAID's contribution and the results achieved by the program supported will be made visible in the context of broader visibility initiatives for the trust fund." The approach taken is consistent with this agreement, as no PF3 specific "broad visibility initiatives" are appropriate

support from the PF3 donors to strengthen WB offices. The staffing and role of the liaison offices should be re-visited.

119. There are various options for possible change in both the diversity of funding instruments and the increasing complexity of PF3.

- (i) Substantially reducing the number of TFs used and channelling more resources through PF3, earmarked or unearmarked;
- (ii) Eliminating the use of AusAID EFOs in the Pacific and channelling these resources through PF3;
- (iii) Ceasing to have ‘soft earmarks’ and allocating all funds through the WB’s prioritization processes, complemented by consultation with donors;
- (iv) Retaining the current situation.

120. **Recommendation 4:** The IR recommends that option (ii) above be adopted. However “soft earmarks” should only be retained for large activities, such as those agreed/proposed for the education and health sectors (it is not recommended that any “small” activities (below A\$1m in size perhaps) be explicitly earmarked). For “soft earmarks” for large activities where joint funding of investments is envisaged, medium term plans for such investments in the sector should be developed.

121. **Recommendation 5:** If recommendation 4 is accepted, and recognizing that the original PF3 objectives have already changed, and that the structure of PF3 is no longer uniquely providing core resources, there is a strong argument for developing a new PF4 rather than indefinitely continuing PF3. It is thus recommended that PF4 be established as soon as possible; this will allow the fund and modalities to be adjusted consistent with the new objectives and monitoring and reporting arrangements. Unused “soft-earmarked” PF3 resources will need to be rolled over into PF4 - the recent and currently proposed “soft earmarks” in PF3 have a life through to FY15. Bilateral donors and the WB recognize that commitments to support development in the Pacific are long term. The WB should expect to maintain its current (or an expanded) level of presence for at least the next ten years, and this would require a long term commitment by bilateral donors to keep the WB’s resources above the level that could be expected to be allocated from Washington.

122. **Recommendation 6:** AAA activities should be discussed in the six-monthly consultations between the WB and the donors; the WB should give a sympathetic hearing to AAA proposals that the donors consider should have high priority, and might otherwise have been directly supported through EFOs. However, this should be based on medium-term programming of AAA to ensure priorities are addressed and consistency across the WB Pacific programme maintained. It should include any major regional work such as Pacific Futures, and on other emerging issues. Coordination of AAA activities amongst donors and regional institutions needs to be maintained, and efforts made to avoid differing advice, although contestability should not be discouraged.

123. **Recommendation 7:** The WB needs to increase the use of seasoned permanent staff with global experience, in addition to using experienced Pacific based consultants. PF3 structures should thus not provide disincentives for the use of permanent staff, and there should be no restrictions on eligible expenditures.

124. **Recommendation 8:** The WB needs to improve its interaction and coordination with other Pacific agencies, particularly the Secretariat of the Pacific Community (SPC) and the Pacific Islands Forum Secretariat (PIFS). There are currently organizational reviews underway for both these organizations, and the WB will need to find improved ways of engaging with these organizations in the light of the results of the reviews.

125. **Recommendation 9:** Reporting by WB to AusAID and NZ needs to be improved. Annex 7 provides a suggested format for this. This format includes provision of a six-monthly update on the communications materials produced by the WB Sydney office. A results framework should be agreed, with a focus on outputs and outcomes, and subsequent reporting should be based on this framework. The results framework will need to include measures of portfolio quality, as these will partly reflect the performance of the WB in supporting implementation. The improved reporting should be provided in advance of the 6-monthly meetings to facilitate more effective joint consultation and decision making in line with a partnership.

126. **Recommendation 10:** Wherever possible the WB should continue to invite representatives of the donors to participate in Concept Reviews for new operations and AAA activities.

V. Evaluation Criteria Ratings

Evaluation Criteria	Rating (1-6)
Relevance	5
Effectiveness	5
Efficiency	5
Reporting, Monitoring and Evaluation	4
Sustainability	4
Gender Equality	3
Analysis & Learning	3

Annex 1: A Brief History of PF3

1. The Pacific Facility III (PF3) trust fund (TF) was established in July 2005.³³ This was the fourth in a series of funds supporting the World Bank's work in the Pacific.
2. The first fund (TF020070)³⁴ was known as the Australian South Pacific Facility and was agreed in June 1987.³⁵ This TF set up a "Bank-ADAB Technical Assistance Facility for the South Pacific islands" and was also described in the correspondence as a "project preparation facility". A\$6.9 million is estimated to have been contributed to this facility between 1987 and 1997³⁶.
3. In 1997 this fund was succeeded by the "AusAID-World Bank Pacific Facility" (TF020171) which was established to support "Bank-executed Technical Assistance activities exclusively for Economic and Sector Work, Technical Assistance and Lending Development activities".³⁷ Over the period 1997 to 2003 US \$3.4 million was contributed to this fund.
4. In August 2003 a new fund (TF050968) was established replacing TF020171. This had the same title and clearly defined eligible payment categories: WB staff costs, consultant services, associated overheads, travel costs for consultants, media/workshop costs and contractual costs.³⁸ This TF is usually referred to as "PF2" and total contributions were A\$4.3 million (US\$ 3.2 million) over a two year period.
5. PF3 (TF055181) was established in 2005 as a Multi-Donor Trust Fund, unlike the previous three which had been exclusively supported by Australia. The formal agreement³⁹ stated that the TF was "created with the purpose of supporting, in particular, the implementation of the following: (a) the Pacific Islands Regional Strategy, (b) the Papua New Guinea Interim Strategy Note and the subsequent Country Assistance Strategy, and (c) the Timor-Leste Country Assistance Strategy." The development objectives were stated as (a) helping to create an environment conducive to generating growth and employment opportunities for the Pacific Island countries; (b) promoting development dialogue, stemming the decline in social indicators, and building the foundation for improved governance and sustained recovery in Papua New Guinea; and (c) strengthening governance, service delivery, and employment generation in Timor-Leste."
6. The TF agreement noted that donors' contributions "will be used to support Bank-executed advisory and analytic work and economic and sector work including: (a) Pacific islands public expenditure management; (b) Pacific islands private sector development; (c) development dialogue and service delivery in Papua New Guinea; (d) governance and economic recovery in Papua New Guinea; and (e) public expenditure and service delivery in Timor Leste." In addition it noted that contributions "will also be used to support the operations of the Bank's Pacific islands support unit and the Bank's supervision of the activities to be financed by the contributions." The eligible categories of expenditure were almost the same as under the previous TF050968, with two changes. "Travel costs for consultants" was replaced by "travel expenses", presumably allowing Bank staff travel costs to be eligible. "Contractual costs" were no longer referred to as eligible expenditure.
7. The standard provisions noted that "the Bank and the Donor (sic) will consult with each other on the allocation of the contribution to the Pacific island countries, Timor-Leste, and Papua New Guinea". The covering letter noted that AusAID wished to "confirm our informal understanding that no more than 10% of Australia's contribution to the Facility will be spent on Timor Leste and that the

³³ Letter from Charles Tapp, Senior Associate AusAID to Zhu Xian, World Bank Country Director, 28 July 2005

³⁴ Every World Bank TF account has a distinct TF number

³⁵ Letter from R.B. Dun, ADAB Director General to Dr A. Karaosmanoglu, Regional VP, EAP, 2nd June 1987

³⁶ Data on contributions from WB Sydney office

³⁷ Letter from A/g ADG, South Pacific & Training Branch to Klaus Rohland, WB Country Director, 17 November 1997

³⁸ Letter from Cathy Bennett, Acting ADG, Pacific Branch, AusAID to Xian Zhu, WB Country Director, August 6th, 2003

³⁹ Letter dated 28 July 2005, op cit

proportion to be spent on PNG will not be overwhelming and will be the subject of regular discussion.”

8. This seems to have been the first of a number of “informal understandings”, most of which are clearly agreed by AusAID and World Bank staff as having existed although the documentation was not seen by the Consultants. In particular there were:

- (i) A subsequent agreement to raise the Timor Leste maximum to 20%, followed in May 2007 by an agreement that no funds from subsequent contributions would be allocated to Timor Leste;⁴⁰
- (ii) An agreement to limit disbursements for Papua New Guinea to a maximum of 20% of PF3 contributions;⁴¹
- (iii) Agreement in 2007 to limit the amount of contributions that could be used to cover Bank staff salaries to 30%⁴²

9. It was generally agreed that these poorly documented “gentleman’s agreements” were fully respected by the Bank, even though they had no legal underpinning.

10. In June 2011 there was a substantial amendment to the original PF3 agreement.⁴³ Major changes from the 2005 agreement were:

- (i) A fourth development objective was added: “bringing global practices to the Pacific Region”;
- (ii) Two additional areas of activity were added to the earlier five: “(f) priority education activities, including early grade reading assessment work and the extension of the SABER benchmarking system to the Pacific; and (g) gender activities.”
- (iii) Two additional areas of eligible expenditures were added: fees and benefits of extended term consultants and fees and benefits of extended term temporaries (support staff).
- (iv) The administrative cost recovery provision was reduced from 5% to 2%, presumably reflecting the fact that overhead and staff costs incurred by the Bank’s Pacific unit can be charged direct to the trust fund.
- (v) The maximum amount to finance staff costs “shall not exceed ... US\$ 13,200,000”

11. The agreed amendment to the TF was followed⁴⁴ with an Activity Framework for FY2012 and FY2013 which indicated clearly how the Bank expected to use AusAID financing over the next two years. This clearly divided the use of funds between A\$ 4 million a year for World Bank operations, A\$0.25 million a year for an increased focus on Gender equality and A\$2.25 million a year for Education sector activities.

12. Overall this brief history highlights three points:

- (i) Formal TF agreements have been supplemented by various informal agreements, which seem to be fully understood by the World Bank and AusAID even if the full documentation was not seen by the Consultants;

⁴⁰ Noted in March 2011 PF3 Progress Report

⁴¹ Op cit

⁴² Referred to in the December 2008 Progress Report, the January 2010 Status Report and the March 2011 Report.

