



# Technical Assistance Consultants' Report

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## Pacific Private Sector Development Initiative, Phase III (Cofinanced by the Government of Australia and the Government of New Zealand)

### Midterm review of the Pacific Private Sector Development Initiative

Prepared for the Asian Development Bank

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**Asian Development Bank**



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### Notes:

- (i) In this report, "\$" refers to US dollars, unless otherwise stated.
- (ii) "FY" refers to a fiscal year. FY before a calendar year denotes the year in which the fiscal year ends.

## ABBREVIATIONS

ADB	– Asian Development Bank
CSO	– community service obligation
DFAT	– Department of Foreign Affairs and Trade (Government of Australia)
DMC	– developing member country
EAG	– Economic Advisory Group (Government of the Republic of Palau)
FSM	– Federated States of Micronesia
MFAT	– Ministry of Foreign Affairs and Trade (Government of New Zealand)
M&E	– monitoring & evaluation
OECD-DAC	– Development Assistance Committee of the Organisation for Economic Co-operation and Development
PLCO	– Pacific Liaison and Coordination Office
PNG	– Papua New Guinea
PPP	– public-private partnership
PSD	– private sector development
PSDI	– Private Sector Development Initiative
SMEs	– small and medium-sized enterprises
SOE	– state-owned enterprise
TA	– technical assistance

## ACKNOWLEDGEMENTS

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## EXECUTIVE SUMMARY

The Pacific Private Sector Development Initiative (PSDI) has provided advisory services to promote private sector development in the 14 Pacific developing member countries (DMCs) of the Asian Development Bank (ADB). Pacific DMCs face some intractable barriers to their development: their economies are separated by vast distances and their geographic isolation and small population sizes present major obstacles for economic development. These physical challenges are compounded by historically low investments in education and health. Meanwhile, climate change presents a key challenge.

In spite of these barriers and challenges, and in the context of demand-driven development policies, the PSDI teams have created effective programs in fostering reforms to business laws and business registries, restructuring and reforming state-owned enterprises (SOEs) to enhance market competitiveness, and expanding access to finance for small and medium-sized enterprises in small and often intransigent Pacific island economies. The economic empowerment of women, and effective competition policy and consumer protection, are important new development objectives under phase III of PSDI and, while the component for the economic empowerment of women is running well behind its targets, it provides the best hope for continued economic development in Pacific DMCs and the continued relevance of PSDI.

Within this midterm review of PSDI, an assessment of progress to date concludes that PSDI is fulfilling its objectives with a high degree of efficiency and effectiveness. While the development impact has been high, there is a need to ensure that the initial adopted reforms are implemented on a sustainable basis for the remainder of phase III of PSDI, and for a planned phase IV.

This report highlights a number of areas in which PSDI can evolve its programs, and makes a range of carefully considered recommendations to improve operations and organizational efficiency. The report's recommendations are intended to strengthen and sustain an already outstanding operation.

Allocation of PSDI technical assistance resources, which have to date been based on country demand, should also be guided by country consultations on productive commercial sectors or industries for development in each Pacific DMC. The shift to a sector focus for resource allocation is already underway with the review of tourism in selected Pacific DMCs.

PSDI must also work to strengthen productive and ongoing dialogue between the private sector of each Pacific DMC and its respective government, including through working groups supported by PSDI to help foster such dialogue.

Expanding access to finance is pivotal to PSDI's efforts in Pacific island economies, and the high impact of secured transactions reform is especially clear in this core area. It makes sense for PSDI to continue pursuing these reforms across the Pacific. This means encouraging innovation in terms of the kinds of collateral that can be used to secure loans, piloting financing models in value chains, and encouraging the use of instruments such as warehouse finance and factoring.

In the field of business law reform, as PSDI progresses through PSDI III and potentially into PSDI IV, it should pursue deeper and longer-term institutional reforms that touch on the

underlying processes of policy development, the framing of laws and regulations, institutional transparency, and the rule of law. To foster efficient dispute resolution, PSDI could assist Pacific DMCs by helping to build on the local informal mediation experience in these countries, setting up arbitration forums through chambers of commerce and other institutions, and establishing commercial chambers within court systems.

PSDI's work to reform SOEs and deliver viable public-private partnerships could be coordinated with ongoing initiatives to improve public sector transparency, public financial management, and anti-corruption measures. Such coordination might involve joint training and programming with public sector auditors, parliamentarians, civic watchdogs, consumer advocates, and other nongovernment organizations.

Available literature, whether produced by PSDI or others, amply demonstrates the relevance of the economic empowerment of women to the development of private sectors in Pacific DMCs. The issue is whether PSDI should place its main emphasis on standalone gender initiatives, such as PSDI's pilot projects, or on gender mainstreaming. DFAT and ADB have moved PSDI in the latter direction, which is likely to lead to a decline in near-term impact but should produce more sustainable outcomes.

PSDI should continue its initiatives in the areas of competition policy and consumer protection. As the Pacific DMCs move toward greater financial access, and especially as digital financial services come online, addressing heightened risks and building trust among consumers will become even more critical. In advising on competition and consumer regulatory commissions, PSDI should continue to recommend the kinds of pragmatic solutions that may require compromise but are likely to be more workable and affordable to implement. Indeed, the PSDI approach might usefully be documented in a series of training materials, based on case studies, to be used in later reform initiatives.

To achieve these new objectives, while remaining focused on existing ones, PLCO, in collaboration with the governments of Australia and New Zealand, will likely need to consider a new management structure. While clarifying lines of accountability, this new structure must enable PSDI to continue doing what it does best, i.e., building relationships, providing expertise, and responding quickly and flexibly to counterpart requests for assistance. Within the various organizational models that could be emulated for PSDI, a revised framework could incorporate a new role of team leader (or project coordinator) to whom sector consultants report.

With the implementation of a preferred organizational structure, and the detailed recommendations provided in this report, it is envisaged that PSDI will continue to develop and effectively serve the development needs of the 14 Pacific DMCs well into the future.





## I. INTRODUCTION

1. Promoting economic growth and development in the 14 Pacific developing member countries (DMCs) of the Asian Development Bank (ADB) is the objective of the Pacific Private Sector Development Initiative (PSDI). This is a difficult objective, given the small and isolated nature of these Pacific island economies. Entrenched economic problems are compounded by a historical lack of human resource development, as reflected in the deficiencies in education and health investments. Over past decades, these deficiencies have become even more pronounced in light of other challenges faced by these isolated economies. Nevertheless, the PSDI program is mandated to largely remove itself from addressing these social constraints and focus only on private sector growth and development where major gains are achievable.

2. PSDI aims to produce the following overall outcome: an equitable business environment that encourages new business formation, and increased domestic and foreign investments, in Pacific DMCs. PSDI pursues this goal through a range of activities, including: (i) TA and capacity-building; (ii) assistance in drafting and review of policy and legislation; (iii) advice and support in public-private partnerships (PPPs) and other transactions; and (iv) research, analysis, and outreach through publications and events such as conferences.

3. The purpose of this review is to assess PSDI III at its midpoint (May 2016), and provide suggestions as appropriate for the remaining portion of PSDI III (October 2017–May 2019) as well as for the envisaged period of PSDI IV.

4. PSDI I was initiated in November 2006 with a program of \$9.8 million that concluded in July 2013. The overlapping PSDI II was initiated in December 2009 and ended in March 2015 with a total assistance of \$12 million. The current phase, PSDI III, was initiated in June 2013 and financed with expanded resources of \$30.5 million, with additional financing of \$8.08 million, primarily for PSDI's program in Papua New Guinea (PNG), approved in June 2015. As of July 2017, commitments under PSDI III amounted to \$32.0 million, disbursements amounted to \$21.0 million—with about \$4.0 million disbursed to PNG—and undisbursed funds amounted to \$17.4 million. As such, PSDI III is a very substantial program of assistance sponsored by DFAT, MFAT, and ADB to the benefit of the 14 Pacific DMCs.

5. Under PSDI III, there are five lead consultants for each of the technical areas, namely (i) financing growth, (ii) business law reform, (iii) state-owned enterprise (SOE) reform and PPPs, (iv) the economic empowerment of women, and (v) competition policy and consumer protection. There are also five county coordinators, three full-time support consultants, and a part-time monitoring & evaluation (M&E) specialist. In total, PSDI administers about 80 consulting contracts under PSDI III.

## II. TERMS OF REFERENCE

### A. Background

6. Since 2006, PSDI has been working with ADB's 14 Pacific DMCs to improve their enabling environments for business and to support economic growth led by private sector development. PSDI is currently being supported under TA 8378-REG: Pacific Private Sector Development Initiative, Phase III.

7. Phase III of PSDI extends from June 2013 to May 2019. At the annual TA review meeting held in August 2016, ADB and the governments of Australia and New Zealand agreed that it was timely to undertake a review of PSDI's performance at the midpoint of Phase III.

### B. Purpose of the Midterm Review

8. The objective of the midterm review is to carry out a diagnostic of PSDI, assessing the performance, effectiveness, and relevance of the program, and providing suggestions as appropriate for future PSDI activities. The recommendations will primarily address issues of PSDI program quality, but will also outline possible future directions for PSDI and ADB in the Pacific region. ADB seeks input on how it can effectively support private sector development in the region, while enhancing synergy and linkages across different projects and sectors.

9. The review will focus its work on the following areas and outputs:

- (i) **Financing growth.** How PSDI works with selected Pacific DMCs to help improve access to financial services for businesses and households, with the aim of promoting economic growth.
- (ii) **Business law reform.** How PSDI engages with the governments of selected Pacific DMCs to help implement business laws that promote entrepreneurship, business formation, and investment.
- (iii) **State-owned enterprise reform and public-private partnerships.** How PSDI helps deliver infrastructure services that are more efficient and cost-effective by working to ensure that the institutional support for these services, including legal and regulatory frameworks, are in place.
- (iv) **Economic empowerment of women.** How PSDI collaborates with selected Pacific DMCs to pilot initiatives promoting the economic empowerment of women. Note: In many of these Pacific island economies, the cultural distance to be traversed towards reasonable equality needs to be understood and these programs will, by necessity, extend into decades-long efforts.
- (v) **Competition policy and consumer protection.** How PSDI encourages the governments of selected Pacific DMCs to establish national frameworks that promote competition and consumer protection.

10. Specifically, the review will:

- (i) outline the strengths and weaknesses of PSDI, along with key achievements and shortfalls to date;
- (ii) evaluate PSDI and provide recommendations for improving its performance in terms of the Organisation for Economic Co-operation and Development-Development

- Assistance Committee (OECD-DAC) criteria (relevance, effectiveness, efficiency, impact, and sustainability)<sup>1</sup> as well as gender equity considerations;
- (iii) identify ways to improve the linkages between PSDI and other ADB operations, as well as key development partners, including DFAT and MFAT, for better development impacts and effectiveness;
  - (iv) recommend possible future directions for PSDI, including expanding or deepening the scope of the program, during the remaining term of Phase III, and in any future phase; and
  - (v) in light of the PSDI experience, recommend possible strategic directions and operational improvements that might warrant ADB's support in the areas of private sector development, private sector operations, and financial sector development.

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<sup>1</sup> The five OECD-DAC evaluation criteria are based on the concept that evaluation is an assessment “to determine the relevance and fulfillment of objectives, developmental efficiency, effectiveness, impact and sustainability” of efforts supported by aid agencies (OECD, 1992, p. 132).

### III. ALLOCATION OF TECHNICAL ASSISTANCE RESOURCES

11. Allocation of TA resources, which have been based on country demand, should also be guided by country consultations on the productive areas for development in each Pacific DMC. Such consultations are more easily and effectively conducted at the sector level than at the country level. Country-level allocations do not appear to have responded to economic variables. Rather, in terms of successful outcomes—such as in the development of legal frameworks for private sector operations or in the development of secured transactions frameworks in finance—the major gains have been achieved where broad-based development potentials have been the greatest. Based upon consultant advocacy, major progress has been achieved in implementation. Hopefully, such progress can continue to be achieved at the sectoral level, where PSDI consultants and the governments of DMCs find the development potential to be the most relevant.

12. The shift to a sector focus for resource allocation is already underway with the review of tourism in selected DMCs. The tourism sectors of Pacific islands economies have a high degree of development potential. This has already been identified in DMCs such as Palau, which has the second-highest per capita income in the Pacific, but is still well below its potential. The tourism sector review will highlight the need for new investments in infrastructure that can be developed through the development programs of bilateral and international donor agencies.<sup>2</sup> Using PSDI consultancy to promote the necessary legal and regulatory reforms will serve to augment and ensure the success of such investments. In addition to continued emphasis on the ongoing programs of PSDI, which have been so evidently successful, emphasizing a sector focus for the remainder of PSDI Phase III period will help ensure the continued relevance of PSDI activities.

13. The development of productive and ongoing dialogue between the private sector of each Pacific DMC and its respective government needs to be strengthened. The model developed by Palau has a lot to recommend and could be taken as a starting point for other Pacific DMCs that have yet to develop a dialogue mechanism. Palau established an Economic Advisory Group (EAG)<sup>3</sup> with the mandate of implementing the government's medium-term development strategy. Each year, the EAG prioritizes actions for the forthcoming year through a dialogue between the government and the country's private sector. This dialogue provides a basis for coordinated approaches to economic policy formulation and implementation. The EAG was largely responsible for the success of Palau's tourism policy. This process of dialogue and coordinated economic policy development has since been successfully adopted in Tonga, with regular monthly meetings between chambers of commerce and the government to exchange information and plans. Additionally, many working groups to foster dialogue between public and private sectors have been supported by PSDI, including in Solomon Islands.

14. The data generated by PSDI for country allocations and sectoral focus are best estimates, but do not appear to be well grounded by a statistical system that can provide reliable data. As PSDI allocations are becoming sizeable, most notably in PNG, it is important that the country-level allocation of PSDI resources be properly accounted for in a system where there is routine crosschecking of the results from the data generated. The statistical system could be developed in conjunction with the ADB Controllers' Department, so the resulting data can be utilized in ADB's allocation of resources to its DMCs. These systems would also serve to provide increased confidence for DFAT and MFAT in the reliability of the PSDI statistics being provided.

