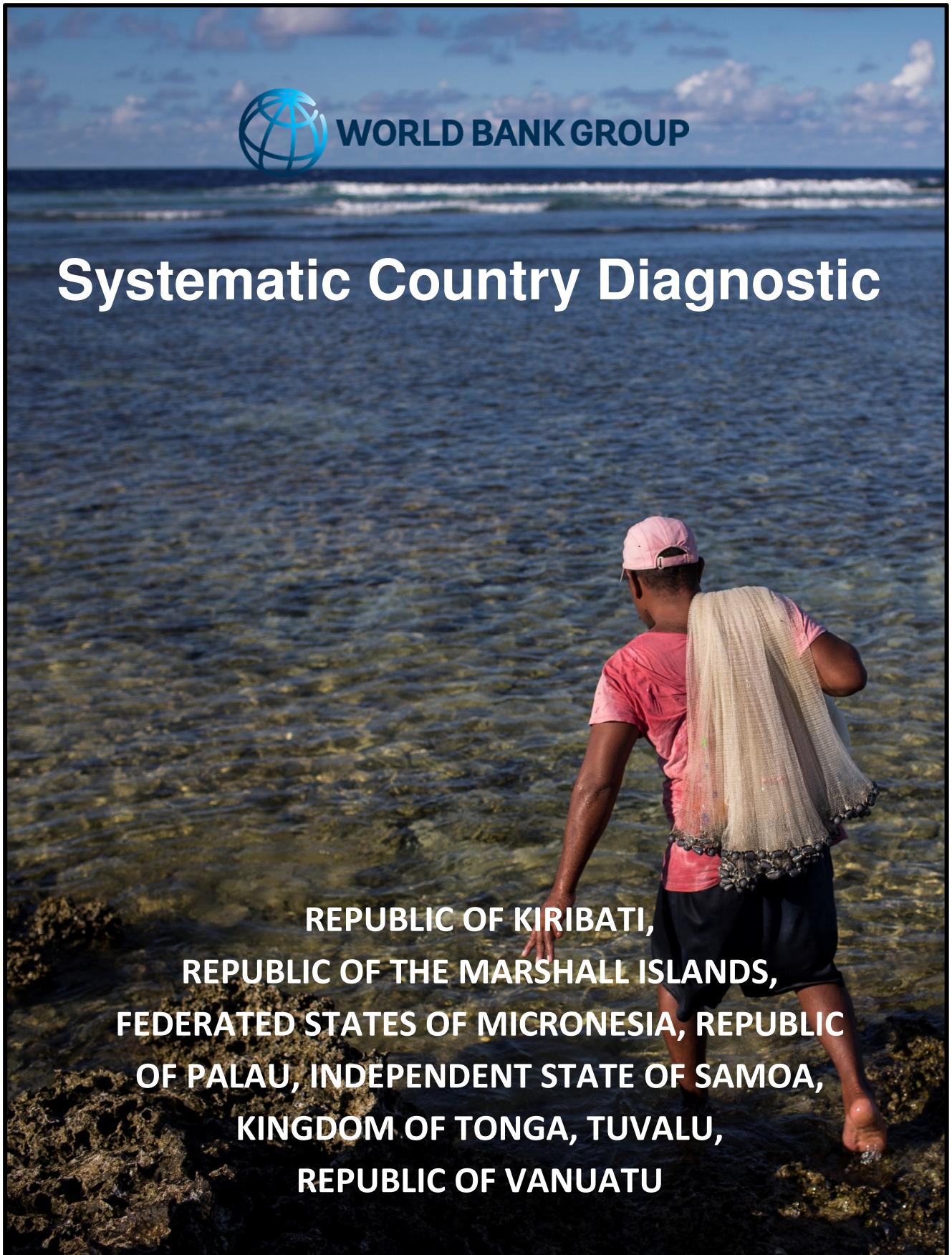




WORLD BANK GROUP

Systematic Country Diagnostic

REPUBLIC OF KIRIBATI,
REPUBLIC OF THE MARSHALL ISLANDS,
FEDERATED STATES OF MICRONESIA, REPUBLIC
OF PALAU, INDEPENDENT STATE OF SAMOA,
KINGDOM OF TONGA, TUVALU,
REPUBLIC OF VANUATU