⁴³ Letter from Ferid Belhaj, WB Country Director to James Gilling, First Assistant Director General, AusAID dated June 7th, 2011 with revised Standard provisions

⁴⁴ Letter from Ferid Belhaj to James Gilling, June 17th, 2011

- (ii) There has been a move away from un-earmarked core funding of the Bank's work program in the Pacific towards more clearly (if "informally") earmarked funding. The consultants were advised that this is likely to be further reinforced in 2012 with additional funds allocated for Health, Labour Mobility and the Tonga Policy Matrix;
- (iii) It is not clear if New Zealand was always party to the changing agreements. While these appear to have applied mainly to the Australian contributions, changes to Standard Conditions for a Multi-Donor Trust Fund should normally be approved by all donors.

PF3 Receipts and Disbursements

13. The table below summarizes PF3 receipts and disbursements from its start in 2005 to the end of March 2012. Of the total receipts, about 88% have come from Australia and about 8% from New Zealand. Investment income over the period has added about 4% to total TF resources.

14. Until the end of June 2011 (World Bank FY11) all contributions to PF3 were un-earmarked contributions to core resources. (As noted in the annex on PF3 history, some of these were subject to "informal understandings" on limits for specific countries or eligible expenditure categories).

15. In June 2011 an AusAID contribution of A\$9m was agreed, and this included A\$0.50 million for an increased focus on gender equality, over 2 years, and A\$4.50 million for various education activities, again over 2 years. The US dollar and A\$ were close to parity at this time, so the estimated figures in US\$ are the same.

16. The table shows that total monthly disbursements in the first three quarters of FY12 were averaging US\$441,000. WB expenditures are typically back-loaded, (i.e. monthly expenditures in Q4 tend to be higher), and so the undisbursed balance at the end of FY12 is likely to be below US\$6.3million. A substantial proportion of this will be represented by the undisbursed "soft earmarked" funds for gender and education – probably US\$3 to US\$4 million as it is likely that the bulk of these will be spent in the second year. The balance remaining for funding of core activities is therefore unlikely to exceed US\$3 million and may be nearer US\$2 million.

PF3 Contributions and Disbursements

Receipts	AUD	NZD	USD	USD Equiv
From Australia	33,188,400		570,043	29,259,422
From New Zealand		3,750,000		2,511,725
Investment Income			1,444,427	1,445,178
Total to 30 March 2012				33,216,325
Disbursements				USD
As of end June 2011				21,410,555
As of 30 March 2012				25,379,608
Balance at 30 March 2012				7,836,717
Monthly disbursements, July 2011 to March 2012				441,006
Source: World Bank Client Connection and WB PF3 Progress Reports				

Annex 2: List of Key Persons Met

Name * indicates contact by telephone or video-conference	Position	Organisation
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Australia – Canberra

Bill Costello	Assistant Director General, Program Quality and Effectiveness, Pacific Division	AusAID
Kamal Azmi	Director, Strategic Planning and Coordination, Pacific Division	
Bronwyn Gould	Manager, Donor Partnerships	
Lavinia Tyrell *	Policy Officer, Donor Partnerships, Pacific Division	
Alison George	Evaluation Officer, Pacific Division	
Robert Christie	Director, Pacific Partnerships and Economic Analysis Section	
Rob Harvey	Economic Adviser, Pacific Division	
Perry Head	Director, Solomon Islands & Public Administration, Pacific Division	
Nic Notarpietro	Acting Branch Manager, Pacific Branch (at the time of review - substantively, Director, Polynesia and Micronesia Section, Pacific Division)	
Christine Groeger	Acting Director, Growth and Infrastructure, Pacific Division (at the time of the review – substantively, Manager, Trade, Labour Mobility, Private Sector Development, Financial inclusion, Pacific Division)	
Clyde Hamilton	Acting Director, Polynesia and Micronesia (at the time of the review - substantively Manager, Tonga Desk)	
Sophie MacKinnon	Economist, Polynesia and Micronesia, Pacific Division	
Kate Fraser	Policy Officer, Health, Pacific Division	
Peter Kelly	Infrastructure Adviser, Pacific Division	
Amy Milligan	Former Second Secretary Kiribati	
Sonia Neufeld	Manager, Communications, Pacific Division	
Kevin Goh	Manager, Climate Change and Environment, Pacific Division	
Beth Slatyer	Pacific Health Adviser	
Ines Tallos	Manager, Education, Pacific Division	
Corinne Tarnawsky	Manager, Gender and Disability, Pacific Division	
Benita Sommerville	Assistant Director, Development Banks Section	

New Zealand - Wellington

Ginny Chapman*		Ministry of Foreign Affairs and Trade
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Australia – Sydney

Ferid Belhaj	Country Director	World Bank, Sydney Office
Samantha Evans	Team Assistant	
Kanthan Shankar	Manager, Portfolio and Operations	
Rob Jauncey	Senior Country Officer	
Truman Packard	Lead Economist	
Charles Feinstein	Sustainable Development Leader	

Tendai Gregan*	Energy Specialist	
Laura Kennan	Communications Assistant	
Aleta Moriarty	Communications Officer	
John Larcombe,	Program Coordinator, PRIF Secretariat	
Gavin Murray	Regional Manager, Pacific, IFC	IFC

Solomon Islands -Honiara and Western Province

Hon.Rick Hou	Minister of Finance	Ministry of Finance
Shadrach Fanega	Permanent Secretary	
Allan Daonga	Under Secretary	Ministry of Development Planning & Aid Coordination
Susan Sulu	Director, Aid Coordination Unit	
Naresha Duraiswamy	Country Manager	WB Honiara Office
Edith Bowles *	Previous Country Manager	
Timothy Bulman*	Country Economist	
Erik Johnson *	Senior Operations Officer	
Shaun Williams	Land and Natural Resources Governance Adviser	
Jennifer Appo	Visiting Missions Coordinator	
Janet Funa	Program Assistant	
Paula Uluinaceva	Development Coordinator	ADB Honiara Office
Jane Lake	Minister Counsellor	Office of the Special Coordinator, RAMSI
Anna McNicol	Sr..Dev. Program Specialist	AusAID
Matthew Howell	First Secretary Development	New Zealand High Commission
Elisabeth Gotschi	Attache, Rural Development,	EU Delegation to the Solomon Islands
Bernard Hill	Commissioner	Telecommunications Commission of the SI
Martin Sam	Chief Engineer/Deputy General Manager	SI Electricity Authority
Mark France	Project Manager	Tina River Hydro Electric Project
Arnulfo Garcia	Project Manager,	REP
Salvador Jiao	Project Manager	(REP-HCC)
Wilson	Western Province Team Leader	RDP
Lottie Vaisekavea	Project Manager	
Tony Hughes,	Consultant (former Gov Reserve Bank)	Western Province

Tonga - Nuku a'lofa

Tiofilusi Tiueti	Secretary for Finance and National Planning	MFNP
Natalia Palu Latu	Principal Economist	
Timothy Goode	Development Coordinator & Harmonization Strategy Advisor	
Ahololu Palu	Budget Division	
Tom Wilson	Budget Adviser	
Peter Poulsen	Economic Adviser	
Ringo Faoliu	Director	Land Transport Sector Consolidation Project, Ministry of Transport
Michael Knowles,	Technical Advisor,	
Pua Latu	Procurement Officer	
Inoke Vala		Ministry of Public Enterprise
Viliami Ma'ake	Acting CEO	Tonga Airports Limited
Tatiana Marich-Tupou	Accountant	Tonga Energy Road Map (TERM)
Polly Dacre	Intern	
Vika Fusimalohi	Representative	IFC
Peti Ika	Operations Assistant	ADB/WB Tonga Office
Manohar Sharma	Senior Poverty Specialist	WB

Kalanidhi Subbarao	Social Development Consultant	
Louise Scott	Second Secretary (Development Cooperation),	AusAID
Peter Shackleton	Deputy High Commissioner	New Zealand High Commission

Samoa - Apia

Tupaimatuna Iulai Lavea	CEO	Ministry of Finance
Henari Petani	Consultant (former CEO)	
Kolone Va'ai	Consultant (former PS, Ministry of Finance)	KVA Associates
Maeva Betham-Va'ai	ADB/WB Liaison Officer	ADB/WB Joint Liaison Office
Antonia Wong	Operations Assistant	
Namualu'ulu Lameko Viali	Acting CEO	Lands Transport Authority
Peter Zwart	First Secretary Development	New Zealand High Commission
Anthony Stannard	Counsellor, Development Cooperation	Australian High Commission

Papua New Guinea

Laura Bailey *	Country Manager	World Bank
Susan Isaacs *	Health Adviser	
Sonya Woo, *	Social Development Specialist	
Natasha*	Telecommunications Sector TTL	
Adriana Attini *	Mining Sector TTL	

United States - Washington DC

Piers Merrick *		World Bank
Jane Sansbury *	Country Program Coordinator (Pacific)	

* indicates contact by telephone or video-conference

Annex 3: Some Key Methodology and Review Questions

(see also the Evaluation Plan and the Detailed list of general evaluation questions included as guidance in the ToRs)

Issue	Features	Evaluation Questions ⁴⁵	Methodology	Comment
WB reporting on PF3 may not be meeting AusAID or NZ needs	Some AusAID staff unaware of PF3 or of activities being undertaken	Are reporting and monitoring systems for PF3 satisfactory? (Criterion 7 relates closely to this)	Review of financial and progress reporting. Interviews with donor staff. Interviews with WB staff.	
PF3 objectives have changed over time and are not quantified	The objectives of PF3 have changed over time	Are PF3 objectives being achieved? (Criterion 2 a,b,c relates closely to this)	Review changing objectives and WB and donor expectations. Use material from WB and field visits to determine the extent to which objectives are being met	Judgements will often have to be qualitative rather than quantitative.
PF structure has changed over time	PF3 initially focused on supporting WB core costs in the Pacific. Recently there has been increased emphasis on earmarking significant parts of PF3 to thematic activities	What may be an appropriate structure for PF3 (or a future PF4) going forward? (Criterion 9 refers)	Review changing structure. Interviews with WB and donor staff to determine the advantages and disadvantages of alternative approaches. Review WB experience with alternative approaches.	
Alignment between Australian and NZ objectives and PF3 activities needs to be clarified	Both PF3 and some bilateral donor priorities have changed since 2005	Does PF3 fit with AusAID and NZ objectives (Criterion 1b)	Review both overall aid objectives of AusAID and NZ and their objectives at level of specific countries – particularly Solomons, PNG, Samoa and Tonga. Interviews with WB and donor staff at HQ and in field (3 countries F2F)	As strategies have changed over time precise alignment is unlikely but broad features may be determined
Alignment with country strategies should be a priority	WB normally expects its country level priorities to be led by the client	Are PF3 activities aligned with country priorities (Criterion 4c)	Review of country priorities in at least 4 countries (PNG, Solomons, Tonga, and Samoa). Interviews with govt. staff as well as WB and donor representatives	
The level of donor involvement in program and activity review may need review	Some interlocutors indicated they were unaware of or not fully satisfied with current arrangements	What are the governance arrangements at PF3 program and activity level and do they meet the needs of the WB, donors and clients? (Criterion 2d, e)	Interviews with WB, donors and client country representatives. Review of PF3 agreements and governance provisions.	
There may be reputational risks if donor and WB activities in	The WB's impact depends partly on its perceived independence and there are times when	Are the public relations activities by the Bank in the Pacific making	Review of WB PR materials including websites, TV programs, hard copy materials, documentaries etc. Discussions with WB and donor staff.	