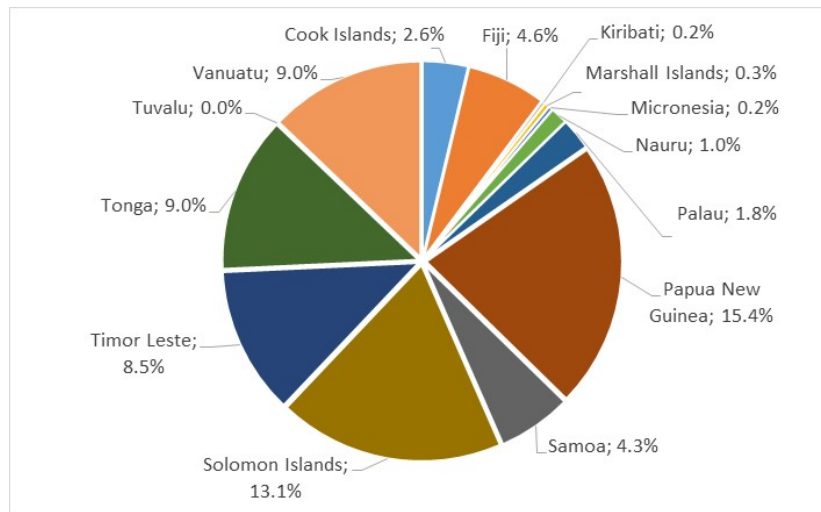
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<sup>2</sup> Such as the need to upgrade the arrival area of the Fua'amotu international airport in Tonga.

<sup>3</sup> The EAG is jointly chaired by the Minister of Finance and the Executive Director of the Palau Chamber of Commerce. Its members consist of the Chair of the Ways and Means Committee in each house of the Olbiil Era Kelulau; directors of finance, infrastructure, and tourism; members of the Palau Chamber of Commerce; and other directors of government departments who attend as needed.

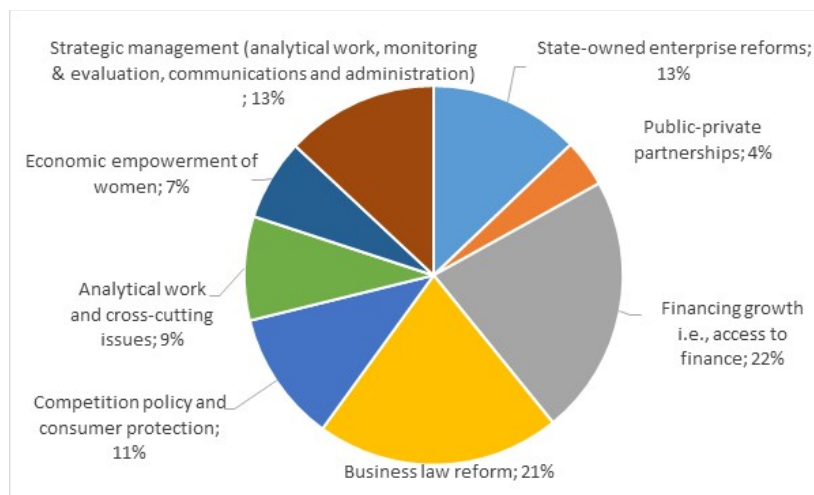
15. Reflecting the reform agendas required by different Pacific island economies, the distribution of PSDI assistance to each DMC is shown in Figure 1. During the first half of PSDI III, the focus of assistance has shifted in favor of PNG, Solomon Islands, Tonga, and Vanuatu, where PSDI consultants have assisted in major reform efforts. During the latter part of the first half of PSDI III, the Fiji program has showed some encouraging revival. The sectoral focus of PSDI assistance is shown in Figure 2. The leading focus area during the first half of PSDI III has been financing growth, which was also dominant during PSDI I and II. Business law reform is the next largest focus area, followed by SOE reforms. The two new focus areas introduced during PSDI III, the economic empowerment of women and competition and consumer protection, showed rapid growth in demand for assistance.

**Figure 1: Private Sector Development Initiative III, Outlays by Economy**



Source: Private Sector Development Initiative estimated data

**Figure 2: Private Sector Development Initiative III, Outlays by Focus Area**



Source: Private Sector Development Initiative estimated data

16. Major developments in each of PSDI's five focus areas help to explain the shift in distribution of assistance.

## A. Financing Growth

17. Within the current focus on financial intermediation in the Pacific, financial markets are generally grossly underdeveloped and private sector access to finance is very limited. These limitations are most severely felt by women and the private sector in rural areas.

18. PSDI's focus has appropriately been on products, such as secured transactions, suited to the economic realities of the Pacific. With the assistance of PSDI, secured transactions and registry reforms have been successfully implemented in the Marshall Islands, the Federated States of Micronesia (FSM), Palau, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. With the total number of security contracts registered, some 37,000 loans have resulted from the implementation of the secured transactions framework. Secured transactions are now being extended to meet the financing needs of the rural sector and are, in particular, focused on the needs of agriculture. For example, the PSDI team is extending its pilot on vanilla financing in Tonga and is planning to extend those secured transactions approaches to another crop during PSDI III. In a welcomed step, the Government of Fiji has indicated that it will be introducing a secured transaction bill to the Parliament in 2018, so PSDI can start working with lenders to identify and develop new financing options focused on agriculture applications. The secured transactions framework is a very valuable program and should be extended as rapidly as possible during the remainder of PSDI III period, with an aim to have all the larger Pacific island economies adopting these reforms prior to the end of PSDI III.

19. The development of government-owned banks is also a useful focus in achieving increased private sector access to finance because a number of Pacific DMCs have public development banks. These development banks could become more commercially oriented in their lending programs, focusing in particular on meeting the financing needs of their private sector clients and women entrepreneurs. PSDI programs to refocus the National Development Bank of Palau and the FSM Development Bank are almost complete and plans are now underway to extend these efforts to two other development banks during the remainder of PSDI III. The two institutions are to be selected from among the Development Bank of Tuvalu, the Development Bank of Samoa, and the National Development Bank (of PNG).

20. Also in the very early stages of development are the financial activities of the provident funds located in many Pacific island countries. These provident funds help to contribute to the surplus of savings in these economies, often just transferring their resulting cash surpluses to the commercial banks through deposits. These long-term savings institutions need to develop active programs to initiate equity and debt markets to serve private sector small and medium-sized enterprises (SMEs). In such cash-surplus scenarios, no financially viable private sector enterprise should be exposed to the restrictions on credit availability that are currently evident. It is simply an issue of developing the appropriate instruments to give confidence to financial decision-makers. Such development programs need to be accelerated over the remainder of PSDI III. For PSDI IV, the possibility of becoming involved in establishing and upgrading credit bureaus to provide reliable information on credit ratings would help to further loosen credit market restrictions in the Pacific.<sup>4</sup>

21. Commercial banking in the Pacific is largely undertaken by foreign-owned banks that are risk averse and do not fully understand local markets. In turn, the central banks of Pacific DMCs cannot effectively encourage the necessary changes. PSDI should find effective means of providing new financial instruments to meet the needs of the private sector in Pacific island economies. In particular, these new financial instruments need to serve women entrepreneurs, who would be greatly assisted by the credit-rating systems proposed for PSDI IV.

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<sup>4</sup> Ibid Nagarajan, page 19.

## **B. Business Law Reform**

22. PSDI's program for business law reform is being very effectively moved forward. With support from PSDI, new company laws and regulations have been successfully implemented in Samoa, Solomon Islands, Tonga, and Vanuatu. The goal is to complete basic business law reform in all of the larger Pacific island economies by the end of PSDI III. A companion reform is to ensure the incorporation of gender-based information into the company registry of each country, capturing information on employees and, in particular, women managers and directors. The registering of employees moving from the informal economy into the formal economy, and codifying the numbers involved, will be very important in educating women employees, managers, and directors about the economic empowerment of women. Social and economic reviews of the corporate sector's performance in enhancing women's economic participation are often difficult to complete, but comparative statistics on what positions women hold are relatively easier to attain and can be even more effective. Relative data on women's empowerment, documented through the transparency of the PSDI-sponsored registry systems, could be very helpful in this regard.

23. PSDI conducted a review of Palau's corporate law and company registry at the beginning of PSDI III, and found that the country's private sector was severely constrained by an outdated corporate law and an almost dysfunctional paper-based corporate registry. In 2016, the Government of Palau asked PSDI to lead a reform program of the corporate registry, including the development of an online registry once appropriate corporate legislation is drafted and enacted. The legislation will be finalized in 2017 and PSDI will assist with its passage through Palau's House of Representatives.

24. In Vanuatu, PSDI supported an overhaul of business laws in 2012 and 2013. With the new legal framework in place, PSDI has supported its implementation, including the launch in August 2015 of an online registry for companies, business names, and charitable associations. This registry has sharply reduced the time it takes for private sector enterprises to undertake registrations and other regulatory requirements.

25. In Samoa, PSDI has been supporting business law reform and, in 2017, it helped implement a business law simplification package that includes a legal diagnostic and policy review of foreign direct investment, company law, and other entities supervised by Samoa's Ministry of Commerce. This package will include a feasibility study for an electronic business names registry, which is expected to provide the basis for the government's e-payment facilities. Corporate law reform is also underway in the smaller economy of the FSM.

26. PSDI has rapidly upscaled its program in Fiji, following the resumption of development activities after democracy was restored in November 2014. PSDI has supported the Secured Securities Taskforce in Fiji to develop a policy paper to guide the legislative reforms necessary for secured transactions. It has simultaneously been working with the Fiji Development Bank to support the implementation of secured transaction reform applications once the necessary legislative reforms are passed. PSDI has also undertaken a comprehensive review of all the business law reforms needed in Fiji. This work has been conducted in conjunction with New Zealand's Company Office, which is also prepared to assist in the implementation of Fiji's companies registry.

27. PSDI's most active program in business law reform has been in Solomon Islands, with very effective results. Corporate registration times have been reduced from 3 months to 36 hours. In August 2014, a reform was taken in the registration of business names, resulting in small businesses being able to register their names both faster and more cheaply. PSDI has continued

to support the implementation of Solomon Islands' Business Names Act 2014 and, in November 2016, business names were included in the country's online business registry.

### **C. State-Owned Enterprise Reform and Public Private Partnerships**

28. PSDI's SOE benchmarking study revealed that SOEs are generally the largest commercial enterprises in Pacific island economies and, due to lack of competition, are often the least efficient.<sup>5</sup> PSDI has supported the restructuring and privatization of 67 SOEs in the Pacific region, improving their financial and operational performance and reducing their burden on state budgets. Most SOEs are monopoly providers of essential public services such as airports, ports, power utilities, and provision of water and sanitation. These amenities are often delivered at high cost with low service standards. Given their leading role in private sector cost structures, inefficient SOEs also negatively impact the performance of the private sectors in Pacific DMCs. The average return on equity of the SOE portfolio in eight Pacific island countries improved from -5.67% in 2008 to 0.60% over 2010–2014. Solomon Islands' SOE turnaround was the most impressive, with average return on equity of the portfolio increasing from -11% in 2002–2009, to 10% in 2010–2014.

29. The result in Solomon Islands reflects an active SOE policy reform program supported by PSDI. In the absence of privatization, relevant policy reforms were achieved in the larger SOEs, starting in 2009. PSDI helped develop SOE monitoring protocols and supported the monitoring units in developing community service obligations (CSOs) for each SOE. PSDI contributed to the restructuring of larger SOEs, while assisting the government with the privatization of numerous smaller SOEs. PSDI continues to provide assistance to the government on the implementation of the State Owned Enterprises Act 2007, and assists in SOE restructuring programs. While SOE reforms have not received continuing political support, neither have the reforms achieved been reversed, although in Solomon Islands the implementation of the CSO framework has stalled since 2016. Tonga presently constitutes the best model for SOE reform in the Pacific DMCs.

30. The Pacific DMCs recognize the inefficiencies created by their SOEs and, with the assistance of PSDI, have been pursuing economic reforms to reduce their negative impacts. Tonga has led the way in creating the necessary first step toward transparency of SOE performance. The country has also adopted a broad-based SOE reform package in an attempt to improve SOE governance, staffing protocols, and the implementation of CSOs. Similar reforms were implemented in the Republic of the Marshall Islands and an SOE policy adopted in Palau. Fiji introduced even more far-reaching reforms, including the proposed partial privatization of the Fiji Electricity Authority and Airports Fiji Limited. These partial privatizations are expected to be completed by 2018 and 2019, respectively, although countervailing political pressures will no doubt play a role in delaying this schedule.

31. Such political pressures were also encountered in reforms proposed for SOEs in Samoa, where PSDI advised that the country's privatization program should encompass three SOEs: the Agriculture Stores Corporation, Polynesian Airlines, and Samoa Shipping Services. PSDI recommended a sales strategy for the Agriculture Stores Corporation, but the Privatization Committee opted for a more complex sales process that took 24 months to complete and resulted in continuing risk exposure for the government. The privatization of Polynesian Airlines has not proceeded. In June 2014, PSDI prepared an ownership, performance, and divestment policy update, which was endorsed by Samoa's cabinet in January 2015. The update identified three additional privatization targets, but, as of August 2017, the government had yet to agree to proceed with these divestments.

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<sup>5</sup> ADB. 2016. *Finding Balance 2016: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.



32. As has been shown both in developing and developed countries throughout Asia, PPPs require an extensive array of legal and regulatory reforms to achieve successful and sustainable outcomes. The experience in Samoa demonstrates that simple contracting arrangements between the governments of Pacific DMCs and the private sector have the potential to provide benefits over services provided solely by the public sector. However, as is the case in Samoa, the governance of such contracts needs to be monitored carefully over the full term of each contract to ensure successful and sustainable outcomes.<sup>6</sup>

#### **D. Economic Empowerment of Women**

33. During PSDI III, there has been a new focus on the economic empowerment of women in the Pacific DMCs. To enhance the productivity of the private sector, women's commercial activities must be transitioned from the informal economy (where they have predominately remained) into the formal economy (where their commercial potential can be more fully realized). The size and volume of informal economies within Pacific DMCs have not often been accurately measured. However, the informal economy of PNG has been estimated at 80% of gross domestic product (GDP), while the informal economy of Vanuatu is thought to contribute 75% of the country's GDP.

34. Facilitating the transfer of women's commercial activities from informal to formal economies offers great potential to expand economic output and improve living standards in developing countries.<sup>7</sup> However, such an ambitious scale of transition involves a significant number of impediments that must be reduced or eliminated. These impediments include, most importantly, a lack of access to competitive finance for women operating in the formal economy and, more generally, a lack of protections in the social or legal spheres for women compared to men.<sup>8</sup>

35. Participation by women in positions of authority—as politicians, senior government officials, company directors, chief executive officers, and senior managers—is perhaps the single most important indicator of women's status in the Pacific. The region's highest level of participation by women is in Samoa (47%), followed by the Cook Islands (40%) and the Marshall Islands (25%), with the lowest level in Solomon Islands (19%). Such indicators give credence to the view that there is broad scope for improving the economic empowerment of women in the Pacific.