Rights and Permissions

This work is available under the Creative Commons Attribution—NonCommercial—NoDerivatives 3.0 IGO license (CC BYNCND 3.0 IGO) <http://creativecommons.org/licenses/by-nc-nd/3.0/igo>. Under the Creative Commons—NonCommercial— NoDerivatives license, you are free to copy, distribute, and transmit this work, for noncommercial purposes only, under the following conditions:

Attribution—Please cite the work as follows: World Bank. 2016. Systematic Country Diagnostic For Eight Small Pacific Island Countries: Priorities For Ending Poverty And Boosting Shared Prosperity. World Bank. License: Creative Commons Attribution—NonCommercial— NoDerivatives 3.0 IGO (CC BY-NC-ND 3.0 IGO).

Noncommercial—You may not use this work for commercial purposes.

No Derivative Works—You may not alter, transform, or build upon this work.

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to the Publishing and Knowledge Division, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org

Cover photo: World Bank / Conor Ashleigh

Disclaimer:

This volume is a product of the staff of the International Bank for Reconstruction and Development/ The World Bank. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Report No. 102803-EAP
PUBLIC DISCLOSURE AUTHORIZED

REPUBLIC OF KIRIBATI, REPUBLIC OF THE MARSHALL ISLANDS, FEDERATED STATES OF MICRONESIA, REPUBLIC OF PALAU, INDEPENDENT STATE OF SAMOA, KINGDOM OF TONGA, TUVALU, REPUBLIC OF VANUATU

**SYSTEMATIC COUNTRY DIAGNOSTIC FOR EIGHT SMALL PACIFIC ISLAND COUNTRIES:
Priorities for Ending Poverty and Boosting Shared Prosperity**

January 20, 2016

Timor-Leste, Papua New Guinea, Pacific Islands Country Management Unit
East Asia and Pacific Region

The International Finance Corporation
East Asia and Pacific Region

The Multilateral Investment Guarantee Agency

This document has a restricted distribution and may be used by recipients only in performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.



Abbreviations and Acronyms

ACTU	Australian Council of Trade Unions	OECS	Organization of Eastern Caribbean States
ADB	Asian Development Bank	O&M	Operate and Maintain
ANZ	Australia and New Zealand	PACER Plus	Pacific Agreement on Closer Economic Relations
APTC	Australia-Pacific Technical College	PAILS	Pacific Islands Labor-Sending
ASPBAE	Asia Pacific Association for Basic and Adult Education	PFM	Public Financial Management
ASPIRE	Atlas of Social Protection: Indicators of Resilience and Equity	PFTAC	Pacific Financial Technical Assistance Centre
B40	Bottom 40 per cent of population	PIC	Pacific Island Country
BNPL	Basic Needs Poverty Line	PIC8	The eight small Pacific Island Countries
BOOT	Build, Operate, Own, Transfer	PICTA	Pacific Island Countries Trade Agreement
CCA	Climate Change Adaption	PILNA	Pacific Islands Literacy and Numeracy Assessment
CePaCT	The Centre for Pacific Crops and Trees	PIPPO	Pacific Islands Private Sector Organization
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales	PLW	Palau
CPF	Country Partnership Framework	PMT	Proxy-Means Testing
CPIA	Country Policy and Institutional Assessment	PNA	Parties to the Nauru Agreement
CPS	Country Partnership Strategy	PNG	Papua New Guinea
DHS	Demographic and Health Surveys	PPP	Purchasing Power Parity
DIAC	Australian Government Department of Immigration and Citizenship	PPP	Public Private Partnership
DPT	Diphtheria, Pertussis, Tetanus	PROP	Pacific Islands Regional Oceanscapes Program
DRM	Disaster Risk Management	PSWPS	Pacific Seasonal Worker Pilot Scheme
DRR	Disaster Risk Reduction	RERF	Revenue Equalization Reserve Fund
DWFN	Distant Water Fishing Nation	RMI	Republic of the Marshall Islands
EAP	East Asia Pacific	RSE	Recognized Seasonal Employer
EEZ	Exclusive Economic Zone	SACEP	Samoa Agricultural Competitiveness Enhancement Project
EGRA	Early Grade Reading Assessment	SCD	Systematic Country Diagnostic
EMIS	Education Management Information System	SD	Standard Deviation
FDI	Foreign Direct Investment	SME	Small and Medium-sized Enterprise
FFA	Forum Fisheries Agency	SOE	State Owned Enterprise
FSM	Federated States of Micronesia	SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
FY	Financial Year	SPBEA	South Pacific Board of Education Assessments
GAO	US General Accounting Office	SPTO	South Pacific Tourism Organisation
GDP	Gross Domestic Product	SWP	Seasonal Worker Program