⁴⁵ Numbering of Criterion for Evaluation Questions indicated here refers to the order of the 9 Criterion included in the ToRs, as noted in para.8 of the main text.

the Pacific are perceived as too closely associated.	donors will not wish to be too closely associated with WB initiatives.	an appropriate presentation of the partnership with Australia and NZ? (Criterion 1e)		
The impact of PF3 will be difficult to quantify but needs to be assessed	Many donor respondents were unclear about PF3 activities and therefore about their possible impact.	What impact is PF3 having on WB activities in the Pacific? (Criteria 1a, 1c, 7b)	Review of WB reports and data on their Pacific region activities. Assessment of PF3 impact upon these. Discussions with WB, donor and country stakeholders.	Some quantitative data (e.g. on lending and analytic activities) will be available but much of the assessment will need to be qualitative.

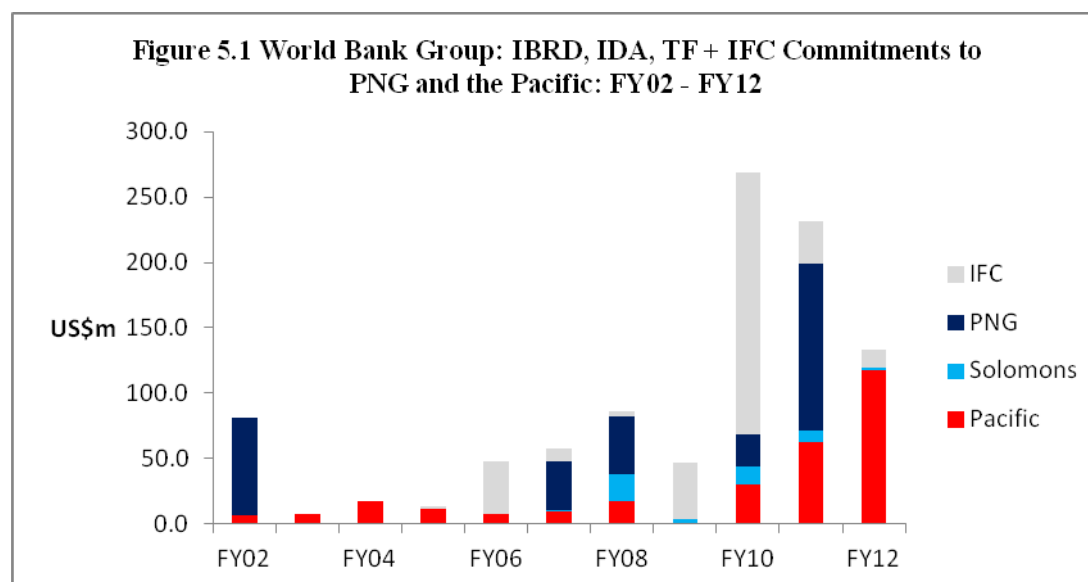
Annex 4: List of Key Documents Provided by AusAID, NZMFAT and the World Bank

1. Pacific Facility III Agreement, 2005, June 2011 amendments and draft Activity Framework expected to be finalized in April 2012
2. Pacific Facility III Financial and Progress Reports provided to donors in 2011, including 2009 and 2010 Progress Reports, March 2011 Annual Report, EACNF Operational Midyear Performance Review (December 2011 ?), FY12 and FY13 MOU and FY11 Retrospective Review (June 2011 ?), Trust Funds Financial Reports and EACNF Budget and WPA documentation
3. The World Bank's Papua New Guinea Country Assistance Strategy 2008
4. The World Bank's Timor-Leste Country Assistance Strategy
5. The World Bank's Kiribati Country Assistance Strategy
6. The World Bank's Tonga Country Assistance Strategy
7. The World Bank's CAS for Tuvalu
8. The World Bank's draft CPS for Samoa
9. The World Bank's work programs, budgets and relevant program reports for 2005 to 2010
10. Pacific Partnerships for Development (PPD - FSM, Kiribati, Nauru, Palau, PNG, RMI, Samoa, Solomons, Tonga, Tuvalu and Vanuatu)
11. The Cairns Compact on Strengthening Development Coordination in the Pacific
12. The Pacific Plan for Strengthening Regional Cooperation and Integration
13. New Zealand's Pacific Strategy (2007-15)
14. New Zealand's International Development Policy Statement March 2011
15. Australia – Timor-Leste Country Strategy (2009-14)
16. The Pacific Economic Survey: Engaging with the World (2009)
17. Surviving the Global Recession: Strengthening Economic Growth and Resilience in the Pacific, 2009
18. AusAID guidelines on the independent evaluation of an aid activity
19. An Effective Aid Program for Australia: Making a Real Difference – Delivering for Real Results, AusAID July 2011
20. The Quality of Australian Aid: An International Perspective; AusAID ODE December 2011
21. Annual Review of Development Effectiveness
22. AusAID ODE 2009, 2008 Papua New Guinea: Development Cooperation Treaty Review
23. AusAID-World Bank Partnership Framework, September 23, 2011
24. PF3: Supporting Growing World Bank Engagement with Samoa (Briefing Note from WB, March 2012)
25. Solomon Islands Rural Development Program Implementation Manual, July 2011
26. Solomon Islands Growth Prospects, WB Discussion Note, October 2010
27. Solomon Islands: Sources of Growth, 2008
28. Rapid Employment Project (Solomon Islands), An overview, March 2012 (PowerPoint), REP Program Management
29. Solomon Islands National Development Strategy, 2011-2020, Ministry of Development Planning and Aid Coordination, Honiara, July 2011
30. PF3: Supporting Growing World Bank Engagement with Tonga (Briefing Note from WB, March 2012)
31. Justice for the Poor, Mid Term Review, December 2011
32. Review of the Pacific Region Infrastructure Facility, Final Report, Ian Anderson and William Paterson, March 2012
33. World Bank's "at Home and Away", The World Bank, 2006
34. World Bank Discussion Note - "Pacific Futures" (July 2011 draft not for circulation)
35. Study of AusAID's Approach to Assessing Multilateral Effectiveness, Martin Dinham, February 2011
36. Australia Multilateral Assessment (AMA), March 2012

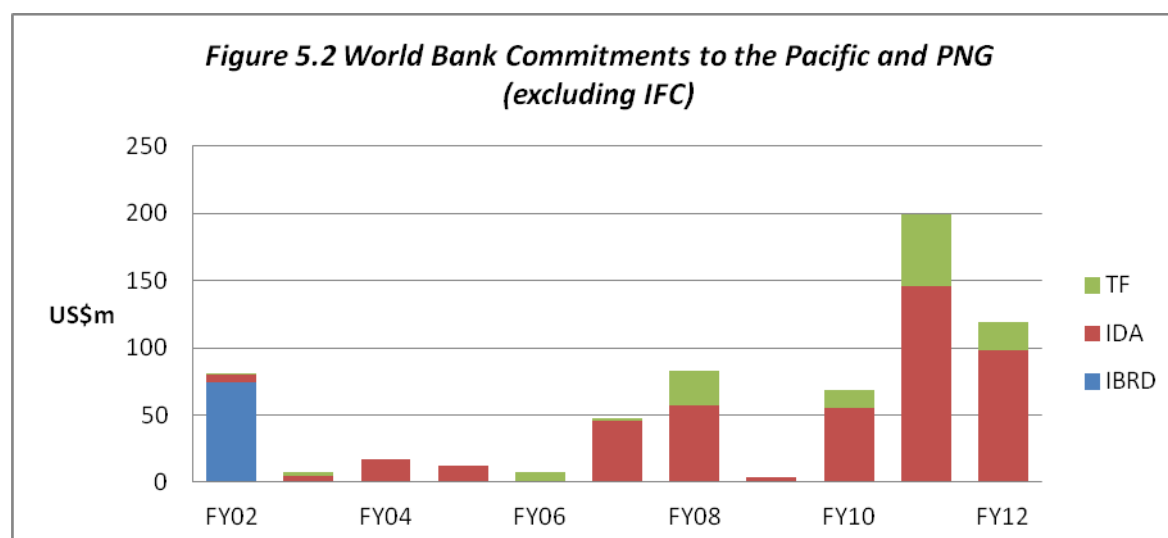
Annex 5: The World Bank Portfolio in the Pacific and PF3

An expanding portfolio

1. The WB portfolio in the Pacific has expanded rapidly since the start of PF3. Figure 5.1 shows the growth in total WB Group commitments, showing separately total IFC commitments and IBRD+IDA+TF commitments to PNG, to the Solomon Islands and to other Pacific islands (Fiji, FSM, Kiribati, Palau, RMI, Samoa, Tonga, Tuvalu and Vanuatu).



2. Figure 5.2 excludes the highly variable IFC commitments and shows the total figures for the Pacific and PNG together, for IBRD, IDA and TF commitments.