36. A study done by PSDI and the Government of Australia highlighted the need for data on women's engagement across the Pacific.<sup>9</sup> This information will help ensure that the need for continued progress in empowering women is being recognized in the Pacific DMCs. In an innovative step, aspects of women's empowerment are to be integrated into all facets of PSDI's programs, recognizing that there are very large gains to be had in terms of economic development. These measures are fully endorsed for expansion during the remainder of PSDI III. However, beyond this integration, the PSDI program for the economic empowerment of women

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<sup>6</sup> An interesting history has been provided by Samoa in its transition from public works to private contracting. Its Public Works Department in the early 2000s was unable to meet its reconstruction obligations following disaster-related damages in the 1990s. This led the Government to outsource the reconstruction work to the private sector, which proved successful in restoring the damaged infrastructure. Following expanded contracting with the private sector, including road infrastructure and maintenance, the Public Works Department's name was changed to the Land Transport Authority and currently this agency only manages contracts with the private sector. This reform serves to increase the capacity of the private sector's construction and maintenance capabilities. (Singh, Shin Raj. 2017. *Pacific Economic Monitor. State-owned enterprise reform in Samoa's forming partnerships, improving connectivity and increasing market efficiency.* July, pp. 13–14.)

<sup>7</sup> See Jinyoung Kim, Jong-Wha Lee, and Kwanho Shin, *A Model of Gender Inequality and Economic Growth*. ADB Economic Working Paper Series No. 475. February 2016.

<sup>8</sup> See Nagarajan, Vijaya, *Women and Business in the Pacific*. ADB (forthcoming).

<sup>9</sup> *Ibid.*

appears to have no broadly based goals for the remainder of PSDI III. In fact, in economies such as Tonga, the incorporation of data on women into business registry systems has yet to begin and, even when these data sets are fully collected and collated, it will take another 3-5 years for the information to have a measurable effect, even with the necessary support programs in place. It appears that there is a need to encourage selected women to become role models in leading the broader reforms to empower women in emerging Pacific island economies for the remainder of PSDI III as well as in the forthcoming PSDI IV program.

## **E. Competition Policy and Consumer Protection**

37. Having open competition and consumer protection are very desirable objectives that are extraordinarily difficult to achieve in small and isolated economies. The obvious tools are open economic structures along with strong competition in shipping and related transport industries to keep down transport costs, which tend to be very high in Pacific DMCs.

38. Competition law is intended to prohibit firms from engaging in behavior that reduces or limits competition, such as through price-fixing or exercising of monopoly power. These restraints of trade are extraordinarily difficult to document in legal cases that can be adjudicated within the fragile legal systems of Pacific island economies. As such, strict enforcement of competition law cannot be reasonably expected or envisaged. Nonetheless, there are benefits in setting out such principles in the legal systems of Pacific DMCS, so that they can be held up as the standards for desirable market behavior. In practice, only Fiji, PNG, and Samoa have general competition laws, although several DMCs in the South Pacific have fundamental competition safeguards.

39. PSDI assisted the Government of Samoa in the adoption of a national competition policy, and supported the drafting of a competition and consumer protection bill, which was passed in February 2016 and commenced in July 2017. Samoa became the first Pacific island country in which PSDI completed policy, legal, and regulatory reform in the area of competition and consumer protection. PSDI undertook a review of Timor-Leste's competition and consumer policies in 2016 and this work may be progressed during the remainder of PSDI III. In Fiji, the government has requested ongoing assistance with the strengthening of the Fiji Commerce Commission (FCC). PSDI provided competition policy assistance to Vanuatu in 2016, with limited impact.

## IV. ASSESSMENT OF PROGRESS TO DATE

40. This part of the midterm review assesses the strengths and weaknesses of PSDI in terms of its contributions in its core thematic areas.

41. ADB briefly describes, in two TA papers from 2013 and 2015, respectively,<sup>10</sup> how the activities of PSDI III should lead to achievement of the overall objective, and provides metrics to assess progress in the Design and Monitoring Framework. That description posits a plausible relationship of activities to indicators, thence to outcomes, but does not offer a fully fledged “Logframe” or “Theory of Change.” The discussion in this section will take the PSDI M&E metrics into account, but will not rely heavily on them.

42. Here, the focus is on the substantive performance of PSDI III according to OECD-DAC criteria, in particular, effectiveness, relevance, and sustainability.<sup>11</sup>

### A. Effectiveness

43. Has PSDI III achieved its expected outcomes? Has it maximized the impact of its efforts? A project’s productivity arises from such factors as sound analysis, expertise, consultation and coordination, careful targeting of resources, evaluation, and learning. PSDI assesses the results of its work by means of both numerical targets and qualitative progress reports.

#### 1. Financing Growth

44. PSDI’s overall goal for this component is to help ensure that “[b]usinesses and households in selected Pacific developing member countries have improved access to financial services.” Activities focus on (i) secured transactions reforms and advising on policies, laws, and regulations that are barriers to financial sector development; (ii) strengthening financial service providers and central banks through capacity building; and (iii) piloting of new financial products and delivery channels. PSDI reports such project-supported achievements as those listed in Table 1.

45. The financing growth component has long emphasized the development of secured transactions frameworks that enable safe and efficient financing on the basis of collateral in moveable assets. This reform has proven critical to SME finance across much of the globe. In the Pacific DMCs, most borrowers cannot access real estate mortgages, and women in particular have little control over customary land. Under the reformed legal frameworks, PSDI’s work with lenders has concentrated on experiments in supply chain financing for agriculture (using crops as collateral) and road construction financing (using contractors’ accounts receivable as collateral). Under the value chain financing facility, for example, the Tonga Development Bank advances loans to proven vanilla growers so that they can increase their plantings. This credit is secured against an individual grower’s vanilla bean crop and contract with the buyer. This is an economic advance, since growers previously could obtain bank finance only by means of land mortgage in most cases.

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<sup>10</sup> ADB, “Pacific Private Sector Development Initiative, Phase III,” Technical Assistance Report, May 2013; ADB, “Pacific Private Sector Development Initiative, Phase III,” Major Change in Technical Assistance, May 2015.

<sup>11</sup> The additional factors of efficiency and impact are addressed in other parts of this report.

**Table 1: Financing Growth – Illustrative Activities and Results**

<b>FY2016</b>
<ul style="list-style-type: none"> <li>Secured transactions implementation was launched in Samoa and Papua New Guinea.</li> <li>Report on interconnectedness (risk concentration) in Papua New Guinea's financial system accepted by the Bank of Papua New Guinea.</li> <li>National risk assessment and national strategic plan for combating anti-money laundering and the financing of terrorism endorsed by Timor-Leste's Council of Ministers.</li> <li>Publication of <i>Digital Financial Services in the Pacific</i> and production of study on credit guarantees.</li> </ul>
<b>FY2015</b>
<ul style="list-style-type: none"> <li>Completed: Nauru banking legislation; Solomon Islands credit union policy; Solomon Islands National Provident Fund Bill drafting instructions.</li> <li>Initiated five pilot initiatives for new financial products or service delivery channels.</li> <li>Completed: Vanilla supply chain lending finance facility with the Tonga Development Bank.</li> </ul>

FY = fiscal year (FY before a calendar year denotes the year in which the fiscal year ends).

Source: Private Sector Development Initiative annual progress reports.

46. In terms of objective metrics, the TA paper from 2015 sets forth indicators on secured transactions reform, financial sector strengthening, financial product innovation pilots, and related work with pension funds and securities regulators. Table 2 summarizes PSDI reporting on three key indicators. This shows that, as of mid-2016, targets in the first two areas covered in the table were either achieved or likely to be met by the end of PSDI III, while the last was unlikely to be met.

**Table 2: Financing Growth – Outcomes by Key Indicators**

<b>Key Indicators</b>	<b>FY2015 Results</b>	<b>FY2016 Results</b>	<b>FY2017 Results</b>
Number of secured loans by financial institutions increases by 30% over 4 years and percentage of secured loans rises by 10 points in at least 4 countries	Average increase of 175% in 6 countries (FSM, RMI, Palau, Solomon Islands, Vanuatu, Tonga) from 135% in 5 countries in the previous year.	Average increase of 179% in 6 countries from 175% in the previous year.  Secured transactions launched in Samoa & PNG; information to lenders and borrowers on the reform extended to 3 more countries (Fiji, PNG, Tonga)	Average increase of 191% in 7 countries from 175% (and 6 countries) last year.  Gender disaggregated data collected in 7 countries.
Number of people with access to financial services (disaggregated by gender) through partner institutions rises by 30% in at least 4 countries	Number of MiCash users in PNG increased from 24,000 to 30,500 (Male: 30% increase; Female: 22% increase).  BNCTL: number of borrowers only increased by 1.67% in 2014 compared to a 20% increase in 2013; depositors increased by 16% in 2014 from a 13% increase in 2013.	Number of MiCash users in PNG increased by 31% to 40,032 (Male: 33% increase; Female: 28% increase).  Implemented Vanilla Supply Chain Lending Finance Facility Pilot with Tonga Development Bank: 15 new loans, using vanilla bean crop as equity.  BNCTL: number of depositors increased by 70% but number of borrowers decreased by 1.35% in 2015.	Number of Mi-Cash users in PNG increased to 48,173 (Male: 31,084; Female: 17,089).  Implemented Vanilla Supply Chain Lending Finance Facility Pilot with Tonga Development Bank where 29 new loans were obtained, all by men, using vanilla bean crop as equity.  BNCTL: data not available.

The ratio of total domestic credit to GDP in PNG increases to 40% or more	Domestic credit to the private sector in PNG is 34.6% of GDP in 2013 and 31% in 2014.	Based on current trend, target unlikely to be achieved by 31 May 2019 (31% in 2014).	Based on current trend, target unlikely to be achieved by 31 May 2019 (31% in 2014).
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BNCTL = Banco Nacional de Comércio de Timor-Leste, FSM = Federated States of Micronesia, FY = fiscal year (FY before a calendar year denotes the year in which the fiscal year ends), GDP = gross domestic product, RMI = Republic of the Marshall Islands, PNG = Papua New Guinea.

Source: Private Sector Development Initiative.

47. PSDI supports financial institutions that serve households and small-scale entrepreneurs. This includes MiBank (formerly Nationwide Microbank) in PNG, which offers such products as MiCash, an innovative bank account accessible via mobile phone (developed with the help of PSDI and launched in 2011). PSDI also works with Banco Nacional de Comércio de Timor-Leste (BNCTL) to strengthen the institution's systems and offerings as a commercial bank with roots in microfinance.

48. The PSDI data on secured transactions (Table 3) tell a positive story of impact, i.e., transactions that most likely would not have been formalized without the legislation having been enacted, or not provided on the scale or the terms (cost, collateral, LTV<sup>12</sup>) of current lending. This is probably the clearest case of economic outcomes being affected by PSDI activities. The data sets show steady, modest growth during PSDI III, with impressive cumulative percentage increases. However, overall numbers of transactions remain relatively low, reflecting the small size of the formal economies of Pacific DMCs, along with constraints to adoption.<sup>13</sup>

49. Moreover, the asset type predominantly used in these transactions is a vehicle. Loans secured by vehicles are a relatively low-risk, basic type of credit. They are important in themselves and as a starting-point for growth in this area of financial services, but not sufficient as the end result of reform. Loans were doubtless secured by vehicles prior to the reforms in the relevant countries, although the arrangements would have been less efficient and more costly. The real power of secured transactions comes from the ability to use a wide range of collateral; not only vehicles, but also machinery, inventory, crops, and, eventually, accounts receivable and forward contracts.<sup>14</sup>

50. Such experiments as the value chain finance pilot in Tonga are critical for expanding the reach of secured finance (including new forms of collateral) and should be pursued more broadly as soon as is practicable. More research may also be needed to get a clearer picture of the constraints to the uptake of secured finance and the alternatives that could be pursued.

<sup>12</sup> Loan-to-value or level of collateralization.

<sup>13</sup> Compare Colombia and Mexico, which adopted secured finance reforms in 2014 and within months had 57,000 and 400,000 registrations respectively; <http://www.caymanfinancialreview.com/2016/11/01/the-benefits-of-secured-transactions-reform/>. Note also, the Solomon Islands figure is down from 10,000 recorded in 2013; ADB/PSDI, *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies*, p.11.

<sup>14</sup> A good indicator for PSDI to measure is the diversification of collateral types – e.g. the percentage of secured loans (or amounts lent) against vehicles as compared to other categories of assets.

**Table 3: Secured Transactions – Numbers Registered**

Countries	Year in which secured transaction laws were enacted	Secured transactions registered in 2010	Secured transactions registered in 2014	Secured transactions registered in 2015	Secured transactions registered in 2016
RMI	2007	1,473	6,200	8,050	9,128
FSM	2006	1,538	3,750	4,000	4,311
Palau	2012	457		520	663
Tonga	2010	7,388	10,100	10,200	10,553
Solomon Islands	2008	3,457	5,100	5,500	7,510
Vanuatu	2008	1,873	4,200	4,800	4,998
<b>Total (Average)</b>		<b>16,186</b>	<b>29,350</b>	<b>33,070</b>	<b>37,163</b>

FSM = Federated States of Micronesia, RMI = Republic of the Marshall Islands.  
Source: Private Sector Development Initiative.

51. In PNG, while PSDI’s work in secured transactions is praised, the outcomes have led to some disappointment. Secured transactions reform has not led to the “take off” hoped for in lending, according to the country’s central bank. In response, PSDI consultants noted that the reform only went ‘live’ in May 2016 and often the first 6 months or so is a transition period and new product development often starts after this period. Nonperforming loans have however been reduced, but interest-rate spreads remain stubbornly high (9%–13%). Informal moneylending is pervasive, with lenders holding debtors’ ATM cards and PINs to ensure prompt repayment.

52. On the whole, counterparts have been impressed with the work of the PSDI team. This reflects their perception of PSDI’s effectiveness, the team’s responsiveness, and the relationships of trust that have been established. According to one partner financial institution, “We sleep better knowing [PSDI] is there.” In Timor, PSDI’s assistance to the government’s Financial Intelligence Unit on the National Risk Assessment was described as “helpful, professional, and comprehensive.” The input was used in creating the National Action Plan on Anti-Money Laundering and Counter-Terrorism Financing for 2016–2020. In PNG, the central bank noted its successful collaboration with PSDI, including recent work on a macro-prudential framework and a study of risk concentration across the country’s financial sector.