GEF	Global Environment Facility	TC	Tropical Cyclone
GNI	Gross National Income	TeHCl	Tonga Early Human Capability Index
GST	Good and Services Tax	THE	Total Health Expenditure
GVA	Gross Value Added	TON	Kingdom of Tonga
HH	Household	TTF	Tuvalu Trust Fund
Hib	Haemophilus influenzae type B	TTPI	Trust Territory of the Pacific Islands
HIES	Household Income and Expenditure Survey	TUV	Tuvalu
ICT	Information and Communication Technology	TVET	Technical and Vocational Education and Training
IDA	International Development Association (WB)	TYPSS	The Ten Year Pacific Statistics Strategy
IFC	International Finance Corporation	UK	United Kingdom
IMF	International Monetary Fund	UN	United Nations
IPCC	Intergovernmental Panel on Climate Change	UNDP	United Nations Development Program
KIR	Kiribati	UNFPA	United Nations Population Fund
LCU	Local Currency Unit	USA/US	United States of America
LGBT	Lesbian, Gay, Bisexual and Transgender	VANEGRA	Vanuatu Early Grade Reading Assessment
LIC	Low Income Countries	VDS	Vessel Day Scheme
LMIC	Low and Middle Income Countries	VHF	Very High Frequency
MDG	Millennium Development Goal	VUT	Vanuatu
MHL	Republic of the Marshall Islands	WBG	World Bank Group
MIL	Middle Income Countries	WDI	World Bank World Development Indicators
MPA	Marine Protected Areas	WDR	World Development Report
NCD	Non-Communicable Disease	WHO	World Health Organisation
NEET	Not in Employment, Education or Training	WSM	Independent State of Samoa
NER	Net Enrollment Rate	WWI	World War I
NGO	Non-Governmental Organization	WWII	World War II
OECD	Organisation for Economic Co-operation and Development		

Regional Vice- President:	Axel van Trotsenburg
Country Director:	Franz Drees-Gross
Senior GP Director:	Satu K. Kahkonen/Ana L. Revenga
Practice Manager:	Mathew Verghis/Salman Zaidi
Task Team Leader:	Robert Utz/David Knight

Table of Contents

Abbreviations and Acronyms.....	i
Acknowledgments	vii
Executive Summary.....	viii
Introduction	1
Chapter 1: Setting the Stage	3
The Effects of Economic Geography	3
Growth Experiences	8
Vulnerability and Risks	11
Chapter 2: Poverty and Shared Prosperity	14
Poverty Incidence.....	14
Shared Prosperity.....	17
Drivers of Poverty	19
Outcomes of Poverty.....	23
Grassroots Views on Poverty and Hardship	25
Chapter 3: Pathways to Reduced Poverty and Shared Prosperity.....	27
Chapter 4: Pathway 1: Fully Exploiting the Limited Set of Economic Opportunities.....	29
Agriculture	30
Fishing	33
Tourism.....	36
Labor Mobility and Remittances.....	42
Actions to Address the Twin Goals	47
Chapter 5: Pathway 2: Fostering Access to Economic Opportunities and Public Services.....	49
Education.....	49
Health	53
Gender-Based Violence	57
Access to Basic Services and Infrastructure	58
Public Sector Spending and Employment.....	62
Chapter 6: Pathway 3: Protecting Incomes, Assets and Services for the Poor	64
Disaster Risk Reduction and Resilience Building.....	65
Informal Social Protection Systems.....	66
Formal Social Protection Systems.....	67
Targeting Opportunities Towards the Poor and B40	69
Priorities	70
Chapter 7: Addressing Selective Weaknesses in Economic Governance and the Business Environment.....	71
Key Constraints	72
Policy Priorities	77
Chapter 8: Priority Areas of Focus and Remaining Knowledge Gaps.....	82
Prioritization Step 1: Applying the Prioritization Criteria to Key Issues Identified in the SCD	83
Prioritization Step 2: Identification of Country and Regional Priorities.....	84
Knowledge Gaps	91
Bibliography	93
Appendix 1: Sources of Information, Consultations and Information Gaps.....	100
Appendix 2: Map of the Eight Small Pacific Island Countries	102
Appendix 3: Vanuatu Socioeconomic Maps.....	103
Appendix 4: Summary of Consultations	105