3. The expansion of the portfolio is equally clear when each of the four countries visited or reviewed by the mission are shown separately, in Figures 5.3 to 5.6:

Figure 5.3 World Bank Commitments to PNG, FY02 to FY12

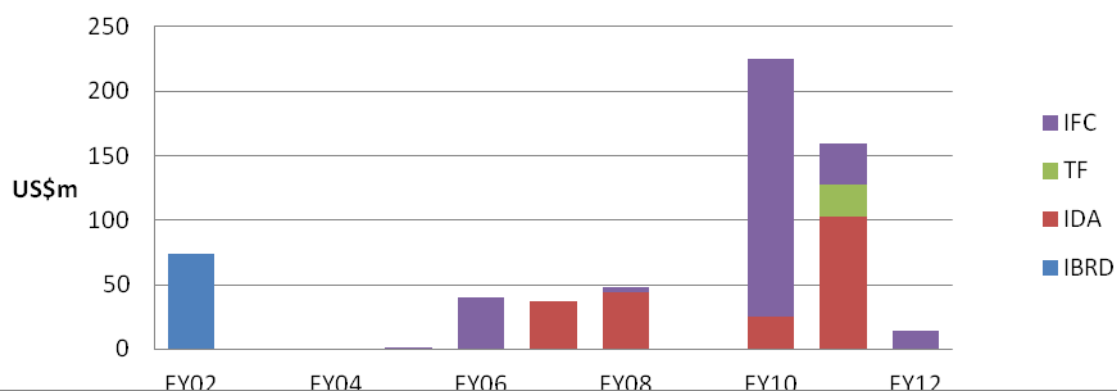


Figure 5.4 World Bank Group Commitments to Samoa: FY00 - FY13 (proj)

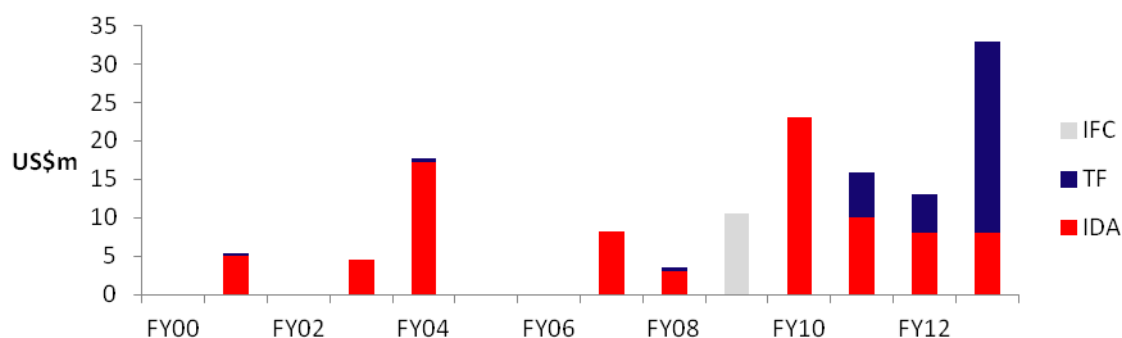
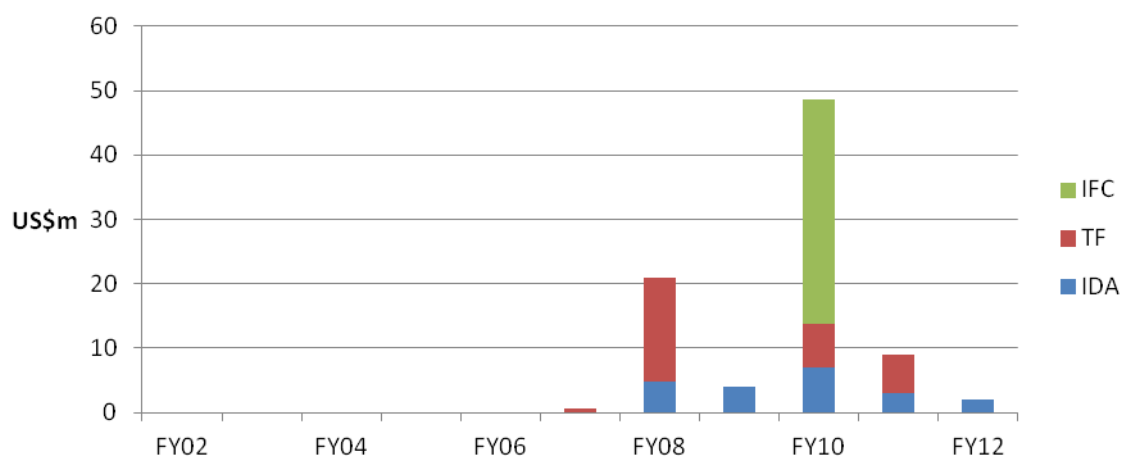
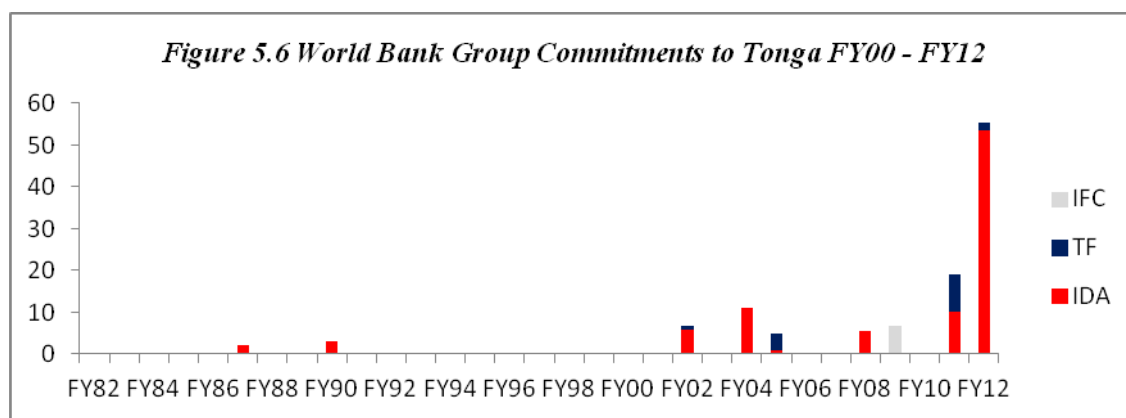


Figure 5.5. World Bank Group Commitments to the Solomon Islands, FY02 to FY12





4. Figures 5.1 to 5.6⁴⁶ show clearly and consistently that the World Bank Group's portfolio in the Pacific Islands plus Papua New Guinea has expanded very substantially since 2005, both over the whole area and in each of the countries reviewed by the mission. Comparing the three years FY02 to FY04 (pre PF3) and the three years FY09 to FY11 for the Region as a whole, IDA commitments increased from US\$27.7m to US\$205m (over 7 times) and TF commitments increased from US\$3.7m to US\$66.6m (18 times). If IBRD commitments (to PNG in FY02) are included and the three years FY10 to FY12 (estimated) are used, the increases are from US\$102.1m to US\$299.2m (almost 3 times) for the IBRD+IDA portfolio and from US\$3.7m to US\$87.9m (over 23 times) for the TF portfolio. It is therefore clear that the 40% increase in the World Bank's core resources provided by PF3 has been paralleled by a far greater expansion in the size of the portfolio.

A diverse work program

5. The WB's work includes development and agreement of overall country strategies, resource mobilization for country level operations, analytic and advisory work (sometimes referred to as economic and sector work) and support to policy making and prioritization. All these activities are underpinned by a field presence, and all are supported by a diverse range of funding instruments.

6. Development and Agreement of Country Strategies. The PNG Country Assistance Strategy (CAS) was agreed in 2008, after a three year ISN (Interim Strategy Note). A new CAS for PNG is now under preliminary preparation. A Country Partnership Strategy is currently under development for Samoa. The Solomon Islands has an agreed Interim Strategy (2010) and Tonga has an agreed CAS (2010). A CAS was agreed for Kiribati in 2011 and the Bank anticipates having individual agreed country strategies for almost all of their Pacific clients by the end of 2012/2013. The work involved in developing these partnership strategies, which involves very substantial coordination and consultation with a wide range of stakeholders including donor partners, is funded from the Bank's core budget (supported by PF3). Over the period from 2005 the Bank has moved away from its previous modus operandi with a regional Pacific strategy (for all clients except PNG) to a more conventional approach of individual agreed country strategies. This is clearly consistent with the objectives of PF3.

7. Resource Mobilization: Support to Country Level Operations The Bank's major activities normally relate to its "lending program", through IBRD and IDA and its "grant-administration" program through Trust Funds. In the case of PNG and the Pacific Islands almost all recent operations have been based on grants, from national IDA allocations, Regional IDA allocations and Trust Fund (TF) resources. The scale of active operations is now remarkable, with about \$350 million in current active IDA commitments (IDA grants currently under implementation) and about \$120 million in active Trust Funds, excluding PF3 (see Table 3 at the end of this attachment). The

⁴⁶ Data provided by the World Bank Sydney office, detailed figures are in Tables 5.1 and 5.2 at the end of this Annex.

largest portfolio is in PNG (\$169 million in active IDA commitments and \$25m in TFs). Other substantial portfolios are in Kiribati (\$43m IDA, \$6m in TFs), Samoa (\$27m IDA, \$3m in TFs), the Solomon Islands (\$18m IDA, \$20m in TFs) and Tonga (\$69m IDA, \$11m in TFs).