53. Under the financing growth component, secured transactions frameworks have been the main area of focus, and this is an area that appears to have great potential. The financing growth component has also dealt with banking regulation, anti-money laundering, digital finance, provident funds, and insurance. Impact is more difficult to assess in these areas, since the effort has been more recent and less intensive than that devoted to secured transactions. Given the breadth and importance of the reform agenda in finance, a stronger focus here (as discussed in the recent annual meeting of ADB, DFAT, and MFAT) is justifiable.<sup>15</sup>

## 2. Business Law Reform

54. The business law component of PSDI is premised on the idea that such laws play a key role in the private sector. The development goal of this PSDI component is to ensure that relevant business laws “promote inclusive business formation, investment, entrepreneurship, and trade”. This is expected to promote business start-ups and expansion, reduce barriers to entry for foreign investors, and encourage broader participation in the formal economy (most notably by low-income enterprises and women entrepreneurs). To this end, PSDI helps establish new business

<sup>15</sup> Two caveats are in order. First, the statements here do *not* amount to a judgment that other components have underperformed or must be trimmed. Second, we would add financial consumer protection as a priority in this area, especially for micro entrepreneurs.

registries and improve laws on insolvency, companies, and foreign investment. PSDI reports such project-supported achievements as those presented below (Table 4).

**Table 4: Business Law Reform – Illustrative Activities and Results**

<b>FY2016</b>
<ul style="list-style-type: none"> <li>• Papua New Guinea Personal Property Security Act implemented and Personal Property Securities Register launched</li> <li>• Diagnostic of Timor-Leste company law and registry completed</li> <li>• Tonga Receiverships Bill drafted and enacted; Foreign Investment Policy prepared and endorsed by cabinet, and Foreign Investment Bill drafted</li> <li>• Vanuatu Companies Act and Companies (Insolvency and Receiverships) Act commenced and a multiple-entity online registry launched.</li> </ul>
<b>FY2015</b>
<ul style="list-style-type: none"> <li>• Three new registries launched.</li> </ul>
<b>FY2014</b>
<ul style="list-style-type: none"> <li>• Regulations drafted for three laws.</li> <li>• Samoa installed a cutting-edge electronic company registry, enabling company formation and registration within approximately 24 hours (and 543 new companies registered in the 2 years following).</li> </ul>

FY = fiscal year (FY before a calendar year denotes the year in which the fiscal year ends).

Source: Private Sector Development Initiative annual progress reports.

55. As in the other components of PSDI, counterparts in government, the private sector, and donor agencies praised outcomes in business law reform, and were impressed with the consulting team and the quality of their work (in both technical and strategic terms). The evaluation team has detected no change in available economic variables that would evidence large-scale impact by PSDI, and is not in a position to attribute changes to PSDI activities. However, the results of PSDI III are reasonably understood to be meeting PSDI targets as measured by its M&E indicators, and thus advancing the broader objectives of PSDI. The TA paper from 2015 provides indicators for commercial law reform, business registries, and the economic empowerment of women. PSDI reports that, as of mid-2016, targets in these areas were either achieved or likely to be met by the end of PSDI III (Table 5).

**Table 5: Business Law Reform – Key Indicators and Results, 2014–2017**

<b>Key Indicators</b>	<b>FY2015 Results</b>	<b>FY2016 Results</b>	<b>FY2017 Results</b>
Number of new companies registered increases by 15% after the registration reform (4 countries)	Launched business registries in Tonga (total = 3)  160% increase in company registrations in Solomon Islands; 84% in Samoa; and multiple entry registry commenced in Tonga.	Launched business registries in Vanuatu (total = 4)  221% increase in company registrations in Solomon Islands; 87% in Samoa; and 33% in Tonga (average increase = 114%)	2% increase in Samoa; 226% increase in Solomon Islands; 91% increase in Tonga; 43% increase in Vanuatu (average increase = 91%).
Time to register a new company declines to fewer than 2 days in at least 4 assisted countries	Declined from 45 days to 1.5 days in Solomon Islands; 21 days to 1 day in Samoa; and 5 days to 1.5 days in Tonga.	Previous results maintained.	Previous results maintained.  Vanuatu declined from 5 days to 1 day.

Number of women shareholders and directors increases to at least 20% of directors and shareholders in PSDI-reformed countries by 2019 (4 countries)	21% increase in women shareholders in Samoa and 36% increase in Solomon Islands.	no % change in women shareholders and directors in Samoa.	In Samoa, 35% of company directors and 42% of shareholders are female.
	18% increase in women directors in Samoa and 41% increase in Solomon Islands.	a slight decrease in women directors and shareholders in Solomon Islands.  In Tonga, 26% of business directors and 29% of shareholders are women.	In Solomon Islands, 32% of company directors and 29% of shareholders are female.  In Tonga, 12% of company directors and 11% of shareholders are female.  In Vanuatu, 21% of company directors and 18% of shareholders are female.

FY = fiscal year (FY before a calendar year denotes the year in which the fiscal year ends).  
Source: Private Sector Development Initiative.

56. Data sets on business registrations show modest improvement during Phase III, again with impressive cumulative percentage growth, but in fairly small overall numbers (Table 6). More notable are the decreased business registration times reported in Table 5.

**Table 6: Business Registrations**

Countries	Launch year (pre-2014)	2014	2015
Samoa	112	206	209
Solomon Islands	127	330	408
Tonga		55	73

Source: Private Sector Development Initiative.

### 3. State-Owned Enterprise Reform and Public-Private Partnerships

57. Across the Pacific, substantial infrastructure and related services are provided by SOEs, which tend to operate inefficiently, soak up subsidized credit, and become a major drain on the public budget:

Pacific SOEs control 7%–21% of the total fixed capital in their respective economies, yet contribute only 0%–12% to the gross domestic product. Many SOEs are monopoly providers of essential public services—airports, ports, power, and water—often at high cost, but with low service standards.<sup>16</sup>

58. PSDI addresses these issues through SOE reforms designed to improve operating efficiencies, transparency and accountability, and financial results. As appropriate, PSDI also facilitates the privatization of SOEs and/or the contracting out of their services—in many cases through a PPP. PSDI III is supporting the completion of legal-regulatory frameworks for PPPs and working on the identification and prefeasibility analysis for specific PPP transactions. PSDI supports Pacific DMCs in recruiting transaction advisors and conducting ongoing transaction monitoring. Lastly, since 2009, PSDI has accompanied its reform initiatives with the “Finding Balance” series of publications. The studies are used as an advocacy tool for reform, providing benchmarks for measuring progress, and sharing lessons from relevant experiences.

<sup>16</sup> Annual Progress Report 2015-6, p.31.



59. The TA paper from 2015 provides indicators for SOE reform, including legal amendments, privatization transactions, analyses of SOE performance, and training programs. PPP indicators focus on legal frameworks, establishment and support of PPP units, and facilitating transactions. PSDI reports that, as of mid-2016, targets in these areas were either achieved or likely to be met by the end of PSDI III.<sup>17</sup> Changes in governance are reported using the proxy of board membership (i.e. increase in representation by women and replacement of public officials). PSDI also reports such project-supported achievements as:

- (i) PPP Law passed in PNG, followed by development of PPP regulations and guidelines (not yet implemented);
- (ii) CSO frameworks implemented in Samoa, Tonga, and Solomon Islands, followed by preparation of six CSO contracts;
- (iii) Public enterprise legislation for Fiji and Vanuatu finalized; and
- (iv) Finding Balance 2016 drafted and a seminar for government ministers with responsibility for SOEs, as well as senior government officials, hosted for eight Pacific island countries.<sup>18</sup>

60. Progress reports, indicators, and interviews suggest that PSDI is providing valuable support and helping to make progress in an area where success is especially difficult to achieve and most available policy choices are second- or third-best. As with other components of its work, PSDI support here is well-received. In Timor-Leste, counterparts reported that PSDI advisors “know exactly what they’re talking about” and have provided “critical support.” PSDI support was also well-received in PNG, including work on pilot SOE reforms. That work, however, ran into political obstacles, with the gazettal of the PPP law blocked and SOE reform facing resistance.

#### **4. Economic Empowerment of Women**

61. This component promotes the economic empowerment of women by using diagnostic work to identify and remove constraints, carrying out pilot programs to test alternative modalities to create opportunities for women, and applying the findings to scale up these initiatives and disseminate lessons learned from them. The emphasis here, consistent with other components of PSDI’s work, is on capturing the benefits of bringing women into the formal economy. These benefits include the creation of new women-led businesses, the enrichment of business leadership through increased participation by women, and the enhancement of women’s autonomy as economic and community actors.

62. The TA paper from 2015 provides indicators for the economic empowerment of women, including research, design and implementation of pilots, and replication (these targets are now being overtaken by a stronger emphasis on mainstreaming). PSDI reports that, as of mid-2016, targets in these areas were either achieved or likely to be met by the end of PSDI III.<sup>19</sup> Furthermore, PSDI reports additional project-supported achievements during 2013–2016 (Box 2).

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<sup>17</sup> PSDI, “Assessment of Program,” Excel document.

<sup>18</sup> Annual Progress Reports for 2013-14, 2014-15, 2015-16; 2015 TA Paper.

<sup>19</sup> PSDI, “Assessment of Program,” Excel document.

### **Box 1: Economic Empowerment of Women – Illustrative Activities and Results**

- Women Business Leadership Program designed and implemented in Tonga and replicated in Fiji. In Tonga, 16 women undertook the course, 24 mentors and advocates supported these women, and an informal women's network was formed. In Fiji, there were 30 participants from 20 companies and government departments.
- Corporate Governance Pilot Program designed and implemented in Solomon Islands, and replicated in Vanuatu. The program in Solomon Islands was replicated by the Solomon Islands Chamber of Commerce and Industry, using trainers that the Pacific Private Sector Development Initiative (PSDI) had trained.
- Papua New Guinea: A pilot program, in partnership with the Nationwide Microbank (now known as MiBank) and the National Fisheries Authority got underway to assist women in the informal fisheries sector. The objective is to provide financing, skills training, business mentoring, and access to markets to over 200 women involved in fisheries.
- In Solomon Islands, PSDI worked with the West Are'Are Rokotanikeni Association and the Ministry of Mines, Energy and Rural Electrification, to develop a pilot to train women on solar panel maintenance in South West Malaita. The pilot created three women-owned community companies and has been replicated in other provinces as part of a larger energy project assisted by the Asian Development Bank.
- *Women and Business in the Pacific*, a study of constraints faced by women across seven Pacific island countries, drafted, and specific chapters on the economic empowerment of women included in six private sector assessments.

Source: Private Sector Development Initiative annual progress reports.

63. The list detailed in Box 1 suggests a significant level of activity in this component, with some evidence that the initiatives have attracted interest, are effectively delivered, and are targeted for impact. While this component is achieving its indicator metrics, the evidence of actual impacts (as for most of PSDI) is at best indirect. The gender equity barrier is an especially difficult one to break through, and major progress is likely to be generational. One clear trend from 2016 into 2017 is a tapering off of activities with a gender focus. This may be due to such factors as the management changes in PLCO adopted in 2016, a shift in emphasis from pilots to mainstreaming, and the move by the senior consultant responsible for this component to a part-time PSDI role.

## **5. Competition Policy and Consumer Protection**

64. Support in this area is important to govern markets and build trust in a region such as the Pacific. However, it represents a step beyond the basic legal foundations addressed in the growing finance and business law components. On the one hand, it could be argued that competition policy and consumer protection work should be sequenced to follow the basic business and finance frameworks. On the other hand, small Pacific island economies are vulnerable to being captured by monopolists, to the detriment of consumers. Even apart from immediate harms, such a market dynamic could entrench adverse practices and norms.

65. The work in this area includes preparing competition and consumer policies, helping produce draft laws, establishing regulatory offices, and improving the capacity of regulators. PSDI advocates the development of a tailored policy framework that sets the broad parameters for market governance, before specific laws are drafted to define and deter adverse practices.

66. The TA paper from 2015 provides indicators for the competition policy and consumer protection component of PSDI III. PSDI reports that, as of mid-2016, targets in these areas were either achieved or likely to be met by the end of PSDI III (Table 7). (Note that the adoption of laws and regulations in this area is not mentioned explicitly in the table, but this appears to be subsumed within the competition commissions component).

**Table 7: Competition and Consumer Protection Outcomes, 2014–2017**

Key Indicators	FY2015 Results	FY2016 Results	FY2017 Results
Competition commissions in place and issuing judgements in at least 2 Pacific DMCs by 2018	Completed assessment of competition & regulatory framework in Samoa.  Assessments underway in PNG, Solomon Islands, Timor-Leste, Tonga, Vanuatu, and regionally.	Planned support for CCC in Fiji and Samoa.  Completed assessments in Timor-Leste and Vanuatu.	Continued to support Fiji, PNG, and Samoa.
PNG: ICCC capacity development program in technical and cross-cutting areas implemented.	Supported PNG ICCC.	Continued to support PNG ICCC.	Continued to support PNG ICCC.

CCC = Competition and Consumer Commission, DMC = developing member country, FY = fiscal year (FY before a calendar year denotes the year in which the fiscal year ends), ICCC = Independent Consumer and Competition Commission, PNG = Papua New Guinea.

Source: Private Sector Development Initiative.

67. The large increase of funding for PNG in 2015 has augmented both activity and expectations of PSDI in the country. PNG receives the bulk of PSDI resources for competition policy and consumer protection work (65% for 2015-2016).<sup>20</sup> Issues papers have been produced and consultations held, while PSDI has collaborated with the Independent Consumer and Competition Commission (ICCC) to formulate policy and build capacity. The commission described PSDI's work as "wonderful", comparing it favorably to the prior DFAT program taken over by PSDI. In particular, the framework review process helped the commission to understand the depth of the issues, to think through their implications, and to move toward a more thorough reform than the "band-aid" initially envisioned by the ICCC. The PSDI capacity evaluation involved workshops for ICCC staff, and led to a plan for training and support. A similar PSDI approach in Solomon Islands was also very well received. In both cases, policymakers voiced some impatience with the pace of the program (as compared to the quick delivery of outputs initially hoped for), but the benefits of a deliberate, phased approach showed themselves in enhanced understanding of the issues and "ownership" of the reforms (para. 98).

## 6. Analytical Work, Communications, Monitoring, and Evaluation

68. As stated in the TA paper from 2013, "The relevance and effectiveness of the PSDI interventions rests on in-depth analysis of constraints to doing business in Pacific DMCs." This means, first, that PSDI puts particular emphasis on its series of publications including the private sector assessments (PSAs), the "Finding Balance" series, and the other thematic and country-focused studies. This work facilitates the choice of policy priorities by PDMC counterparts, and guides PSDI's agenda. Also, as PSDI's operations have expanded during PSDI III, M&E takes on added importance. The plan is to conduct selected impact evaluations, along with knowledge-sharing across the Pacific. Annual review and strategic planning meetings with selected ADB staff and development partners help define strategy, and broader dialogue has been pursued through conferences and private sector roundtables.

69. The TA paper from 2015 provides indicators for analytical work (including production of reports such as the PSAs, knowledge management, outreach and dissemination, monitoring and evaluation, and advocacy support). PSDI reports that, as of mid-2016, targets in these areas were either achieved or likely to be met by the end of PSDI III.<sup>21</sup>

<sup>20</sup> Annual Progress Report 2015-16, p. 22.