SAR Boxes

Box 0-1: What an SCD is and what it aims to achieve	1
Box 1-1: The Pacific in historical perspective	5
Box 2-1: Summary of the poverty situation in the PIC8 countries	15
Box 4-1: Linkages between agriculture and tourism	36

Figures

Figure 1-1: Smallness and economic remoteness	4
Figure 1-2: Government revenue excl. grants.....	7
Figure 1-3: Government expenditure	7
Figure 1-4: Imports as a share of GDP	7
Figure 1-5: Exports as a share of GDP.....	7
Figure 1-6: Regional long-term growth.....	8
Figure 1-7: Country long-term growth.....	8
Figure 1-8: Sector breakdown of economic growth.....	8
Figure 1-9: Sectoral composition of GDP	8
Figure 1-10: Employment in the PICs	9
Figure 1-11: Employment and population growth	9
Figure 1-12: Population growth over 20 years.....	10
Figure 1-13: Youth population (25 and under).....	10
Figure 1-14: Sources of foreign income	11
Figure 1-15: Incidence of natural disasters.....	12
Figure 1-16: Losses due to natural disasters.....	12
Figure 1-17: Urbanization rates.....	13
Figure 2-1: Poverty incidence.....	14
Figure 2-2: Location of people living below \$1.90 a day	15
Figure 2-3: Location of people living below \$3.10 a day	15
Figure 2-4: Nationally defined hardship	16
Figure 2-5: National poverty lines (in PPP-US\$)	16
Figure 2-6: Urban and rural poverty rates	17
Figure 2-7: Rural/urban split of PIC8 poor	17
Figure 2-8: Annual GDP growth per capita	18
Figure 2-9: Proportion of income of bottom 40	19
Figure 2-10: Estimated Gini coefficients in EAP	19
Figure 2-11: Shared prosperity estimates.....	19
Figure 2-12: Sources of income by expenditure quintiles (% of total income)	20
Figure 2-13: Education levels of household heads – Bottom four deciles.....	21
Figure 2-14: Education levels of household heads – Top two deciles	21
Figure 2-15: Education levels and likelihood of being poor.....	21
Figure 2-16: Female headed households and likelihood of being poor	21
Figure 2-17: Political representation of women.....	23
Figure 2-18: Gender-based violence prevalence.....	23

Figure 2-19: Food share by income quintile (percentage of total expenditure).....	24
Figure 2-20: Top five items of nonfood consumption for poor and nonpoor (expenditure/year)	24
Figure 4-1: Fisheries licence fees.....	34
Figure 4-2: Visitor arrivals per capita.....	38
Figure 4-3: Visitor arrivals to Vanuatu	38
Figure 4-4: PIC8 Country groupings	43
Figure 4-5: Personal remittances as a percentage of GDP (2009-2013).....	45
Figure 4-6: PIC8 Emigration rate of tertiary-educated population	45
Figure 4-7: Fiscal impact of migration in New Zealand.....	46
Figure 5-1: Net primary enrollment rates.....	50
Figure 5-2: Persistence to last grade of primary	50
Figure 5-3: Secondary net enrollment rates	50
Figure 5-4: Employment by highest level of education completed (individuals).....	50
Figure 5-5: Progress on health-related MDGs.....	53
Figure 5-6: Under-five mortality 1990-2013 (per 1,000 live births)	53
Figure 5-7: Diabetes prevalence (% age 20-79) 2014	54
Figure 5-8: Premature death (% age 30-69).....	54
Figure 5-9: Prevalence of adult overweight and obesity in the PICs (percent, 2015)*	55
Figure 5-10: Proportion of premature NCD deaths.....	55
Figure 5-11: Prevalence of child stunting	56
Figure 5-12: Prevalence of child anemia, 2011	56
Figure 5-13: Access to improved water source	59
Figure 5-14: Access to improved sanitation.....	59
Figure 5-15: Access to electricity.....	59
Figure 5-16: Cost of electricity (low usage).....	59
Figure 5-17: Cost of a liter of unleaded petrol.....	60
Figure 5-18: Mobile phone ownership	60
Figure 5-19: Internet access.....	61
Figure 5-20: Mobile phone usage costs.....	61
Figure 5-21: Road coverage	61
Figure 5-22: Sea-port capacity	61
Figure 7-1: Quality of governance	71
Figure 7-2: General government debt	73
Figure 7-3: PIC Inflation and exchange rate	74
Figure 7-4: PIC Inflation and global commodity price inflation.....	74
Figure 7-5: Constraints to growth and success in Samoa	76
Figure 7-6: Main reasons for limited access to finance	77
Figure 7-7: Sources of foreign income.....	79