8. There are some striking features of this portfolio. A substantial part of the IDA funds comes from regional IDA grants for aviation Infrastructure (Kiribati, Tonga, and Tuvalu) and for undersea cable broadband connectivity (Tonga). The TF resources come from a very wide variety of TF programs, including TFs established to support a single activity by one donor, Pacific wide TFs supported by single or multiple donors and regional and global TFs supported by multiple donors. The above estimates of resources that have been mobilized for Pacific countries by the World Bank underestimate the impact of the Bank's activities. In addition to the funds that are managed through the Bank some projects benefit from parallel financing from other donors that would not have arisen if the World Bank had not been involved in project preparation and supervision. Examples seen during the mission included bilateral and multilateral parallel funding of budget support operations in the Solomon Islands and Tonga, IFAD and EC co financing of the Solomon Islands RDP project, EIB support to the development of the Solomon Islands Tina River HEP project, UAE support to solar power generation in Tonga, IFAD co financing of the Productive Partnerships in Agriculture project in PNG and joint financing with ADB of the Tonga broadband cable project. In addition there has been significant synergy with IFC. Several projects in the Pacific have both World Bank and IFC involvement (Tina River HEP in the Solomon Islands, IFC investments in mobile telephony alongside WB telecommunications initiatives in Samoa and Tonga and a joint IDA/IFC SME Development Facility in PNG) and IFC staff emphasized to the mission that the presence of the Bank in Pacific Island countries made a major difference to their operations.

9. The expansion in the scale of the portfolio of WB-supported operations raises some important issues, related to implementation capacity. In all the countries covered it was evident that the Ministry and project staff involved in policy and project implementation were impressively qualified, experienced and competent. However there were very few of them, and they usually had very substantial workloads. The constraint is not so much "weak capacity" as "thin capacity". As a result for policy and project implementation to be effective the WB will need good understanding of each country's conditions, and to provide more support, and a more considerate approach, than would be necessary in many other client countries.

10. The establishment of the Honiara office and the joint offices with ADB in four other countries has undoubtedly helped to improve the Bank's understanding of local conditions, and, at times to improve responsiveness to implementation issues. In addition the frequent recruitment of expatriate staff to support Project Implementation Units (PIUs) helps to address capacity constraints. However the mission found that significantly more could be done. For example:

- (i) The limits to some Special Accounts had been set at unrealistically low levels requiring excessively frequent "topping up" of funds and sometimes clearly delaying project implementation;
- (ii) Inconsistent, and sometimes contradictory, messages were being sent from different parts of the WB to implementation staff – for example from procurement and legal units. TTLs should stand in between Bank fiduciary staff and the client and ensure that if initially there are contrasting views on (say) bidding documents these should be resolved within the WB so that a single agreed message goes to the client;
- (iii) It was suggested that Bank procurement requirements and safeguards measures (e.g. on involuntary resettlement) were being applied in ways that were out of proportion in the local context, increasing project preparation costs and delaying implementation;
- (iv) Responses to emails were unpredictable and some WB staff failed to set "out of office" messages. Internet connectivity from many Pacific islands is still poor, and it is frustrating

for implementation staff under local pressure not to know if their messages have been received or when to expect a definitive response.

It should be emphasized that the above points do not mean that the Bank was ‘wrong’ in every case. It does show that levels of communication and mutual understanding were inadequate, and this means that strengthened implementation support is important.

11. Analytic and Advisory work (AAA): One of the key aims of PF3, emphasized even more clearly in the June 2011 addition of a fourth development objective (“bringing global practices to the Pacific Region”), is to ensure that the Bank’s comparative advantage in analytical and advisory work benefits the region. It is clear from the Bank’s progress reports to the donors, from the mission visits and from stakeholder comments that this is being broadly achieved. Sectors in which the Bank has been particularly active include energy (e.g. SOE reform in the Solomon Islands, energy roadmaps in Vanuatu and Tonga), mining (e.g. support to PNG’s possible membership of EITI), telecommunications (building the basis for broadband connectivity), reducing vulnerabilities to food and fuel price shocks (e.g. looking at ways of reducing the costs of and dependence on petroleum product imports in Tonga), migration and remittances (e.g. the “Home and Away” report), education (e.g. work on early grade reading assessment), Household Incomes and Expenditure Surveys (in Papua New Guinea and the Solomon Islands) and recent work on fisheries in the context of a new Global Initiative..

12. The stakeholders the mission met with emphasized that the most important area of AAA the Bank has provided is in the area of macroeconomic policy, fiscal policy, economic policy dialogue and budget management. The Bank has facilitated the development of policy matrices (sometimes replacing several separate single donor policy matrices), support to public financial management (PFM), advice on debt management, the development of budget support operations, and the coordination of donor activities in budget support. This was seen as an area where the Bank has strong comparative advantage, and it was appreciated that the Bank generally did not try to “go it alone”, rather building on work done by other agencies, collaborating with inputs from other bilateral and multilateral partners (ADB, PFTAC) and helping to build country capacity.

13. Discussions with Governments around budget issues are sometimes difficult. A key role the WB sometimes has to play is that of “bearer of bad news” – often in the context of what needs to be done to resolve budgetary imbalances or failures to observe agreed policy matrix targets. The Bank’s independence, its reputation and the perceived strength of its analytical capabilities underpinning its policy prescriptions place it in a strong position to convey difficult messages. Other donors often sympathise with the messages, but would prefer not to have to convey or to be closely identified with the messages themselves, in order to minimize damage to bilateral relationships.

14. The Bank’s AAA work in the Pacific is to some extent financed through (non PF3) trust funds and through Externally Financed Outputs (EFOs).⁴⁷ However these resources are generally used when they are available to supplement the Bank’s core resources (including PF3). The overall FY12 EACNF budget summaries indicate that the total resources expected from Bank-executed TFs (other than PF3) and EFOs were \$2.995 million, compared with \$9.81 million from PF3 (including the special allocations for education etc.) and \$12.587 million from “BB” (including resources for Timor Leste). In practice this means that a significant portion of the Bank’s AAA work in the Pacific depends on PF3 resources.

⁴⁷ The EFO is an instrument that finances single Bank-executed activities (“outputs”) for a maximum period of two years. It uses a simple agreement with limited financial reporting and can be rapidly agreed. Australia has been a major user of the EFO instrument, with 10 agreed for the Pacific since 2008 in such areas as household and bio-behavioural surveys in PNG, production of the Praxis discussion series of programs by the communications staff in the WB Sydney office, studying port reform in Vanuatu and strengthening institutional support to health reform in Samoa. The total contributed to the 10 EFOs was about A\$ 5.0m (actual receipts US\$4.5million).

15. **Regional Support Efforts:** The WB's country based work is supported from offices in Sydney and Washington. These provide managerial support and coordination, fiduciary support, sectoral leadership and communications support. The basic costs of these offices are covered from BB, but PF3 provides some additional resources, and one EFO has been used to support communications work in the Sydney office.

The role and impact of PF3

16. Until June 2011 the donor contributions to PF3 carried no soft or hard sectoral earmarks. There were informal agreements on various limits to expenditure (see Annex 1) but these did not significantly affect the full fungibility of PF3 and WB BB resources for the Pacific Islands plus PNG. As a result it is not possible to identify precisely what impact PF3 had on WB expenditure patterns, and the following judgements have to be somewhat qualitative.

17. Prior to PF3 the WB had offices in Sydney and Port Moresby, but not elsewhere in the Pacific. The scale of its operations was limited, and carried out in the context of a broad Pacific Islands strategy that was not explicitly endorsed by the individual governments (with the exception of PNG). PF3 has been adding about A\$4 million a year to the WB core budget resources for the Pacific islands + PNG. Timor Leste represents about 20% of the Pacific Unit's budget, so the WB's own budget ("BB") allocation to the Pacific islands + PNG is (in FY12) about US\$ 10 million. Overall therefore PF3 has recently been adding about 40% to the Bank's available "core" resources for the Pacific islands + PNG. Other Bank-executed TFs and EFOs add less than a further 30% and this is all for specific technical AAA work.

18. A natural concern for donors to core budget operations is that their funds are used to displace resources that would otherwise be provided by the World Bank. In recent years the World Bank as a whole has had a "flat budget" policy and every unit has been under pressure to find savings. The Sydney office of the Bank has provided the following data on trends in the Bank Budget ("BB") provided through the East Asia and Pacific (EAP) Region for activities in the Pacific islands and PNG. It shows that the totals provided for specified activities (WPA=Work Program Agreements) and overheads (I&S=Indirects and Sustaining) have been rising steadily both in US dollar terms and as a proportion of the total EAP budget. Since FY05 the annual allocation for PNG and the Pacific has increased by 59% while the total EAP budget has increased by only 16%.

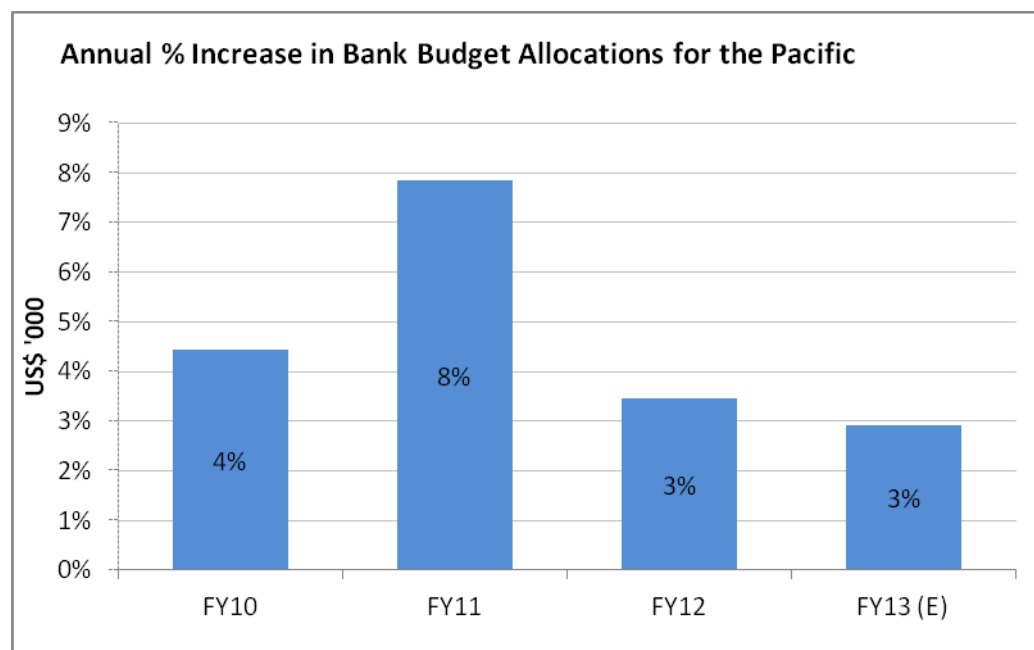
Budget Allocations for PNG and the Pacific (US\$ millions)