<sup>21</sup> PSDI, "Assessment of Program," Excel document.

70. According to PSDI information, the PSAs have been influential in the formulation of economic policies in the Pacific DMCs. The assessments also provide the basis for private-sector-oriented reforms in ADB budget support programs. The opinion of PSDI stakeholders on the PSAs is more mixed. All seem to recognize that these assessments have been helpful in presenting information and analysis on the broadly understood business-enabling environment in each Pacific DMC, and thereby have informed policymakers' reform choices. However, several interviewees suggested that the PSAs have outlived their usefulness, and that it would be more cost-effective for PSDI to do more focused studies rather than updating the PSAs. By contrast, the "Finding Balance" studies are widely valued for their more focused analysis, especially the international benchmarking they provide.

## **B. Relevance and Sustainability**

71. Are the kinds of activities and results mentioned above relevant to the overall objective of PSDI and to the context in the Pacific DMCs? Initiatives with high relevance are likely to be those based on sound analysis and consultation, or those that have otherwise been adapted mid-stream in light of contextual factors. The question of sustainability is closely related, in that a program that is not relevant could hardly generate the necessary ongoing stream of implementation activity and resources.

### **1. Financing Growth**

72. PSDI's work on secured transactions and the financial sector fits the general template of TA interventions on market-enabling reform. Yet, the relevance and sustainability of the financing growth program in this context is demonstrable. Evidence comes from the substantial and steady demand from counterparts for PSDI assistance through most of PSDI III, the outcomes discussed in paras. 46–55, and the ways in which assistance has been tailored and supplemented in the interest of producing lasting results.

73. In the area of secured transactions, PSDI has developed special expertise over the years. The potential of using moveable assets to obtain finance, particularly by SMEs in Pacific DMCs, justifies this focus. However, the growth of this kind of credit appears constrained by risk-aversion in the financial sector, abetted by a lack of ready models and experience in using them. Thus, PSDI has encouraged the use of secured transactions for value-chain finance in agriculture, given the importance of fruit, palm nuts, coconuts, and other crops to Pacific island economies. This means promoting the use of credit based on offering crops as security, and eventually the development of warehouse finance. PSDI is looking to support pilot credit programs for high-value crop production, such as coffee in PNG and cocoa in Solomon Islands. In Tonga, PSDI spotted the potential for such a pilot in the production of vanilla, in light of existing demand for the commodity by Australian brands. Based on this experience, the association of vanilla growers in Tonga has now reportedly taken the lead in pursuing a bigger credit package, with PSDI working alongside.

74. PSDI has also done well to adapt its programs to the specific context of the Pacific region.

75. In its work with institutions in the finance sector, PSDI has seized opportunities to evolve its efforts in light of local conditions. In particular, Pacific DMCs have a shortage of second-tier financial institutions such as nonbank credit providers and microfinance banks. Such institutions might provide the "downscaling" of services to SMEs and micro entrepreneurs that the banks have largely shied away from. At the same time, there are national development banks and other government-owned institutions that require some form of commercialization and governance reforms in order to become sustainable. In the case of Timor-Leste, PSDI reportedly worked with

the Ministry of Finance to persuade the government’s leadership that its plan to establish a national development bank should be abandoned as impractical. PSDI has also moved into working with provident funds, which need investment vehicles, and advising on policy and legislation to enable digital financial services (as in Fiji). Finally, PSDI continues to liaise with the insurance industry, which remains underdeveloped in a region where households, farms, and companies face high levels of risk, most particularly from natural disasters. PSDI supports the development of policies and products, particularly for business insurance and life insurance, while seeking to encourage the broader evolution of financing frameworks to address disaster risks.

76. In PNG, some smaller banks and nonbank lenders appear interested in SME finance and secured lending, though the larger banks (with the exception of Bank South Pacific) have failed to move into this market. Additionally, PNG has no second-tier license for deposit-taking institutions that could address the middle and lower end of the market for business finance. In this context, PSDI has taken on a key role in the Microfinance Expansion Project, working with MiBank, a microfinance institution that has transformed into a commercial bank under state ownership. MiBank reports that PSDI has done a lot of “hand-holding,” helping it to address structural and regulatory issues. Importantly, PNG’s central bank has exercised forbearance, allowing MiBank to operate while it gradually works to meet banking regulatory standards. PSDI has helped MiBank gain entrée to the major suppliers in key sectors, who have traditionally dealt only with the large banks, and to policy discussions on payment systems and mobile money interoperability. PSDI has also worked with MiBank to set up a franchise model for service agencies (co-branded by local government), operating under a branch in Esa-ala district, as well as contributing to a move into a fully mobile banking platform called MiCash. Figures on overall use of MiCash reflect the bank’s growing outreach (Table 8).

**Table 8: MiCash Users**  
(year-on-year change)

Year	Male	% change	Female	% change
2012	2,374		1,291	
2013	10,597	346	6,224	382
2014	14,822	40	9,253	49
2015	19,219	30	11,325	22
2016	25,537	33	14,495	28

Source: Private Sector Development Initiative.

77. Similarly, in Timor-Leste, PSDI has supported the transformation of BNCTL from a microfinance institution to a commercial bank. As with the PNG example, the bank is state-owned. Timor-Leste offers a second-tier banking license, but BNCTL eventually exceeded the loan and deposit ceilings and needed to become a bank. PSDI’s assistance has helped BNCTL to move toward commercial viability (Table 9), strengthen its corporate governance, and begin attracting the interest of investors. In tandem, PSDI has been working with Timor-Leste’s central bank on regulations, including a framework for digital finance, which is a critical need in the Pacific. Much of this work, however, appears to have been inherited by the International Finance Corporation and others since the end of 2016.

**Table 9: Depositors and Borrowers, Banco Nacional de Comércio de Timor-Leste**  
(year-on-year change)

Year	Depositors	% change	Borrowers	% change
2011	54,047	44	11,087	30

2012	114,374	111	14,190	28
2013	129,665	13	17,094	20
2014	150,175	16	17,381	2
2015	245,819	70	17,146	-1

Source: Private Sector Development Initiative.

## 2. Business Law Reform

78. PSDI aims to encourage new business formation and investment in an equitable, inclusive manner. This means (i) streamlining the legal and administrative processes related to business formation, governance, exit, and other key phases of business operation; and (ii) tailoring the available company structures to fit the requirements of typical entrepreneurs (including women) and of communities with shared economic assets. By easing entry into the formal economy, PSDI hopes to enable entrepreneurs to open bank accounts, access grants, enter into contracts with other parties, and engage in import-export transactions.

79. PSDI follows a basic “roadmap” for reform processes. The roadmap is designed to enhance stakeholder understanding, capacity, and support in tandem with the provision of intellectual and technological assistance (Box 2).

### Box 2: Reform Roadmap Used by the Pacific Private Sector Development Initiative

The reform roadmap used by the Pacific Private Sector Development Initiative (PSDI) calls for work to be initiated by a formal request from the government's cabinet or a relevant ministry. A reform taskforce is set up and generally comprises representatives from government, the finance sector, the private sector, women's business organizations, and other key stakeholders. PSDI then prepares a diagnostic of the relevant legal and/or regulatory elements, and on this basis presents a “white paper” for policy reform. Proposals are reviewed and discussed via taskforce meetings, written submissions, and other forums. If the government decides to move forward, PSDI develops a draft policy framework for review and approval by the cabinet or council of ministers. The approved framework serves as the basis for draft legislation. PSDI usually provides technical assistance in legal drafting, particularly in specialized areas where country capacity is limited, or alternatively offers input on request by the parliamentary drafters. PSDI then supports capacity building, business-process change for the public body responsible for the law, and campaigns to raise awareness of the new law. As implementation proceeds, PSDI works with its counterparts to review the effectiveness of new rules, technology, and business processes (Annual Progress Report 2015-16, pp. 12–14).

Source: Private Sector Development Initiative.

### a. Registries

80. In the business law reform area, the question of sustainability arises most sharply with the establishment of a registry (this also pertains to registries set up under the financing growth component as discussed in para. 110). Where a company registry is established, PSDI facilitates the transfer of technology through a partner, e.g., the New Zealand Companies Office. For example, PSDI supported the development of an electronic registry in Tonga, which includes a website to facilitate the registration of companies and business names as well as the licensing of businesses. This online facility makes it unnecessary for applicants to travel in person to the capital city.

81. Once implementation is underway, PSDI's approach is to conduct a phased exit, withdrawing technical and financial assistance with an eye to sustainability. Subsequent reviews by PSDI consultants and counterparts allow for necessary adjustments in rules, technology platforms, and business processes. The PSDI team tries to help the registry office and its home institution to secure sufficient revenue sources to support itself without depending on donor funds, and ideally without discretionary allocations from the national budget. This means that the system

must be in a position to set its fee schedules, and to manage this revenue, so that it covers the bulk of the registry's costs (Box 3).

82. Timor-Leste faces registry challenges similar to those in Solomon Islands. Although not supported by PSDI, Timor-Leste's registry system is part of a one-stop-shop (known as SERVE) aimed at bringing efficiency, convenience, and a service-orientation to several key steps in the process of business establishment and regulation. SERVE does not have access to any electronic system for fee payment, nor does it yet have a satisfactory agreement with the government on fiscal management and retention of fees.

### **Box 3: Registries in Solomon Islands**

In Solomon Islands, the Pacific Private Sector Development Initiative (PSDI) supported the establishment of a new Foreign Investment Registry in 2016. This replaced a prior registry that failed to sustain itself and "broke down." An early task for the new registry staff has been to migrate old records (in Excel format) into the current platform provided by PSDI's New Zealand vendor. The plan is for donor support to phase out as the registry's revenue from annual fees increases. Hopeful signs include the convenience offered by fully online registration, and the increased rate of filings (from 200 for 2016 to an equivalent number for the first half of 2017). The registry office, Company Haus, also contains the online companies registry established with PSDI support in 2010.

There are, however, some binding constraints that continue to affect Company Haus. First, registration costs and annual fees must be paid in person, since the payments system in Solomon Islands does not provide for digital payments to government (known as P2G or B2G). Second, the country does not have the digital cable "backbone" to reach the whole archipelago and bridge the digital divide. Third, Company Haus has no representative offices outside its headquarters in Honiara. These issues affect local business registrations most dramatically, requiring clients to travel to the main office, use the postal system, or send agents. Payment entails queuing up at the treasury window to pay fees in person.

Source: Consultant interviews and Private Sector Development Initiative.

## **b. Law Reform**

83. In the area of legislative change, PSDI faces comparable struggles to those with registries, but is finding practical ways to sustain progress. The PSAs and other analytical work provide a broad understanding of reform needs, with the specifics filled in by country choices. This enables PSDI to be responsive, while also furnishing a strategic framework for policy discussion and decision. In practice, the emphasis is more on responsiveness than strategic clarity. This has prompted a few complaints from donors and country counterparts about lax planning, but it has allowed PSDI to move quickly on emerging priorities and thereby achieve important results.

84. Across the whole of its portfolio, PSDI has adopted an approach that has led to substantive innovations to address country priorities in fields not strictly part of its original design. A good example of innovation in business law is the reform for community companies adopted in Solomon Islands and Vanuatu. This vehicle is designed specifically to enable the use of community assets (e.g., receipt and management of funds) for business purposes, while protecting against misappropriation. It also provides for greater participation by members, with the objective of improving governance. Another example of business law innovation is the legislation adopted in Timor-Leste for sole proprietorships or single-person companies.

85. A further strength of PSDI is its emphasis on process. In Timor-Leste, the Law Reform Commission reported on the process of reforming the country's insolvency law. It started with PSDI's draft of a policy paper, which was then taken over by the coordinating ministry and its own consultant. PSDI remained involved, helping to analyze policy issues and ensure an effective process. Because the incumbent law from Timor-Leste's period of Indonesian government posed special complications, two rounds of consultations were held, involving written submissions by Parliament, the private sector, bankers, lawyers, and others. The Law Reform Commission noted

that the reform process, encouraged and supported by PSDI, conformed to the model that should be (but often is not) followed in Timor-Leste.

86. The Law Reform Commission also acknowledged that it needs support in institutionalizing its own approach to policymaking and legal reform. The commission suggested that PSDI could assist it in developing capacities for medium- and long-term legislative planning, research and analysis, and the institutional and budgetary aspects of designing and implementing policy. Currently, business laws in Timor-Leste are made in the absence of empirical studies of relevant firms and transactions, analyses of the impacts of proposed laws, or—indeed—appropriate policymaking expertise. Some stakeholders point out that Portuguese-trained lawyers advising Timor-Leste ministries take the lead in policymaking, resulting in an overemphasis on technical legal issues as well as undue delays.

### **3. State-Owned Enterprise Reform and Public-Private Partnerships**

87. The relevance of efforts to improve the performance of SOEs, which frequently are major players in the economy but are mired in inefficiency, is fairly self-evident. The status quo is not viable. For example, PSDI estimates factor productivity in SOEs in PNG as being 6% of that of SOEs in New Zealand. Given the various factors at play in Pacific island economies—the scale of public services required as well as the dependencies of state provision and accompanying attitudes referred to as “cultural”—the option of large-scale privatization or liquidation of SOEs appears to be unworkable. The question of sustainability is harder to answer. Not only do SOEs have loose internal budget constraints, drawing on state revenues and public savings, but external parties such as ADB have sought to provide them loans and investment capital.

88. The struggle to resolve the inefficiencies of SOEs focuses, to different degrees in different countries, on supporting PPPs, on privatization or the contracting out of works and/or services, or on commercialization (coupled with transparent costing of CSOs). In PNG and Timor-Leste, PSDI is working on frameworks for PPPs, based on its view that such transactions should be facilitated once appropriate laws are in place. The premise here is not that a PPP is optimal or likely to be implemented in accord with best practice. Rather, it is more likely to bring rapid improvement in services and governance, and reduce the incidence of corruption and inefficiency, compared to alternatives such as the status quo or traditional public procurement. The goal is to create a sufficiently robust and transparent procurement process that investors will trust.

89. In its component for SOE reform and PPPs, as in other components, PSDI has adapted its general approach to respond to local conditions (Box 4). In Tonga, the government proposed that SOEs share boards as a way of coping with the country’s shortage of skilled directors. PSDI has helped to articulate and implement this concept. In Fiji, PSDI found that the public procurement system had sufficiently strong regulations that it could be adapted for major arrangements to contract out works and/or services, without the need for a new PPP law. This scenario is in contrast to PNG, where public procurement systems are weak and no PPP project development process exists, thereby providing the rationale for a new PPP law.