Tables

Table 0-1: Key constraints and areas of priority actions for reducing poverty and boosting shared prosperity.....	x
Table 0-2: Summary of country specificity of very high priority solution areas	xi
Table 1-1: Summary table for the 8 Pacific island countries.....	6
Table 3-1: Key constraints and areas of priority actions for reducing poverty and boosting shared prosperity....	28

Table 4-1: Selected agriculture-related characteristics of the PIC8	30
Table 4-2: Constraints to agricultural development in the PIC8	32
Table 4-3: Total international air arrivals to the PIC8 2011-14.....	37
Table 4-4: Contribution to GDP and employment trends.....	37
Table 4-5: Preferential labor mobility schemes/agreements for the PIC8	42
Table 4-6: Number of people from PIC8 residing in largest receiving countries	44
Table 4-7: Number of PIC8 migrants annually per preferential scheme	44
Table 6-1: Methods of resources sharing	66
Table 6-2: PIC8 Social safety net performance indicators	68
Table 6-3: Labor regulations and insurance programs	69
Table 7-1: Ease of doing business scores	75
Table 8-1: Prioritization of solution areas.....	85
Table 8-2: Country specificity of very high priority solution areas.....	87
Table A1-1: Availability of key data sources in the Pacific.....	100
Table A1-2: Poverty data availability assessment in the Pacific.....	101

Acknowledgments

The PIC8 SCD is a World Bank Group product, prepared by a team consisting of IBRD and IFC staff, with the involvement of MIGA. The preparation of the PIC8 SCD was led by task-team leaders Robert Utz (EACNF) and David Knight (GMFDR) and a core task team that consisted of Manohar Sharma, Jae Kyun Kim, Kim Edwards, Lucy Pan, Daniel Street, Nicole Jenner, Anthony Obeyesekere, Samantha Evans and Kanya Baratha Raj. Peer reviewers were Vivek Suri and Francisco Carneiro. The SCD benefitted from oversight and guidance by Franz Drees-Gross (Country Director, EACNF) and Gavin Murray (Regional Manager, CEASY) and support from the SCD Advisory Team, Mathew Verghis (Practice Manager, GMFDR) and Shubham Chaudhuri (Practice Manager, GPVDR/GMFDR). Antonella Bassani (Director, Strategy and Operations, EAPVP) and Rocio Castro (Adviser, EAPVP) provided excellent guidance to the team in the finalization of the document. The team wishes to thank everyone who contributed to the preparation of the SCD. In particular, special thanks go to members of the core working group which met on a weekly basis and provided substantial guidance and contributions to the report. The working group consisted of:

Name	Role in preparing the SCD
Robert Utz	Lead Economist and Program Leader
David Knight	Economist
Gavin Murray	Regional Manager, IFC
Mona Sur	Portfolio Operations Manager
Truman Packard	Program Leader
Venkatesh Sundararaman	Program Leader
Pierre Graftieaux	Program Leader
Georgie Drummond	Senior Operations Officer, IFC
Jesse Doyle	Social mobility and labor migration
Gerlin Catangui	Foreign direct investment and trade
Milena Petrova Stefanova	Fragility and land
Denis Jordy	Environment, climate change and disaster management
Simone Esler	Environment, climate change and disaster management
Roberto Aiello	Energy
Brenna Fae Moore	Agriculture and fisheries
Kofi Nouve	Agriculture and fisheries
Stephen Close	Education
Kris McDonall	Education
Sarah Harrison	Health