Year	PNG and Pacific (excl. Timor)			Total EAP			PNG+PAC as a % of EAP		
	WPA	I&S	Total	WPA	I&S	Total	WPA	I&S	Total
FY04	3.6	2.1	5.7	71.5	130.7	202.2	5.0%	1.6%	2.8%
	3.9	2.4	6.3	74.6	136.2	210.8	5.2%	1.8%	3.0%
FY06	4.4	2.5	6.9	78.7	142.5	221.2	5.6%	1.8%	3.1%
	4.5	2.2	6.7	76.3	142.9	219.2	5.9%	1.5%	3.1%
FY08	4.8	3.0	7.8	74.7	150.1	224.8	6.4%	2.0%	3.5%
	5.2	2.8	8.0	72.9	159.2	232.1	7.1%	1.8%	3.4%
FY10	5.4	2.9	8.3	74.0	167.8	241.8	7.3%	1.7%	3.4%
	5.8	3.9	9.7	75.5	170.4	245.9	7.7%	2.3%	3.9%
FY12	6.0	4.0	10.0	75.3	169.4	244.7	8.0%	2.4%	4.1%

Source: World Bank Sydney office

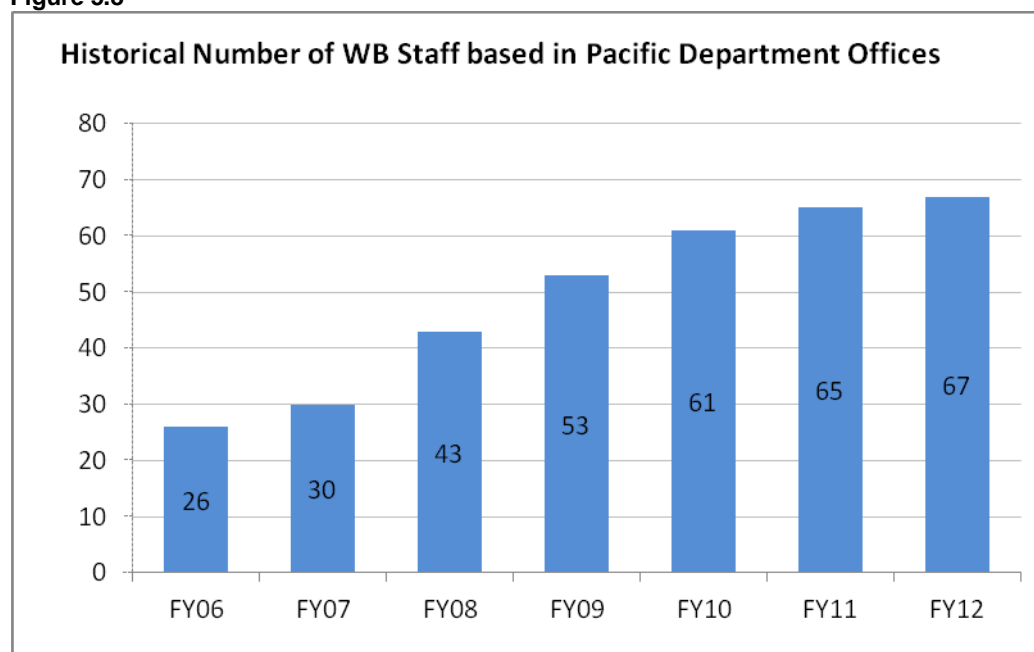
Figures 5.7 and 5.8 show the annual increase in the World Bank budget allocations to the Pacific and the increasing numbers of Bank staff based in Pacific Department offices in recent years. These confirm both the overall expansion of the Bank's presence and the continuing increase in relative resource allocation to the Region by the Bank.

Figure 5.7



Source: World Bank Sydney office

Figure 5.8



Source: World Bank Sydney office

19. **The impact of PF3** is judged to be:

- (i) It has enabled the WB to open a full office in Honiara and joint offices with the ADB in Kiribati, Samoa, Tonga and Vanuatu;

- (ii) The presence of these offices and additional resources for project preparation and supervision has allowed the Bank to substantially scale up its operations in these countries;
- (iii) This has led to substantial mobilization of additional resources from national IDA allocations, Regional IDA resources and Trust Funds, but has also leveraged other donors' resources and facilitated expanded IFC activities;
- (iv) Additional resources from PF3 have also allowed some increase in activities in PNG, and have allowed the Bank to expand activities in countries where it does not have offices. In Fiji the Bank now has resident staff, the Bank has developed a major project in Tuvalu and it is strengthening its relations with the Marshall Islands and Micronesia;
- (v) The volume of AAA work carried out by the Bank has expanded, and its increased role in support to budgetary activities has been particularly successful. The presence of the field offices has made a significant difference here in improving the Bank's understanding of country conditions and its ability to effectively and quickly respond to country needs and to coordinate with other donors;
- (vi) The support provided by the Sydney and Washington offices to Pacific-wide activities has been strengthened, and in particular the communications work has been substantially expanded, in close coordination with AusAID communications staff;
- (vii) The support from PF3 has not displaced funds that would have been otherwise been provided by the Bank.

Support from Australia and New Zealand

20. Australia, and to a lesser extent New Zealand, play major roles in supporting this program of activities, through strategic collaboration, coordination at country and activity levels and supporting many of the funding instruments.

21. Specific support and collaboration includes:

- (i) Oversight of Pacific region activities through membership of the World Bank Board. The mission was advised that scrutiny at this level from Australia and New Zealand representatives is zealous;
- (ii) Occasional high level strategic meetings with the WB's President and the Vice-President for East Asia and the Pacific;
- (iii) Six monthly progress meetings at which the donors discuss WB regional strategy and activities with the WB's Sydney country office team;
- (iv) Substantial formal and informal collaboration at country levels both around broad strategy issues and specific project activities. Pacific island countries and PNG are relatively small societies, and coordination quality was generally described to the mission as good by all stakeholders;
- (v) Financial support through IDA, to which both Australia and New Zealand contribute. These contributions are not earmarked in any way to the Pacific;
- (vi) Financial support through PF3;
- (vii) Financial support through numerous other Trust Funds and EFOs. Table 3 at the end of this annex shows that Australia is one of the donors to almost all the Multi-Donor TFs (MDTFs) that provide grants for the Pacific. It was noted that in some cases Australia is the only donor to "MDTFs" for the Pacific (PRIF being the largest example). In some cases the Australian contributions to MDTFs are specifically for

the Pacific, in others they contribute to overall global or regional resources. However in all cases Australia has some oversight of allocations through the individual programs' governance arrangements. New Zealand contributes to one of the Pacific MDTFs and is a PRIF partner.

22. The consultants were asked in the ToR to comment on the visibility of Australian and New Zealand contributions to PF3. In practice it was found that outside the Bank and AusAID in Canberra, PF3 was not a particularly known or visible fund. Many stakeholders met had never heard of PF3 and were unaware that the Bank's increased Pacific profile was linked closely to Australian and New Zealand funding. While this certainly means that the donors are not receiving public credit for their contributions this may be a "mixed blessing". As noted above in the discussion about "difficult messages" the WB's strength is often associated with its perceived independence, and there are times when donors would not wish to be too closely associated with recommendations the WB is making.

23. Given the extent of Australian and New Zealand support to the Bank's programme of activities in the Pacific it would seem more appropriate to highlight donor contributions to specific activities funded through IDA and (non PF3) Trust Funds. The WB communications team members based in Sydney do work closely with AusAID colleagues and clearly highlight AusAID visibility. For example:

- (i) All media releases for projects with AusAID funding are supposed to refer to AusAID's role;
- (ii) There have been co-branded public events such as a recent meeting on "Unnatural Disasters" at ANU;
- (iii) The monthly PRAXIS series of TV programs is clearly joint branded with WB and AusAID logos;
- (iv) Results videos shot in the Region mention AusAID.

24. Given the extensive role of AusAID as single donor or one of the multiple donors to almost all of the programs supporting the Bank's activities in the Pacific (see Table 3 following this annex) this should provide substantial opportunities to highlight AusAID support to the WB without emphasizing Australian and NZ contributions to core budget resources.

Table 5.1 World Bank Group Commitments by Year: PNG and Pacific Islands: FY02 - FY12

Year	PNG			Pacific		Solomons		TOTAL			TOTAL
	IBRD	IDA	TF	IDA	TF	IDA	TF	IBRD	IDA	TF	
FY02	74.4			5.9	0.6			74.4	5.9	0.6	80.8
				4.5	3.1			0.0	4.5	3.1	7.6
FY04				17.3				0.0	17.3	0.0	17.3
				11.9				0.0	11.9	0.0	11.9
FY06					7.8			0.0	0.0	7.8	7.8
		37.3		8.3	1.4		0.7	0.0	45.6	2.1	47.7
FY08		44.5		8.4	8.8	4.7	16.2	0.0	57.6	25.0	82.6
						4.0		0.0	4.0	0.0	4.0
FY10		25.0		23.0	6.9	7.0	6.7	0.0	55.0	13.6	68.6
		103.0	24.3	40.0	22.7	3.0	6.0	0.0	146.0	53.0	199.0
FY12				96.2	21.3	2.0		0.0	98.2	21.3	119.5

Note: "Pacific" includes Tonga, Samoa, Kiribati, Vanuatu, Fiji, RMI, FSM, Palau, and Tuvalu
Source: World Bank office, Sydney

Table 5.2 IFC Commitments to the Pacific, FY02 to FY12

Year	IFC Commitments			
	Pacific	Solomons	PNG	Total
FY02				
FY04			1.2	1.2
FY06			40	40
	10.5			10.5
FY08			4	4
	42.7			42.7
FY10		35	199.7	199.7
			32.4	32.4
FY12			13.9	13.9

Source: World Bank office, Sydney

Table 5.3 The WB Pacific Islands and PNG Portfolio (all figures in US\$ '000)