#### **Box 4: Starting Small and Becoming Sustainable in Timor-Leste**

In Timor-Leste, the Pacific Private Sector Development Initiative (PSDI) emphasized the need to overcome SOE inefficiency by starting with small projects and building up to larger deals when the required structures were in place. When the Ministry of State Administration brought in PSDI to help Dili municipality with the procurement of solid waste management services—as a result of a study by the Asian Development Bank (ADB)—the need for practical, small-scale solutions became evident. PSDI consultants worked with the municipality to replace the standard two-page agreement it used for waste haulers with a more complete modular document (including short- and long-term contracting options) in the local language (Tetum). PSDI also drafted a strategy and provided Dili municipality with



financing options to improve its solid waste system. Ministry counterparts found PSDI's work to be "supportive, responsive, and proactive," and learned from this experience the importance of good contracting documents. The ministry requested subsequent capacity-building for its staff.

The process was, however, not without controversy. The public-private partnership (PPP) unit of the Timor-Leste Ministry of Finance felt that it should have been informed, since it is responsible for ensuring conformity with PPP guidelines across government. Furthermore, the unit declined to enter a loan agreement with ADB to fund a subsequent phase of the project, stating that the Timorese Audit Court requires a fine line to be maintained between technical assistance and loan projects.

Source: Consultant interviews and Private Sector Development Initiative.

#### 4. Economic Empowerment of Women

90. The literature, whether produced by PSDI or others, amply demonstrates the relevance of the economic empowerment of women to the development of the private sector in Pacific DMCs. The issue is whether PSDI should place its main emphasis on standalone gender initiatives, such as PSDI's pilot projects, or on gender mainstreaming. DFAT and ADB have moved PSDI in the latter direction, which is likely to lead to a decline in near-term impact but should produce more sustainable outcomes. DFAT became concerned that running the pilot projects was diverting PSDI's energy away from the team's core strengths and contributing to its lack of focus on broader indicators of gender inclusion. There may, however, be a need for flexibility. Country contexts differ, and in some of Pacific DMCs, pilot projects might be more effective than mainstreaming. The shift from pilots to mainstreaming is apparent in the TA paper from 2015 covering the PNG supplemental funds, which should "support gender mainstreaming" in such areas as PPPs, competition policy, and consumer protection.

91. Finance is an important focus for PSDI's component on the economic empowerment of women. A 2014 PSDI study found that, in the experience of women in Pacific DMCs, gaining access to finance was unduly difficult, mostly for the same reasons that apply to small enterprises in general.<sup>22</sup> These reasons include high interest on unsecured loans and/or micro loans, and the requirement for security of 100% (or more) of a loan's value to be provided as land assets or cash deposits. Thus, secured transactions reform should have a gender impact and accelerate overall access to credit (several of the collateral registries are collecting gender-disaggregated data). PSDI has also conducted programs in Solomon Islands and Tonga to increase entrepreneurs' confidence in the secured transactions framework, and to demonstrate how women's businesses can utilize the reformed law and registry to obtain financing.

92. Pilot initiatives in value-chain finance have tried to broaden access to finance by linking producer groups—some of them with large numbers of women members—to sources of secured credit. In PNG, pilot projects with women coffee growers and women's fisheries are examples of this approach. The latter pilot met with greater success than the former, and involved helping set up accounts and financing through MiBank, with related support including training in financial literacy.

93. PSDI has followed the logic of its work on the economic empowerment of women into the realm of business leadership, launching a 1-year Women's Business Leadership Program (2015) in Tonga. The aim of the program was to foster a cadre of women leaders in the private sector, along with supportive networks.<sup>23</sup> This, not surprisingly, is a difficult area in which to make rapid progress. There is a sense that both the number and proportion of women in senior posts in government and the private sector are entrenched at fairly low levels. This is especially evident in SOEs across the Pacific (Table 10). A range of factors accounts for this low level of

<sup>22</sup> ADB. 2014. *Unlocking Finance for Growth. Secured Transactions Reform in Pacific Island Economies*. Manila.

<sup>23</sup> ADB. 2015. *Empowering the Other Half: Women and Private Sector Growth in the Pacific*. Manila.

representation, including a lack of benefits, such as maternity leave, that would make the labor market more equitable.

**Table 10: Women Directors of State-Owned Enterprises in the Pacific**

	Fiji	RMI	PNG	Samoa	Solomon Islands	Tonga
Number of women directors (2015)	5	17	15	39	7	6
Number of women directors (2012)	6	7	6	35	8	13
% change 2012–2015	(17)	143	150	11	(13)	(54)
% women directors as proportion of total (2015)	5	24	16	21	13	16
% women directors as proportion of total (2012)	10	22	10	18	13	17
% change 2012–2015	(50)	9	60	17	0	(6)

( ) = negative, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.  
Source: Private Sector Development Initiative.

## 5. Competition Policy and Consumer Protection

94. PSDI's competition component uses two main strategies to ensure that its work is relevant and sustainable.

95. Under the first strategy, PSDI acts on the basis of clear expressions of demand. Across all components, PSDI usually insists on background discussions with government counterparts to reach consensus, followed by a formal request by the relevant authority, which is often the country's ministry of finance. The political salience of competition and consumer issues (relative to companies and secured transactions laws) means that governments have an interest in making public commitments. In Solomon Islands, competition reform was advanced as part of an electoral campaign, while in PNG it was incorporated in the budget speech by which government put forward its economic program in Parliament. Government interest may be driven by policy dialogue with donors and/or multilateral development organizations on public financial management, combined with concerns about the effects of adverse private sector competition on SOEs and public procurement.

96. Under the second strategy, PSDI insists on following a methodical process of policy development, legal drafting, and institution-building. This is especially important in developing sound competition policy, given the political commitments involved and the inclination of governments to demonstrate those commitments by expediently passing legislation and acquiring aid to set up a competition regulator. Imposing a more deliberative process has the benefit of building understanding and ownership of the policy, and improving the result (Box 5). It does, however, often lead to impatience on the government side, generating complaints about the slow pace of the process, as was the case in Solomon Islands.

97. The prospect of creating a visible legacy in the form of a competition commission adds to the pressure for PSDI to deliver quick results. The option of setting up a fully fledged commission can prove wasteful and unsustainable, particularly in the smaller and poorer Pacific DMCs. In Solomon Islands, PSDI managed to forestall the government's push for an independent competition commission. According to the plan proposed by PSDI, the role of commissioner will be given to an official in the Consumer Affairs Department of the country's Ministry of Commerce, Industry, Labour and Immigration. In Samoa, the government has also pressed for a fully independent competition commission. Here, PSDI achieved a compromise whereby one or more members of the new commission will be seconded from government agencies rather than hired

from external sources. With PSDI's help, Tonga took another approach by developing a plan for a multi-sector regulator with a range of functions, including competition policy and consumer protection.

#### **Box 5: The Competition Reform Process in Papua New Guinea**

In Papua New Guinea, a decision was made in 2012 to review the country's laws on competition and consumer issues. The review alerted policymakers that a wider range of issues and potential changes than originally planned would need to be considered. A consultant engaged by the Pacific Private Sector Development Initiative (PSDI) helped the country's Independent Consumer & Competition Commission (ICCC) and Treasury officials to "break down" the competition policy issues into three segments, each addressed in a separate analytical paper, and to decide where and how to start the reform process. This led to broad public consultations (starting in 2014) and the submission of a draft policy framework to Treasury (still under consideration). The ICCC now sees itself as more able to direct policy development, and has established a relationship with PSDI in which the latter helps to frame the issues for ICCC decision-making and then drafts policies for its consideration.

Source: Consultant interviews and Private Sector Development Initiative.

### **6. Analytical Work, Communications, Monitoring, and Evaluation**

98. PSDI's analytical work can be fairly scrutinized on the grounds of relevance. Sustainability, on the other hand, does not (yet) appear to be a useful criterion since this component is about outputs and uptake, and is almost entirely dependent on continued external funding. There is no plan for PSDI's analytical work to be taken over by the Pacific DMCs themselves, nor is there a realistic prospect of this happening in the near term. However, given that it is over a decade since the commencement of PSDI I, it may be time to reconsider how and by whom the analytical work is completed.

99. The PSAs have generally been well received, although feedback on the more recent assessments has been mixed.

100. On the one hand, there is a clear value—as acknowledged by some interviewees during this review—in providing a singular document that outlines the full spectrum of private sector needs and constraints in each Pacific DMC, and defines all the major work to be done in each economy. Such documents provide a basis for reform advocacy, while also leaving it to the Pacific DMCs to decide for themselves which issues to tackle and how each should be addressed. As stakeholders recognize, the analysis in each PSA is technically sound and persuasive.

101. On the other hand, many stakeholders express concern that the PSA analysis is overly broad, fails to indicate any particular reform strategy or program design, and offers too many recommendations with no clear scheme of priorities. In at least one case (Timor-Leste), the government requested that PSDI forgo the usual periodic revision of the country's PSA in favor of an update outlining short-, medium-, and long-term economic priorities. This reflects a view expressed by a few interviewees that the PSAs have become less useful than they once were, that the production schedule has become slower, and that the exercise in some cases has been more about "getting it done" than ensuring the work is well-targeted and pragmatic. Another weakness of the PSAs, also noted by stakeholders, is the lack of primary empirical research. There have been no enterprise surveys, detailed analyses of business practices, or estimates of the benefit-cost ratios of certain strategies (such as enterprises remaining in the informal economy). While PSDI's work appears to be well-informed by an understanding of the political economy in Pacific DMCs, this receives little attention in the PSAs.

102. PSDI's thematic and country studies provide a contrast, in particular the "Finding Balance" series. These studies are valued for their objectivity, data analysis, and benchmarking—measurement of SOE performance, with its quantitative emphasis, seems to lend itself readily to

benchmarking. While a critique did emerge among stakeholders interviewed for this review that the purpose of the studies is vague, and that they should focus on the tangible outcomes of reforms, such as the benefits to consumers, this seemed to be a minority opinion.

## V. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

103. PSDI has provided highly relevant advisory services for the 14 Pacific DMCs to the midpoint of PSDI III. These advisory services have been delivered in a very challenging development environment. Senior PSDI consultants have successfully promoted the development of private sectors in small and often neglected Pacific island economies.

104. The design and monitoring framework of PSDI III has been used by senior consultants and cooperating donor staff as the operating targets for PSDI.<sup>24</sup> As noted elsewhere, the targets for the economic empowerment of women were overly ambitious and will not likely be met within PSDI III. At the same time, other components were measured by self-fulfilling targets that presented no challenge for their functions.<sup>25</sup> If these targets are expected to serve both staff and donor agency objectives, they will need to be carefully revised for PSDI IV to ensure uniformity across functions and appropriate “stretch” objectives that can be effectively communicated both to the donor agencies and senior PSDI consultants.

105. The changes introduced by ADB in 2016 led to controversy.<sup>26</sup> On the one hand, ADB understandably sees the need for more accountability, more preparatory planning and prioritization, a closer link from analytical work to program activities, and more continuity or linkage between PSDI activities and those of ADB resident missions. This view is shared to some extent within the bilateral donor agencies. As aid providers, these agencies perceive certain PSDI activities as having too much of a “fly in, fly out” character, and being more “siloed” than strategically linked to broader policy discussions. On the other hand, the PSDI team and some other stakeholders feared that the proposed management changes would introduce unnecessary rigidity and hinder the progress of PSDI. Based on further consultations, ADB adjusted its plan so that key senior consultants could work as before under renewed contracts.

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<sup>24</sup> The most recent ADB document, Pacific Private Sector Development Initiative, Phase III (May 2015) which reflected the major change in scope under which the original TA amount of \$32.5 million was augmented by \$8.08 million by the Government of Australia to support request from the Government of Papua New Guinea. The Design and Monitoring Framework is in Appendix 1 of the same document.

<sup>25</sup> See TA Paper Output 3e and Overall Project Output 3e where PPPs only need to be underway, largely an issue of subjective judgment, to be duly fulfilled.

<sup>26</sup> The key changes were as follows: (i) introducing framework agreements to speed up implementation and increase responsiveness. This was partially implemented; (ii) introducing a concept note for financing greater than \$50,000. This has been implemented; and (iii) improving the monitoring and reporting of results. These efforts are ongoing.

### **Box 7: The Unique Structure of the Pacific Private Sector Development Initiative**

The Pacific Private Sector Development Initiative (PSDI) is a unique program within the Asian Development Bank (ADB). It is comprised of, and run by, a small group of senior consultants reporting to the Pacific Liaison and Coordination Office (PLCO). Its work gains strength from the team's high level of technical expertise and experience, its independence from the operations of ADB and the bilateral donors—Australia's Department of Foreign Affairs and Trade (DFAT) and New Zealand's Ministry of Foreign Affairs and Trade (MFAT)—and its demand-driven approach to technical assistance (TA).

This arrangement is different from ADB's more usual assistance packages, which are planned and managed in greater detail, and with less discretion left to the implementers.

At the same time, there appear to be important synergies between PSDI and ADB management and operations. The bilateral donors acknowledge their reliance on ADB's technical and managerial capacities, along with its authority and convening power among developing member countries. Stakeholders point to the special difficulty of achieving reform in the Pacific, where coordination of TA with lending operations can be the key to success. For example, PSDI is handling key components of a joint WB-ADB Policy Matrix governing a \$230 million budget support loan in Fiji.

Source: Consultant interviews and Private Sector Development Initiative.

## **B. Operational Recommendations**

### **1. Financing Growth**

#### **a. Secured Transactions Reform**

106. The high-impact potential of the financing growth component is especially clear in the core area of secured transactions reform. It makes sense for PSDI to continue pursuing these reforms across the Pacific. This means encouraging innovation in terms of the kinds of collateral that can be used to secure loans, piloting financing models in value chains, and encouraging the use of instruments such as warehouse finance and factoring.

107. Complementary steps are needed to ensure that secured lending can thrive. As well as establishing securities registries, this means addressing mechanisms for repossession and liquidation, supporting credit information systems as appropriate, and encouraging the development of supportive infrastructure such as warehouses.

108. On the legal front, PSDI will need to continue pushing outward from secured transactions to related areas of commercial law, including insolvency law. Further research and analysis may be warranted to understand the current slow pace of uptake in some countries, along with possible alternatives.

109. Importantly, PSDI has taken on aspects of financial sector regulation and governance. With respect to secured transactions, there are regulatory issues to be addressed, e.g., ensuring that secured loans are treated appropriately in terms of risk. More broadly, further work will be needed to provide licensing niches for specialist banks, finance companies, cooperatives, microfinance institutions, and others likely to have a stronger interest than the commercial banks in downscaling services for the SME and micro enterprise markets.