We would also like to acknowledge with thanks contributions to the team from the following people: Virginia Horscroft, Ron Duncan, Ilaisaane Lolo Sili, Dina Nicholas, Susan Ivatts, Eileen Sullivan, Tobias Haque, Mizuho Kida, Stefanie Sieber, Natasha Beschorner, Christina Wieser, Anna Fruttero, Annette Leith, Saia Faletau, Nancy Wells, Laisa Boedoro, Steven Schwartz, German Freire, David Mansberg, Anuja Utz, Sona Varma, Jimmy Adeng, Deva De Silva, Tijen Arin, and Helle Buchhave, as well as representatives of the PIC8 governments, development partners and all those who participated in consultations as part of the SCD preparation.

Executive Summary

This Systematic Country Diagnostic (SCD) covers eight small Pacific island countries (PIC8): Kiribati, Marshall Islands, the Federated States of Micronesia, Palau, Samoa, Tonga, Tuvalu, and Vanuatu. The objective of the SCD is to identify the most critical constraints and opportunities facing the PIC8 to meet the global goals of ending absolute poverty¹ and boosting shared prosperity in a sustainable manner. The report is intended to help these countries, the World Bank and other development partners establish a dialogue to focus their efforts around the key priorities and activities that have high impact and are aligned with the two goals. The regional approach of this SCD is driven by the similarity of development challenges faced by these countries and the importance of regional solutions to these challenges.

The PIC8 face unique challenges in ending poverty and promoting shared prosperity due to their extreme small size (with populations between 10,000 and 250,000), remoteness, geographical dispersion, environmental fragility, and high exposure to shocks. These factors create extraordinary threats to their economic, institutional, environmental and physical sustainability:

- **Small size, remoteness from major markets and internal dispersion combine to push up the costs of private production and public administration, lower the return to market activities and narrow the feasible set of economic opportunities.** Over the past 20 years average income levels in the PICs have, on average, grown by far less than any other region (less than 1 percent on average per year) and have dropped relative to the global average in most of the PICs. As a result, their economies have not been capable of providing sufficient employment opportunities for their people. Employment rates are estimated to be less than 50 percent of the working-age population in most countries. Given low growth and limited employment opportunities, migration and remittances have been a critical driver of increased living standards in the PICs.
- **The structural characteristics of the PIC8 have also translated into a set of common macroeconomic outcomes.** These include high domestic structural budget and trade deficits relative to the size of their economies, heavy reliance on external flows (such as foreign aid and/or remittances) to fund them, and elevated risks of debt distress. As countries face declining aid inflows (such as the North Pacific compact states) or declining remittances, this directly impacts on their capacity to sustain current levels of income and government services.
- **Most of the PIC8 also experience institutional challenges to support adequate provision of public services.** While public expenditures tend to be high in relation to the size of the economies of the PIC8, the absolute size of the public sector is still very small and often lacks the financial and human resources needed to provide adequate public services such as regulation or economic management. Technical assistance plays an important role in filling capacity gaps that, due to the small size of these economies, are unlikely to ever be completely eliminated.
- **The geography, undiversified economic structure and high import dependence of the PIC8 make them highly vulnerable to shocks.** Frequent natural disasters and climate change impose high costs and even threaten the physical viability of some of the PIC8. The frequency and intensity of natural disasters has increased, leading to substantial economic and asset losses for all the PIC8. The atoll nations of Kiribati, Marshall Islands and Tuvalu are particularly vulnerable to sea level rise. With the highest elevation often only a few meters above sea level, some predict that these countries may become submerged by 2100. Other countries are also at risk of sea level rise, as about 60 percent of infrastructure assets in the PICs are within 500 meters of the coastline. The PIC8 are also highly susceptible to economic shocks. Whilst

¹ In this report, except where otherwise stated, ‘poverty’ refers to living on less than US \$1.90 a day (2011 \$PPP).

economic openness is an essential response to smallness, it also highly exposes the livelihoods of Pacific islanders to the vicissitudes of global markets.

- **The PIC8 also face other aspects of vulnerability.** Their land and marine natural environments tend to be fragile and increasingly under pressure from overpopulation, urbanization and overexploitation. This environmental fragility also severely constrains the scope and type of economic activities for the PIC8. Furthermore, pressure on land caused by urbanization is a potential source of social tensions and instability in most PIC8 countries.