Active IDA and TF Operations - Excluding PF3 financed activities and EFOs

Country	Project/TF title	Commitments		Cofinancing	AusAID or NZ Involvement	TF #	Notes
		IDA	TF				
Region	Pacific Region Audit Initiative		550			96253	
	Pacific Survey Program		400			94185	
	Sustainable Energy Finance Project		6,200		AusAID donor	90450	GEF
	Private Enterprise Partnership - Pacific IV		22,720		NZ and AusAID donors		IFC
	PRIF Public private Partnership Trust Fund		1,800		AusAID donor	71263	IFC
	Financial Support to Pacific Microfinance Initiative		4,500		AusAID donor	4500	IFC
	Justice for Peace (J4P), East Asia & Pacific		11,535		AusAID donor		
Fiji	Integrated Flood Management, Nadi basin		800		AusAID donor	97654	GFDRR
	Institutionalising Monitoring of Telecoms Reform		450			96926	IDF
Kiribati	Sustainable Energy Finance Project		1,850		AusAID donor	58284	GEFIA
	Pacific Aviation Investment	22,900					Regional IDA
	Road Rehabilitation	20,000	5,800		AusAid donor	99624	PRIF
	Food Crisis Response		2,000		AusAID donor	99560	GFRCF
PNG	Urban Youth Employment	15,800	600			94791	Korean TF
	Flexible and Open Distance Education	5,000					
	READ		19,200		AusAID donor	98729	EFA-FTI
	Small and Medium Enterprise Access to Finance	20,700					
	Road Maintenance and Rehabilitation II	42,600					

	Rural Communications	15,400					
	Inclusive Dev't in Post-Conflict Bougainville		2,500	AusAID donor	98558	SPBF	
	Productive Partnerships min Agriculture	25,000	14,000				
	Financial Competency Study		200		98127	Govt of Russia	
	Statistical Development		1,200	AusAID TF	95972	AusAID PAC-FS	
	2nd Mining Sector Inst'l Strengthening TA	17,000					
	Smallholder Agricultural Development	27,500					
	Household Income and Expenditure Survey		1,500	AusAID TF	71347	AusAID PAC-FS	
	Subtotal	169,000	25,200				
Samoa	Enhancing Climate Resilience of Coastal Resources		400	AusAID donor	99649	PPCR (SCF)	
	Post-tsunami reconstruction	10,000	1,800	AusAID donor	98846	PRIF	
	Pilot Program for Climate Resilience		500	AusAID donor	98221	SCF PPCR	
	Health Sector Management	6,000					
	2nd Infrastructure Asset management	21,200					
Solomon Islands	Rapid Employment Project (REP)	3,200	2,000	AusAID donor	96620	PRIF	
	REP		1,800	AusAID donor	95966	SPBF	
	Telecoms and ICT	3,250	2,600	AusAID donor	97221	PRIF	
	Mining Sector TA		750	AusAID donor	97135	SPBF	
	Tina River HEP		630	AusAID TF	96376	PAC-FS	
	Tina River HEP		300	AusAID donor	96372	PRIF	
	Sustainable Energy (SISEP)	4,000	2,800	AusAID TF	71366	PAC-FS	
	Health Sector Support	1,500					
	Rural Development Project (RDP)	6,200	3,000	AusAID donor	97737	GFCRP	
	RDP		5,800	AusAID TF	90652	PAC-FS and EC and IFAD Parallel finance	
Tonga	Pacific Aviation Investment	27,200				Regional IDA	

	Economic Recovery Operation FY11	9,000				
	Economic Recovery Operation FY10	5,000				Linked to energy sector
	Pacific Regional Connectivity	17,200	500	AusAID donor	99368	Regional IDA and PRIF
	Post-tsunami reconstruction	5,000				
	Transport sector consolidation	5,440	10,300	AusAID donor	99585	PRIF
Tuvalu	Pacific Aviation Investment	11,850				Regional IDA
Vanuatu	Utility Regulatory Authority		700	AusAID donor	97490	PRIF
	FCPF Readiness Plan Preparation		200	AusAID donor	96103	FCPF
	Telecoms and ICT TA		2,800	AusAID donor	95147	PRIF
	National Adaptation		200		95486	LDC
Totals		516,940	146,085			

Source: World Bank Client Connection website and information from World Bank Sydney office

Annex 6: Mission Notes; Solomon Islands, Tonga and Samoa

A. Mission to Solomon Islands: Brief Report on Findings

1. The two consultants (Graham Walter and David Potten) carrying out the Review of the Pacific Facility III (PF3) Trust Fund on behalf of AusAID and the New Zealand Ministry of Foreign Affairs visited the Solomon Islands from 12th to 16th March 2012.

2. During the mission the consultants met with the Hon. Minister of Finance, the Permanent Secretary in the Ministry of Finance, the Acting Permanent Secretary in the Ministry of Development Planning and Aid Coordination, representatives of the World Bank, AusAID, the New Zealand High Commission and the European Union, and staff from agencies and projects supported by World Bank (WB) activities in the Solomon Islands. In addition the consultants made a one and a half day field trip to Western Province where they visited RDP (Rural Development Project) supported community development projects in Temerae, Baeroko and Buni, and a tourism sector investment ("eco-resort") supported through RDP at LoLoMo. The consultants are grateful to all those met for their frank and full responses and especially to the staff of RDP who facilitated the very informative field visit.

3. Key initial findings and conclusions are:

- The strengthened presence of the WB following establishment of an office in Honiara in early 2009 is widely welcomed. It is likely that this office would not have been established in the absence of PF3 resources.
- The WB's role in supporting the development of the core economic working group (CEWG) in the Solomon Islands is particularly appreciated. While this was a multi-donor initiative, with RAMSI (Regional Assistance Mission to the Solomon Islands) and Asian Development Bank (ADB) partners playing important roles, the WB brought additional high level independent technical expertise and analytic quality to the CEWG. The success of the CEWG initiative is partly linked to the coincidence of the establishment of the WB Honiara office with the Global Financial Crisis, and related economic work conducted by ADB highlighting the pending government fiscal crisis in addition to the foreign reserves crisis. The CEWG has become an important forum for economic policy dialogue and has contributed to improved donor coordination.

It was emphasised to the mission that the effectiveness of the CEWG is based on the close formal and informal working relationships that have been developed and the clear understanding that this is a multi-donor and Solomon Islands Government initiative which is not dominated by any one stakeholder.

- The presence in Honiara of both WB contact points and some key task managers is seen as having increased the understanding of the Solomon Islands reality within the WB, as having improved the speed of responsiveness from the Bank to partners' needs, and having increased the quality of preparation and supervision, and hence the overall portfolio quality. It was noted that things are more complex where Solomon Islands based projects have to work with TTLs based elsewhere, loan/grant disbursement based in Manila, procurement based in Sydney, and policy expertise based in Washington.
- The establishment of the Honiara office has resulted in a scaled-up program of WB assistance (with disbursements increasing from a very low base to around US\$10 million a year between 2008 and 2011) – and has also allowed substantial scaling up of other donors' contributions, through co-financing and parallel funding arrangements.
- The funding arrangements for WB support are diverse, including IDA grants, multi-donor and single-donor trust funds (sometimes co-financing IDA operations), Externally Financed Outputs and the WB's own budget resources (supplemented by PF3). Varied views were expressed about this diverse picture. Some of those consulted appreciated that the range of financing instruments provided a valued opportunity to select funding options – "horses for

courses". Others found that it added to complexity and undermined transparency.

- The cost of delivery of the RDP program was raised as a concern. It is recognised, however, that delivering community-led projects to remote and poor locations is bound to have significant overhead costs. A planned comparative analysis of the RDP program and the similar EU funded program (RAMP) should throw light on cost effectiveness of different delivery processes.
- There was little awareness of the donor funding behind PF3 and hence the WB's increased presence in Honiara. However it was emphasized that the WB's independence and authority were highly valued and a perceived close PF3-donor association with the WB's presence in Honiara would probably not be beneficial for the WB or the PF3 donors.
- Several interlocutors expressed disappointment with IFC's perceived lack of progress in investing in Solomon Islands development. This may partly reflect unrealistic expectations, but in addition the difficulties and the time involved, in identifying financially appropriate investment opportunities in the Solomon Islands environment.

B. Mission to Tonga: Brief Report on Findings

4. One of the consultants (David Potten) carrying out the Evaluation of the Pacific Facility III (PF3) Trust Fund on behalf of AusAID and the New Zealand Ministry of Foreign Affairs visited Tonga from 17th to 21st March 2012.

5. During the mission the consultant met with the Secretary for Finance and National Planning in the Ministry of Finance and National Planning, the Acting CEO in the Ministry of Works, many staff and advisers working with the Aid Management, Policy and Planning and Budget Divisions in the Ministry of Finance and National Planning, representatives of the WB, AusAID and the New Zealand High Commission and staff from agencies and projects supported by WB activities in Tonga. The consultants are grateful to all those met for their frank and full responses and especially to the staff of the Joint ADB/WB office who managed to organise a detailed program in spite of the difficult circumstances following the death of the King of Tonga.