#### **b. Financial Services**

110. In general, PSDI should continue to broaden its view of financial services. This refers not only to trade and supplier credit in the value chain (i.e., not directly involving a bank), but also to

a broader clientele and suite of services. More empirical analysis of the shape, operations, and financing modalities used in the private sector can help set policy priorities more sharply for the financing growth component.

111. The focus of PSDI in expanding access to finance has thus far been on SMEs. This is a sensible choice in light of the potential of SMEs to generate growth, innovation, and employment beyond the subsistence level. However, it may be warranted at this point for PSDI to consider the needs of micro entrepreneurs for credit and other financial services—such as savings, transfers, and insurance—that are likely to be critical for households and enterprises. It is notable that the insurance sector is underdeveloped in the Pacific, where risks of business setbacks, health crises, and natural disasters are so substantial. In addition, the ease of money transfer has an especially high economic value for households and small entrepreneurs in Pacific DMCs. PSDI should therefore continue to deepen its involvement in the framework for digital finance, which will be critical to the future of financial services in the Pacific.

## **2. Business Law Reform**

112. PSDI's focus in the field of business law reform continues to be relevant. However, as PSDI progresses through PSDI III and potentially into PSDI IV, it should pursue deeper and longer-term institutional reforms that touch on the underlying processes of policy development, the framing of laws and regulations, institutional transparency, and the rule of law. The credibility established in the course of its private sector work gives PSDI an advantage here.

### **a. Policy Processes**

113. An area of long-term reform that appears worthwhile deals with the processes of policymaking. These processes include policy analysis, consultation, implementation, and review. The PSDI policy roadmap outlined in Box 3 provides a good model. However, the roadmap either supplements or overlaps existing mechanisms, and does not extend beyond the life of a specific reform supported by PSDI. It therefore does not necessarily reflect the processes followed in areas in which PSDI is not involved. In order to broaden impact and enhance sustainability, PSDI and its donors should consider expanding its role in the development of processes that help establish policies and laws. This could well extend further into rule-making, regulatory review, and administrative law processes. This recommendation requires effort and resources at a different scale and level from discrete business law changes, but it is not dissimilar to the regulatory and business-process changes that PSDI pursues in this field.

### **b. Contracts and Dispute Resolution**

114. Do businesses in Pacific DMCs have access to the necessary range of contracting instruments, e.g., public procurements, construction agreements, distributorships and franchises, import-export contracts, licensing agreements, etc.? Consideration should be given to expanding PSDI's mandate into the area of contract formation. Developing agreement models and delivering support to businesses and bar associations by disseminating information and providing training could be cost-effective ways to build relevant capacity.

115. In the area of dispute resolution, PSDI could assist Pacific DMCs by (i) helping to build on the local informal mediation experience in these countries, (ii) setting up arbitration forums through chambers of commerce and other institutions, and (iii) establishing commercial chambers in the court systems. As with the policy process recommendation, this is an area in which PSDI would seem to have some comparative advantage, although it would increase the scale and reach of the program. ADB's Office of General Counsel already has technical assistance in this area, which is supported by PSDI.

### **c. Registries**

116. Some comparative analysis of the registry experience may be justified. Questions to be answered include: Are all the options for ensuring the registries' sustainability being exploited? Do the fee structures cover only operating budgets or some investment funding as well? Are internal capacities being built to manage, troubleshoot, and lead future processes of renewal?

### **3. State-Owned Enterprise Reform and Public-Private Partnerships**

117. PSDI should continue pursuing improved efficiency and governance in service sectors dominated by SOEs.

118. PSDI's work for this component could be coordinated with ongoing initiatives to improve public sector transparency, public financial management, and anti-corruption measures. Such coordination might involve joint training and programming with public sector auditors, parliamentarians, civic watchdogs, consumer advocates, and other nongovernment organizations. Bringing multiple relevant capabilities together in this fashion can help generate ideas and energy around the oversight of SOEs and PPPs.

### **4. Economic Empowerment of Women**

119. The component for the economic empowerment of women has fewer reform victories to its credit than do other PSDI components. However, gender equity (or equal opportunity) is a cross-cutting value that can help motivate reforms in many sectors. It can also serve as an economic "multiplier" in the sense that advances for women entrepreneurs are advances for all excluded populations, and advances for the excluded generate benefits for the economy as a whole.

120. The shift under PSDI III to the new component addressing the economic empowerment of women is amply justified. Since this component is falling behind its overly optimistic targets,<sup>27</sup> these activities to empower women need to be accelerated for the remainder of PSDI III.

#### **a. Access to Finance**

121. Over the remainder of PSDI III, an intensified effort is needed to overcome the existing constraints inhibiting women's access to financial resources in Pacific DMCs. It is particularly ironic that Pacific financial institutions are generally characterized as having excess liquidity. PSDI should help design instruments that can appeal to the risk-adverse commercial banks, and be promoted by their respective central banks.

#### **b. Pilots and Mainstreaming**

122. There is no clear line between standalone gender activities, such as pilot projects, and mainstreaming activities. These activities share the same goal: better economic governance and access to opportunities for the excluded. Pilot projects are relatively low-risk, low-benefit activities, essentially output-oriented with no particular claim to sustainability. They can, however, add momentum to mainstreaming efforts by building capacity, experience, and access to opportunities for women as entrepreneurs and business leaders. In view of this, PSDI should consider undertaking additional pilot projects in support of mainstreaming objectives, or aligning its mainstreaming activities with gender-equity pilots being carried out by other organizations. PSDI could perhaps be accorded a voice in DFAT and MFAT decision-making on grants for gender

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<sup>27</sup> See Revised Design and Monitoring Framework, Appendix 1 of the Pacific Private Sector Development Initiative Phase III, May 2013, pp. 6-10.



projects (e.g., for research, advocacy, or training) to increase synergy across the two domains of activity.

### **c. Leadership**

123. The component for the economic empowerment of women benefited greatly from having a strong, knowledgeable advocate on the senior consulting team. In the absence of such an advocate on a full-time basis, there is a risk that the focus and energy that had been applied to this component's activities will be lost, with other technical objectives taking priority. PSDI should consider having an expert in the economic empowerment of women on its core team. Given the emphasis on mainstreaming, this expert should be tasked with vetting technical initiatives in the other components to ensure that aspects of empowering women are given appropriate treatment across PSDI's scope of works.

### **d. Metrics**

124. Consideration should be given to developing more explicit and relevant metrics on the economic empowerment of women in the M&E systems for each PSDI technical component.

## **5. Competition Policy and Consumer Protection**

125. PSDI should continue its initiatives in the areas of competition policy and consumer protection. Consumer protection has special importance in the provision of financial services. As the Pacific DMCs move toward greater financial access, and especially as digital financial services come online, addressing heightened risks and building trust among consumers will become even more critical.

### **a. Documenting Methods**

126. PSDI faces inevitable tension between (i) the governments of Pacific DMCs wanting best-practice solutions, e.g., fully fledged competition and consumer regulatory commissions, and (ii) the kinds of pragmatic solutions that may require compromise but are likely to be more workable and affordable to implement. PSDI has so far emphasized the latter, and its approach is worth continuing and refining. Indeed, the PSDI approach might usefully be documented in a series of training materials, based on case studies, to be used in later reform initiatives. Tailored versions could be developed for different Pacific DMCs, to be deployed for policy development in areas in which PSDI is not directly involved. This is an additional way of building underlying processes and institutions that can sustain effective policymaking.

### **b. Regulatory Commissions**

127. Given the limited regulatory expertise and administrative resources available to the governments of Pacific DMCs, PSDI should consider giving more emphasis to party-driven adjudication and enforcement. This adversarial approach, more typical of systems in countries such as the U.S., leverages the affected parties' incentives and information, while making enforcement less dependent on regulatory action (at the risk, admittedly, of encouraging litigiousness). PSDI does incorporate remedies in its proposed legislation, and works to build public awareness of rights and duties, particularly in the area of consumer protection. We suggest that a stronger push in this area might enable PSDI to present a more robust and sustainable alternative—or perhaps a cost-saving complement—to the new commissions.

## **C. Organizational Recommendations**

## **1. Analytical Work and Communications**

128. The reform efforts supported by PSDI benefit from the intellectual insights furnished in PSDI's analytical work. This linked production of analytical and reform outputs is by no means standard practice in TA globally.

### **a. Research**

129. Stakeholders have expressed a desire for more tightly focused research to provide firmer grounding for the reform choices being made by PSDI. Such research might include surveys of entrepreneurial behavior, qualitative studies of SMEs (both formal and informal), and impact assessments of policy choices. This information could provide a clearer understanding of the stakes involved in enterprise formalization, access to finance, market governance, and other core areas of PSDI's focus. For now, the importance of these matters has been more or less assumed prior to developing reforms, with evidence of impact trickling in after implementation. Augmenting PSDI's research program would require the addition of resources that have yet to be budgeted in PSDI III. There is also some need for caution to avoid excessive expectations about such research generating specific policy prescriptions.

### **b. Publications**

130. Some PSDI publications, notably the PSAs, are increasingly criticized as being overly broad, formulaic, and insufficiently informed by empirical research. The breadth of the PSAs points to the apparent rationale for them; as economic reviews that cover all topics with a significant bearing on private sector development in each Pacific DMC. In principle, this is a perfectly sensible approach, but the realities of policy processes, attention spans, and alternative sources of information seem to weigh increasingly against it. Such factors as education, infrastructure, and security—while they must be taken into account in setting private sector policy priorities—could be covered in a shorter synopsis based on secondary literature. The discussion of legal and policy frameworks needs to focus more on areas in which PSDI can offer help. This does not mean confining the studies within PSDI's technical program, but it does mean sharpening the focus.

131. PSDI's thematic publications, including the "Finding Balance" series and one-off studies such as *Unlocking Finance for Growth and Digital Financial Services in the Pacific*, provide some of the focused, empirical research sought by stakeholders. PSDI should consider shifting resources and attention away from the PSAs and toward these kinds of thematic studies. The recent publications addressing financial services could provide the basis for an ongoing occasional series dealing with needs and developments in the finance sector. Publications with similar goals to the PSAs could be released more sporadically, perhaps covering multiple countries, and with a view to collaboration with researchers and policymakers in the region.

### **c. Communications**

132. This midterm review has noted the need for increased dialogue between the governments of Pacific DMCs and their respective private sectors. Exchanges between the government and the private sector have been beneficially introduced in Palau and Tonga. Such dialogue can be invaluable in ensuring private sector support for government plans, while providing feedback from the private sector to be taken into account by the government when formulating development policies.

133. An institutional basis for dialogue between the governments of Pacific DMCs and their respective private sectors needs to be encouraged and strengthened with the support of PSDI. Whatever the institutional process chosen by Pacific island economies, such dialogue is important for the sustainable development of their private sectors.

## **2. Monitoring and Evaluation**

134. There is a concern among stakeholders that PSDI does not carry out impact measurement, e.g., surveys of investment at the company level, but only tracks output and expenditure. There is some basis to this criticism, even though it is not entirely fair because impact measurement is expensive and often imprecise, and prevailing practice within the donor community appears to be similar to PSDI's approach of tracking agreed proxies of effectiveness and impact. Beyond this, as suggested in para. 128, PSDI should undertake (or perhaps commission) more empirically grounded studies of private sector behavior, not only to enrich the data for programming decisions but also to collect evidence of impact. Furthermore, the research program and the M&E system as a whole would benefit from a more clearly articulated logical framework, but the question of resources again arises.

135. Reliable data is the foundation for future PSDI decision-making. The allocation of PSDI resources must be based upon an accounting and allocating system that can meet acceptable standards, so that the reported outcomes can be utilized in DFAT, MFAT, and ADB's allocation of resources to the 14 Pacific DMCs. This will require the input of the ADB Controller's department in the upgrading of the accounting and allocation systems at PLCO. These systems could be effectively implemented by the PSDI Coordinator in PLCO who would have direct access to staff at ADB headquarters.

## **3. Resource Allocation**

136. The allocation of PSDI resources should continue to be controlled by country demands, but should be supplemented by consultations undertaken by senior PSDI consultants to determine the productive sectors or industries for development in each Pacific island economy. If agreed, the focus would no longer be on country allocations that are often remote from the potential of specific commercial sectors within each Pacific DMC.

137. In accordance with the suggested shift to a sectoral basis for PSDI resource allocation, future allocations could include the addition of the tourism and/or communications sectors for resource allocation within PSDI IV (if approved). Tourism is the lifeblood of many Pacific island economies and, by providing expertise in this area, PSDI could make a major contribution to further developing private sectors in the Pacific DMCs. Effective communications technology is necessary to support tourism and any other private sector activities with an export or international orientation, and this may require addressing internet service infrastructure.

## **4. Organizational Structure**

138. Any proposed management structure, while clarifying lines of accountability, must enable PSDI to continue doing what it does best, i.e., building relationships, providing expertise, and responding quickly and flexibly to counterpart requests for assistance.

139. One approach that should be considered is to move PSDI into a separate institution, perhaps a research institute or nonprofit consultancy, to be governed at arm's length under an MOU between ADB, DFAT, and MFAT. In the short term, such a move is perhaps unrealistic, but it is worth developing as an option when considering PSDI IV. There are various organizational models that could be emulated by ADB. These include independently funded organizations

affiliated with international institutions, such as the Consultative Group to Assist the Poor (affiliated with the World Bank) and the United Nations Capital Development Fund (affiliated with the United Nations). Other models include centers and programs that operate independently in the Pacific, with funding from multiple donors. These include the Pacific Technical Assistance Center, the Pacific Regional Infrastructure Facility, and the Pacific Horticultural and Agricultural Market Access Program.

140. Within these concepts, a suggested organizational framework for PSDI would incorporate a new role of team leader (or project coordinator) to whom sector consultants report. It is recommended that the team leader be appointed by the PLCO Regional Director, with input from DFAT and MFAT, following the usual ADB internal competitive selection process in conjunction with the Operations Services and Financial Management Department.

141. A principal task of the team leader would be to undertake peer review with the senior sector consultants on their proposed development activities in each of the Pacific DMCs. To ensure that the proposed activities are within the agreed developmental approaches for each country, they would need to be sanctioned by the team leader prior to the proposed implementing missions. In addition, it is also suggested that the team leader would assume responsibility for the strategies and knowledge management services (as these tend to focus across sectors).

142. The resulting missions by the senior consultants need to be fully reported back to the donor agencies, with back-to-office reports written in coordination with the team leader. These reports would need to go not only to relevant ADB divisions, in addition to PLCO, but also to DFAT and MFAT. Such reporting will help ensure that the funding agencies can make full use of the development work undertaken by PSDI.