In most of the PIC8, relatively high per-capita incomes combined with reasonably widespread access to land for subsistence agriculture and informal, community-based social safety nets have been effective in keeping the incidence of extreme poverty low. Kiribati, Vanuatu, FSM and possibly Marshall Islands² have rates of extreme poverty (\$1.90 a day in 2011 \$PPP) higher than 10 percent. In the other countries—Samoa, Tonga, Tuvalu, and most likely also Palau—the share of the population living in extreme poverty is 3 percent or less. The extreme poor in the latter countries have the typical characteristics associated with social exclusion. They are likely to live outside the otherwise ubiquitous traditional networks and lack the support associated with them. Many are in urban areas, and lack jobs, may be homeless and have physical or mental disabilities.

Outside of Tonga and Samoa, poverty (\$3.1 a day in 2011 \$PPP) is relatively widespread, with one in three households in Vanuatu and Kiribati below this level. The poor are concentrated in Kiribati, Vanuatu, FSM, and possibly RMI, where over 90 percent of people in poverty in the PIC8 are located. Most of the poor in the Pacific live on outer islands, and here poverty is structural and persistent. Living on capital islands not only means that there are more economic opportunities, but also that access to services and infrastructure is easier than on outer islands. Especially in Kiribati, some inhabited islands are coral atolls where very little subsistence agriculture is possible, and it is thought that extreme hardship is much more prevalent in these areas than the average for rural areas suggests.

Poverty outcomes are thought to have stagnated or deteriorated in most of the PIC8 since the latest available data. Since household surveys used to calculate poverty and income estimates are only available infrequently in the PIC8, most of the poverty and shared prosperity data are some years old. While robust evidence is not available, there is a convergence of consultative views and related trends that indicate poverty and shared prosperity outcomes are unlikely to have improved since the last estimates, and in some cases may well have deteriorated. This is due to several major natural disasters that have hit these countries since their latest poverty data point and the impact of the global economic crisis and food and fuel price rises during 2008-2010 which also hit the region hard.

Data on income trends of the bottom 40 percent is scant and unreliable. Given that overall growth in per-capita income has been low for the PIC8 over the past two decades, incomes of the bottom 40 percent are also likely to have seen only very little growth. Over multiyear periods in the 2000s, only in Vanuatu did the average incomes of the lowest four income deciles increase more rapidly than average incomes of the population as a whole.³ Growth in Tonga and Samoa was slightly lower, and sharply lower in Tuvalu, reflecting economic stagnation and the loss of job opportunities for Tuvaluan seafarers. This is in contrast to the median experience in EAP over the 2000s of modestly faster growth of incomes of the bottom 40 percent in relation to overall economic growth. While traditional social structures are mostly effective in ensuring people have basic food and housing, there is an increasing disparity between the ‘haves’ and ‘have-nots’ when considering a modern level of basic needs. Access to cash incomes, basic infrastructure and social services and other basics like nutritious food are only available to some, and there has been uneven progress in extending access to all.

² Data on poverty in Marshall Islands are insufficient for a quantitative assessment.

³ Detailed data for previous years are not available, so these estimates are based on comparison of the lowest three decile average to the total population average from published reports.

TABLE 0-1: KEY CONSTRAINTS AND AREAS OF PRIORITY ACTIONS FOR REDUCING POVERTY AND BOOSTING SHARED PROSPERITY

	Source of constraint	Area of priority actions	Impact on twin goals
Pathways to reducing poverty and boosting shared prosperity	Remoteness, smallness, and geographic dispersion limit PICs' economic opportunities	Fully exploiting the limited set of economic opportunities	Increased incomes and government revenue
	Remoteness and lack of education and skills excludes the poor from many economic opportunities and access to quality public services	Fostering access to economic opportunities and public services	Increased incomes and access to services for the poor
	Natural disasters, economic shocks, and climate change create poverty traps	Protecting incomes, assets, and services for the poor	Sustained progress in poverty reduction and shared prosperity
Enablers	Progress along the three pathways is held back by weaknesses in macroeconomic management, infrastructure, public expenditure policies, access to finance and the regulatory framework	Addressing selectively weaknesses in economic governance and the business environment	
		Improved environment for the pursuit of poverty reduction and shared prosperity	