6. Key initial findings and conclusions are:

- the WB has substantially "enhanced its footprint" in Tonga – from around \$30m in commitments over a 30 year period to around \$100m in commitments in the past three years. There is now a substantial portfolio of grant-funded projects, mainly funded from national and regional IDA allocations, under implementation;
- the WB's contribution to the budget support process was welcomed by all concerned stakeholders. The role it played in providing technical advice to government and coordinating the donors, replacing five donor-specific policy matrices with a single matrix to which the government and all donors subscribed, was widely praised, and continued assistance in the next stage of Tonga policy matrix development is warmly anticipated;
- there was a diverse response on the WB's involvement in implementation support. Some stakeholders were highly satisfied with their relationships with the WB, but others had more varied experiences. The high level of WB resources committed to Tonga was welcomed, but implementation problems were often being encountered and some of these seemed to reflect poor consideration by the WB of the difficulties of project implementation in a small island state environment. The WB's procurement requirements were frequently criticised (although one project welcomed a relaxation of standard requirements reflecting circumstances in an exceptionally isolated project area). The heavy demands of the procurement process, slow responses to requests for no-objection clearances, confusing and contradictory messages from the WB and the inconsistent use of "out of the office" messages were all mentioned. It seemed at times that staff in Sydney, Manila or

Washington did not appreciate the realities of working in Pacific Islands, such as the constraints on internet communication, the extremely thin implementation capacity and the islands' culture. An incident relating to "involuntary resettlement" was cited as a case in which Washington was felt to have blown up an issue out of all reasonable proportion, and hence substantially delayed project implementation;

- the Tonga program now has a substantial portfolio in implementation status and emphasis of the WB program is shifting from new operations development to implementation support. At times this will require an intensive level of attention, due to the scale of some of the IDA operations and the extremely thin Tongan implementation capacity. The specialists met by the consultant all appeared to be very competent, but to face daunting volumes of implementation work, with very limited levels of staff support, in a context where the government is severely constrained in recruiting staff – reflecting the impact of the policies agreed in the WB-led policy matrix agreements;
- there were varied comments on the effectiveness of the joint WB/ADB office. Some stakeholders made little or no use of the office as an organisation representing the two banks, and some felt that a high level of international staff permanent residence was desirable (in Tonga or another Pacific island state), particularly given the large scale of infrastructure operations under implementation. However others were very satisfied with the role of the office as a direct point of liaison and representation for the two banks;
- the high level of competence amongst Tongan counterparts was illustrated by the role they are taking in supporting WB operations in other Pacific territories, particularly the very large aviation safety program supported by a regional IDA allocation;
- donor partners who have participated in peer reviews and concept notes for WB Pacific activities warmly welcomed the opportunity this gives them to be "in at the ground floor"
- PF3 was practically invisible to Tonga stakeholders. This is probably desirable for both the donors and the WB, as the role the WB plays in Tonga benefits substantially from the WB's perceived global knowledge, independence and integrity.

C. Mission to Samoa: Brief Report on Findings

7. One of the consultants (Graham Walter) carrying out the Review of the Pacific Facility III (PF3) Trust Fund on behalf of AusAID and the New Zealand Ministry of Foreign Affairs visited Samoa from 16th to 20th March 2012.

8. During the mission the consultant met with the Chief Executive Officer (CEO) of the Ministry of Finance, the immediately previous CEO (now a consultant within the Ministry), the staff of the Joint ADB/WB liaison office in Samoa, staff of the Australian and New Zealand High Commissions, the Land Transportation Agency (LTA) and a former Permanent Secretary of the Ministry of Finance. In addition the consultant visited part of the LTA road rehabilitation project in Apia, funded by PRIF/WB. The consultant is grateful to all those met for their frank and full responses and especially to the staff of the liaison office who facilitated the mission, arranged at very short notice while the staff were busy preparing for visits of the VPs from ADB and WB responsible for the region, and the IMF.

9. Key initial findings and conclusions are:

- The strengthened presence of the WB (and ADB) following establishment of a joint liaison office in Apia in November 2009 is widely welcomed – presence on the ground was stressed. It is likely that this office would not have been established in the absence of PF3 resources.
- The liaison office, and the expanded Sydney office, had greatly improved access to data and more rapid feedback. With the office, engagement and coordination with ADB and the WB was better structured, missions better organised, and mission timing improved. The office

represents both banks, but this was not seen as an issue or problem, rather a positive for coordination.

- However several persons met suggested the office could do more with enhanced ToRs and additional staff support (see below). A larger office had been anticipated, with some policy dialogue capability.
- The staff of the liaison office had both now been taken on as WB staff. Concern was expressed that staff of the other joint liaison offices funded by ADB were treated by ADB as consultants. This detracted from their status and diminished the perception of commitment to the office. MinFin strongly mentioned that liaison office staff being designated as WB staff gave a strong perception of commitment by the WB to Samoa.
- Some respondents indicated they had expected increased involvement of expertise from outside the region; while this had happened to a certain extent, it has been below their expectations.
- Others, on the other hand, thought the office and ADB/WB should tap much more into regional expertise, rather than expatriates from outside the region.
- Some respondents also indicated that a greater use should be made by the WB of regional organisations – the respondents recognised the differing skills and capacities of some organisations, but stressed in particular the importance of PFTAC. The Pacific Islands Forum Secretariat (and its Pacific Plan) is seen as the Leaders' institution, and while not as effective as in past years, nevertheless should be consulted more.
- Unlike in Solomon Islands, the Govt of Samoa is clearly in the driving seat in respect to policy agendas, donor coordination, and directing what sectors donors should focus on. But the establishment of the office had greatly helped coordination with ADB and the WB.
- There is no economic working group (as in Solomons). The Min Fin leads such activities, with regular discussion with the Australian and NZ HC's which have senior resident staff capable of engagement on such issues. Visiting staff from ADB and WB get involved when in-country, but the ToRs of the liaison office, and staffing levels, preclude their regular engagement – but they do participate in regular quarterly donor coordination meetings. PFTAC is a key partner in financial (revenue, tax etc) dialogue.
- The Ministry of Finance prepares the Samoa Development Strategy (SDS) in-house, determining priorities. Donors are consulted during the process, but it is MinFin driven.
- The involvement of the Govt and all donors in the WB's development of its Country Partnership Strategy was well appreciated. Similarly the move from a Regional Strategy to a National Strategy. The CPS aligns with the SDS.
- The WB's (and ADB's) economic work was valued, as was high level dialogue on priority policies, and this was seen as a core area of competence that should be tapped. But the WB is not the only source of such expertise (e.g. PFTAC).
- Differing views, however, were expressed on the WB's involvement in sectors, and where they had a comparative advantage. Some valued in particular the PFM type work done at sector level. But there was general agreement that if the WB is to be involved in a sector it must address the big issues facing the sector and not operate/lend as a limited operation – the WB involvement in agriculture was criticised as an example of not addressing core/major problems, nor drawing sufficiently on past experience in the sector, whilst still developing a program, unlike the case in health.
- PRIF was particularly valued by the Land Transport Authority.
- MinFin expressed strong concern on earmarking PF3 funds. They suggested that the "key test" was whether the WB followed Govt priorities – if it did, then AusAID should be happy and accept this without interfering with PF3 management. Earmarking is seen as micro-management.
- The Review should stand back and review strategic concerns and what the PF3 should be trying to achieve. It should provide guiding principles for engagement at strategic levels, and also engagement at sector levels. This latter concern might thus address the earmarking concern.

Annex 7: Semi-Annual Report Format for PF3

NOTE: THIS IS AN ILLUSTRATED FORMAT. THE DATA IS NOT NECESSARILY “REAL” AND SHOULD NOT BE REPRODUCED AS A WB REPORT.

1. The Pacific Facility III (PF3)

The PF3 is a trust fund (TF) supported by Australia and New Zealand to support the work of the World Bank (WB) in the Pacific. This short report (supported by the attachments listed below) summarizes progress under the TF for the period October 2011 to March 2012. The TF provides support to the WB's overall operations in the Pacific (including Papua New Guinea but excluding Timor-Leste).

2. Support to Core WB Operations

PF3 provides about one third of the operating costs for the WB in the Pacific. As a result the WB is able to maintain offices not only in Sydney and Port Moresby but also shared offices with the Asian Development Bank (ADB) in Kiribati, Samoa, Tonga and Vanuatu.

During the past six months (see also Annexes 4 and 5) key activities were:

Resource Mobilisation: New IDA operations (all grants) were approved for Tonga (Tonga Economic Recovery DPO: \$9m), Kiribati, Tonga and Tuvalu (Pacific Aviation: \$62m).... New Trust Fund operations were approved for Kiribati (Kiribati Adaptation: \$10.8m + bilateral parallel finance), Papua New Guinea (PNG) (Rural Services Delivery: \$5.5m)...

Analytical and Advisory Activities: Major activities under way include the Social Protection Technical Assistance (TA) in PNG, the Education and Skills Programmatic TA in the Solomon Islands... Annex 1 provides details of ongoing and proposed AAA activities for discussion at the next PF3 progress review.

Country Strategy Work: The first Country Assistance Strategy (CAS) for Tuvalu was approved in December 2011. New CAS's are under preparation for PNG, Samoa and the Solomon Islands

Preparation, Supervision, Evaluation: A large part of the WB's work comprises preparations for new operations, supervision of ongoing activities and evaluation of completed work. During the past six months some key aspects have included preparation for the possible Tina River HEP project in the Solomon Islands....., intensive supervision of the Tonga Transport Sector Consolidation Project... and finalisation of completion reports on

3. Support to Thematic Activities

PF3 provides specific thematic support for gender and education activities. In the past six months there has been a study of women's' involvement in mining in PNG and work on SABER has progressed in More detail on progress in the education sector is provided in the reports by... (NB there will be a separate reporting progress for the future proposed health component – the most recent meeting should be noted)

4. TF Financial Progress

The TF balance at the end of March 2012 was US\$ 7.8m. (see Annex 3). Disbursements during the first three quarters (Q1 to Q3) of the financial year (FY) were US\$ 3.97m, of which approximately US\$ 0.5m was for the thematic activities in gender and education. It is expected that

about US\$1.5m will be spent on core budget support activities in the final quarter of the FY. This means that the balance of funds remaining for activities not covered by the thematic allocations at the end of the FY will be about US\$1.8m (\$7.8m end March balance minus \$4.5m for thematic activities and \$1.5m Q4 core budget disbursements). Additional funds for core budget support will therefore be urgently needed if the WB is to maintain its current profile in the Pacific for FY13 and beyond.

Annex 6 provides detailed information on the use of WB budget resources in the Pacific. It should be noted that although this Annex shows exactly where PF3 funds have been spent most of the funds are not specifically earmarked and it should not be assumed that these specific activities are being undertaken because of PF3 funding. However the overall program would be much smaller in the absence of PF3.

List of Attachments

- Annex 1: Ongoing and proposed Analytic and Advisory Activities
- Annex 2: Recent communications products highlighting WB work in the Pacific
- Annex 3: Trust Fund Financial Report, end March 2012
- Annex 4: PF3: Annual Progress Report to AusAID and New Zealand Ministry of Foreign Affairs and Trade
- Annex 5: EACNF Operational Midyear Performance Review
- Annex 6: Budget Summaries and Work Program Agreements
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