143. The team leader would report to the PSDI Coordinator based in PLCO. The team leader and the PSDI Coordinator would be expected to have a quarterly meeting with the PLCO Regional Director, to discuss and analyze implementation progress relative to the strategy for PSDI. To comply with ADB's accountability protocols, the team leader would need to have all decisions related to the expenditures of resources transferred to the PSDI Coordinator for endorsement and approval.

144. With these prior conditions being fulfilled, such a reorganization should ensure the sustainability of PSDI.

## **5. Regional Cooperation and Integration**

145. PSDI and its donors should consider investing more in regional solutions. PLCO and PSDI are themselves regional resources, but their counterpart institutions are national. The wider Pacific region has established some common institutions that include within their remit economic governance and development. These institutions include the Pacific Community (based in New Caledonia) and the Pacific Islands Forum (based in Fiji). There are also independent institutes and programs that address economic and governance issues on a regional basis. These include the University of the South Pacific, the Pacific Financial Inclusion Programme (both based in Fiji), and the Pacific Islands Development Programme (based in Hawaii). PSDI has most likely collaborated with such groups, but it does not have an explicit mandate to pursue regional solutions.

146. In light of the strong need for shared and harmonized approaches across and between Pacific island economies, giving PSDI a role in helping the evolution of regional assets and institutions is worth considering. It is one of the few prospective pathways toward the unit's

sustainability. Such work could focus on a range of areas, including regional research, harmonized commercial laws, regional economic tribunals, and capacity-building for region-wide training, adjudication, and peer reviewing.

## **6. Scaling Up**

147. By intensifying some of its work in traditional areas and stretching into related areas of work, such as financial sector regulation and taxation, PSDI has explored measured and feasible paths toward scaling up. However, all stakeholders acknowledge that PSDI needs to retain some coherent focus and avoid expanding into areas that lie well beyond its expertise. For example, PSDI has pulled back from its earlier forays into business development services. There also appears to be some argument about PSDI's more recent move into the tourism sector. Such expansion is, on the one hand, a useful application of PSDI's technical assistance in a priority economic sector, but, on the other hand, it requires PSDI to develop expertise that the unit does not currently have.

148. Apart from the question of expertise, PSDI does not yet have sufficient trusted consultants or the management capacity in-house to handle a much larger, broader set of activities. One approach may be to seek out partnerships, particularly with locally or regionally based groups, to extend PSDI's capabilities while building relevant capacity in the Pacific.

149. There is a risk with any expansion that PSDI could lose the advantages of its unique structure. Avoiding such a loss may require additional resources to be directed to cooperative ventures between PSDI and partner institutions. In any case, the effective use of additional resources will require some adjustments, such as bringing on more PSDI coordinators hired locally and having senior people more intensively involved in the larger country programs, such as that of PNG. Lastly, PSDI will need to bring its evolving program under a more explicit project logic (e.g., Logframe or Theory of Change) to communicate its strategy effectively to stakeholders and justify new activities.

## **D. Overall Assessment**

150. This midterm review concludes that PSDI is fulfilling its objectives with a high degree of efficiency and effectiveness. While the development impact has been high, there is a need to ensure that the initial adopted reforms are implemented on a sustainable basis for the remainder of PSDI III.

## **APPENDIX: OUTLINE OF TERMS OF REFERENCE FOR CONSULTANTS OF THE MID-TERM REVIEW**

### **Position 1: Senior PSD Specialist/Mid-Term Reviewer and Team Leader**

#### **a. Objective and Purpose of the Assignment**

1. The Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance facility cofinanced by the Government of Australia, the Government of New Zealand, and the Asian Development Bank (ADB). Since 2006, PSDI has been working with ADB's 14 Pacific developing member countries to improve the enabling environment for business and support inclusive, private sector-led economic growth. PSDI is currently being supported under TA 8378-REG: Pacific Private Sector Development Initiative, Phase III, which was approved on 6 June 2013 for \$30.5 million. Additional financing of \$8.08 million was approved on 30 June 2015.

2. The objective and purpose of this assignment is to work with another team member to do a diagnostic of PSDI, and provide recommendations for the way forward after assessing the performance, effectiveness, and relevance of the program. In so doing, it will identify future directions for PSDI as well as on how ADB can effectively support private sector development in the region.

#### **b. Scope of Work**

3. The team leader will work with and supervise two other team members to identify ways for ADB to further strengthen its support for the private sector development, especially in enhancing synergy and linkages across different projects and sectors. The report will also review PSDI's relevance, performance, and effectiveness, as it enters its mid-term.

4. The main text of the report will be about 30 pages.

5. The consultant will report to the ADB Project Officer for PSDI, under the overall guidance of the Regional Director of ADB's Pacific Liaison and Coordination Office (PLCO) in Sydney, Australia. This assignment falls under PSDI's Analytical Work/Strategic Management workstream. PSDI's Monitoring and Evaluation Expert will support the mid-term review through the provision of research, information, and data.

#### **c. Detailed Tasks and/or Expected Output**

6. The consultant, in collaboration with the team member will:

- i. Review relevant reports including, but not limited to: the TA paper for PSDI Phase III (including the Major Change in Scope) and Annual Progress Reports.
- ii. Hold preliminary discussions with relevant ADB staff and members of the PSDI team to gain an understanding of the program, its achievements, and other emerging priorities and opportunities.
- iii. Review current ADB, DFAT, MFAT, and Pacific country strategies relating to private sector development, and assess whether PSDI continues to be relevant in supporting these. Determine also what changes (if any) are required for PSDI to improve its performance and achieve the aims of ADB, DFAT, MFAT, and Pacific country strategies.

- iv. Hold preliminary discussions with DFAT and MFAT staff to obtain partner feedback. The consultant may also travel to one to two Pacific developing member countries to undertake consultations with the government and private sector. The country or countries will be determined during the course of the consulting services.
  - v. Review PSDI's current design and monitoring framework and its progress against the targets to date, and provide recommendations for updating this in line with the current work program and taking into account recommendations for the future.
  - vi. Prepare draft report and present to ADB, including PSDI for review.
  - vii. Revise draft report, based on comments received, and present to DFAT and MFAT.
  - viii. Finalize report, based on comments received.
  - ix. Undertake other necessary activities.
7. Based on these activities, the consultant will prepare a report which will:
- i. outline the strengths and weaknesses of PSDI;
  - ii. provide recommendations on improving PSDI's performance, effectiveness and relevance, including by expanding or deepening the scope of the program during the remaining term for PSDI Phase III;
  - iii. identify ways to improve the linkages between PSDI and other ADB operations for better development impacts and effectiveness; and
  - iv. recommend future direction for PSDI in light of ADB's expanding support in the private sector and financial sector.
8. The consultant will also prepare a set of presentation slides on key findings and make 3–4 presentations.

**d. Minimum Qualification Requirements**

9. The expert must have (i) at least 15 years of relevant professional experience in private sector development; (ii) a Master's degree in economics, business administration, or law and economics; (iii). In-depth knowledge about the operations of multilateral development banks such as the Asian Development Bank and the World Bank; (iii) knowledge and experience in Pacific island countries; (iv) sound analytical skills, (v) capacity to liaise with ADB, DFAT, and MFAT staff as well as other stakeholders, (vi) sound verbal and written communication skills in English; and (vii) sound interpersonal skills.

Minimum General Experience: 15 Years

Minimum Specific Experience (relevant to assignment): 10 Years

Regional/Country Experience: Required

## **Position 2: Senior PSD Specialist/Mid-Term Reviewer Team Member**

### **A. Objective and Purpose of the Assignment**

1. The Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance facility cofinanced by the Government of Australia, the Government of New Zealand, and the Asian Development Bank (ADB). Since 2006, PSDI has been working with ADB's 14 Pacific developing member countries to improve the enabling environment for business and support inclusive, private sector-led economic growth. PSDI is currently being supported under TA 8378-REG: Pacific Private Sector Development Initiative, Phase III, which was approved on 6 June 2013 for \$30.5 million. Additional financing of \$8.08 million was approved on 30 June 2015.

2. The objective and purpose of this assignment is to work with the team leader of this project to do a diagnostic of PSDI, and provide recommendations for the way forward after assessing the performance, effectiveness, and relevance of the program. In so doing, it will identify future directions for PSDI as well as on how ADB can effectively support private sector development in the region.

### **B. Scope of Work**

3. The team member will support the team leader to identify ways for ADB to further strengthen its support for the private sector development, especially in enhancing synergy and linkages across different across different projects and sectors. The report will also review PSDI's relevance, performance, and effectiveness, as it enters its mid-term.

4. The main text of the report will be about 30 pages.

5. The consultant will report to the ADB Project Officer for PSDI, under the overall guidance of the Regional Director of ADB's Pacific Liaison and Coordination Office in Sydney, Australia. This assignment falls under PSDI's Analytical Work/Strategic Management workstream. PSDI's Monitoring and Evaluation Expert will support the mid-term review through the provision of research, information, and data.

### **C. Detailed Tasks and/or Expected Output**

6. The consultant, under the supervision of the team leader, will:

- i. Review relevant reports including, but not limited to: the TA paper for PSDI Phase III (including the Major Change in Scope) and Annual Progress Reports.
- ii. Hold preliminary discussions with relevant ADB staff and members of the PSDI team to gain an understanding of the program, its achievements, and other emerging priorities and opportunities.
- iii. Review current ADB, DFAT, MFAT, and Pacific country strategies relating to private sector development, and assess whether PSDI continues to be relevant in supporting these. Determine also what changes (if any) are required for PSDI to improve its performance and achieve the aims of ADB, DFAT, MFAT, and Pacific country strategies.
- iv. Hold preliminary discussions with DFAT and MFAT staff to obtain partner feedback. The consultant may also travel to one to two Pacific developing member countries to undertake consultations with the government and private sector. The country or countries will be determined during the course of the consulting services.



- v. Review PSDI's current design and monitoring framework and its progress against the targets to date, and provide recommendations for updating this in line with the current work program and taking into account recommendations for the future.
  - vi. Prepare draft report and present to ADB, including PSDI for review.
  - vii. Revise draft report, based on comments received, and present to DFAT and MFAT.
  - viii. Finalize report, based on comments received.
  - ix. Undertake any other necessary activities.
7. Based on these activities, the consultant will support the preparation of a report which will:
- i. outline the strengths and weaknesses of PSDI;
  - ii. provide recommendations on improving PSDI's performance, effectiveness and relevance, including by expanding or deepening the scope of the program during the remaining term for PSDI Phase III;
  - iii. identify ways to improve the linkages between PSDI and other ADB operations for better development impacts and effectiveness; and
  - iv. recommend future direction for PSDI in light of ADB's expanding support in the private sector and financial sector.
8. The consultant will also support the preparation of a set of presentation slides on key findings.

#### **D. Minimum Qualification Requirements**

9. The expert must have (i) at least 10 years of relevant professional experience in private sector development; (ii) a Master's degree in economics, business administration, or law and economics; (iii) in-depth knowledge about the operations of multilateral development banks such as the Asian Development Bank and the World Bank; (iii) knowledge and experience in Pacific island countries (iv) sound analytical skills, (v) capacity to liaise with ADB, DFAT, and MFAT staff as well as other stakeholders, (vi) sound verbal and written communication skills in English; and (vii) sound interpersonal skills.

Minimum General Experience: 15 Years

Minimum Specific Experience (relevant to assignment): 10 Years

Regional/Country Experience: Required

### **Position 3: Research Associate**

#### **A. Objective and Purpose of the Assignment**

1. The Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance facility cofinanced by the Government of Australia, the Government of New Zealand, and the Asian Development Bank (ADB). Since 2006, PSDI has been working with ADB's 14 Pacific developing member countries to improve the enabling environment for business and support inclusive, private sector-led economic growth. PSDI is currently being supported under TA 8378-REG: Pacific Private Sector Development Initiative, Phase III, which was approved on 6 June 2013 for \$30.5 million. Additional financing of \$8.08 million was approved on 30 June 2015.

2. The objective and purpose of this assignment is to provide recommendations for the way forward of PSDI after assessing the performance, effectiveness, and relevance of the program. In so doing, it will identify future directions for PSDI as well as on how ADB can effectively support private sector development in the region.

#### **B. Scope of Work**

3. The consultant will support the Senior Private Sector Development Specialist/Mid-Term Reviewer in the preparation of a report reviewing PSDI's relevance, performance, and effectiveness, as it enters its mid-term.

4. The main text of the report will be about 30 pages.

5. The consultant will report to the ADB Project Officer for PSDI, under the overall guidance of the Regional Director of ADB's Pacific Liaison and Coordination Office in Sydney, Australia. This assignment falls under PSDI's Analytical Work/Strategic Management workstream. PSDI's Monitoring and Evaluation Expert will support the mid-term review through the provision of research, information, and data.

#### **C. Detailed Tasks and/or Expected Output**

6. The consultant should accomplish all required tasks in a timely manner with consistently high quality.

7. The consultant should communicate with the ADB, including the PSDI team, as frequently as necessary.

8. Working with the Senior Private Sector Development Specialist/Mid-Term Reviewer, the consultant will:

- i. Review relevant reports including, but not limited to: the TA paper for PSDI Phase III (including the Major Change in Scope) and Annual Progress Reports.
- ii. Review current ADB, DFAT, MFAT, and Pacific country strategies relating to private sector development.
- iii. Support any preparations for preliminary discussions with DFAT and MFAT staff to obtain partner feedback.
- iv. Assist in preparing draft report and support presentation to ADB, including PSDI for review.
- v. Assist in revising draft report, based on comments received and support presentation to DFAT and MFAT.

vi. Assist in finalizing report, based on comments received.

9. Based on these activities, the consultant will work with the Senior Private Sector Development Specialist/Mid-Term Reviewer to support the preparation of a report which will:

- i. outline the strengths and weaknesses of PSDI;
- ii. provide recommendations on improving PSDI's performance, effectiveness and relevance, including by expanding or deepening the scope of the program during the remaining term for PSDI Phase III;
- iii. identify ways to improve the linkages between PSDI and other ADB operations for better development impacts and effectiveness; and
- iv. recommend future direction for PSDI in light of ADB's expanding support in the private sector and financial sector.

#### **D. Minimum Qualification Requirements**

10. The expert must have (i) at least 5 years of relevant professional experience in supporting research work within international development organizations; (ii) a Master's degree in economics, business administration, or law and economics; (iii) some familiarity about the operations of multilateral development banks such as the Asian Development Bank and the World Bank; (iv) some knowledge and experience in Pacific island countries will be an asset; (v) sound analytical skills, (vi) capacity to liaise with ADB, DFAT, and MFAT staff as well as other stakeholders, (vii) sound verbal and written communication skills in English; and (viii) sound interpersonal skills.

Minimum General Experience: 6 Years

Minimum Specific Experience (relevant to assignment): 5 Years

Regional/Country Experience: Required