The bottom 40 percent are characterized by reliance on subsistence farming, relatively low levels of education, remoteness from economic opportunities and quality public services, as well as vulnerability to external shocks. Furthermore, unequal gender roles, lack of voice and political participation, and violence against women in the PIC8 perpetuate poverty and exacerbate women's hardship. This indicates that in order to end absolute poverty and boost shared prosperity in a sustainable manner, the PIC8 have to address the triple challenge of creating more economic opportunities, improving access to health care, education opportunities and public services by the poor, and protecting them from frequent economic shocks and natural disasters. Specific measures in these three priority areas need to be underpinned by selective improvements to the overall enabling environment, especially connective infrastructure, public expenditure management, and the regulatory environment (see Table 0-1).

In responding to these constraints, this SCD has identified actions in four key priority areas based on a framework that considers their direct and indirect impact on the twin goals, feasibility, time horizon of impact, and strength of the evidence base. Although the PIC8 share many commonalities, they also show significant differences with regard to country context and progress towards the twin goals, which implies that priorities will differ across countries (Table 0-2). Nonetheless, priorities are typically shared by at least a subgroup of the PIC8 and regional solutions play an important role in addressing priority issues. Chapter 8 of the SCD highlights countries for which each area is a particular priority. It is important to note that regional solutions are a theme that runs through many of these solution areas. In particular, Table 0-2 below highlights solutions areas where regional solutions (in green) are most critical: tourism, fisheries, labor mobility and disaster risk preparedness.

TABLE 0-2: SUMMARY OF COUNTRY SPECIFICITY OF VERY HIGH PRIORITY SOLUTION AREAS

	FSM	MHL	PLW	KIR	TUV	WSM	TON	VUT
Pathway 1: Fully exploiting the limited set of economic opportunities								
Expand tourism								
Increase fisheries revenue								
Increase incomes from agriculture and coastal fishing								
Expand labor mobility opportunities								
Pathway 2: Enhancing access to employment opportunities and public services								
Close education and skill gaps								
Close other gaps in public service delivery								
Prevent NCDs								
Stop gender based violence								
Pathway 3: Protecting incomes and livelihoods								
Strengthen disaster risk preparedness								
Fundamental Enablers: Strengthening governance and the business environment								
Maintain & develop economic infrastructure								
Improve public expenditure management								
Ensure macroeconomic stability and sustainability								

Notes: Blue shading denotes a solution area is particularly relevant for that country, while green indicates solution areas where regional solutions are most critical.

The first priority area focuses on fully exploiting the limited set of economic opportunities available to the PIC8, including agriculture and fishing, tourism, and overseas employment.

- **For tourism, the main constraints include a lack of air and sea connectivity and inadequate enabling and tourism infrastructure.** Regional approaches would help enhance air access and the marketing of Pacific island destinations in new markets such as Asia. Successfully targeting high-value market segments will effectively trade on the Pacific's unique value proposition and help mitigate higher travel costs.
- **Agriculture and coastal fishing play an important role in meeting the subsistence needs of the poor.** Low-cost and low quality food imports often crowd out domestic production and contribute significantly to the non-communicable disease crisis experienced by the PIC8. While opportunities for exports of agricultural products are likely to remain limited, opportunities for small scale local trade, import substitution to supply the tourism sector and selected niche and cash crop exports offer possible gains for many. However, the task of revitalizing often neglected agriculture sectors will require sustained and substantial investment over reasonably long time horizons. Key elements of a strategy would be to make available affordable risk management tools, invest in rural infrastructure and ensure functioning sector support systems.
- **With respect to oceanic fisheries, recent gains in revenue generation from fishing licensing through regional approaches should be sustained with significant scope for further strengthening and expanding arrangements.** Important areas of development include enhanced transparency and market based approaches (such as auctions) for the trade in vessel days. Expanding the scheme to long-line tuna fishing and to albacore tuna promises further increases in revenue for the PICs and would support the sustainable management of fish stocks.
- **With limited domestic economic opportunities, international labor mobility has already delivered significant and generally pro-poor benefits for some of the PIC8.** Going forward, pursuing agreements to scale up existing seasonal migration schemes and expanded quotas for permanent migration, better targeting opportunities towards the poor and towards countries that have only limited participation, and creating new opportunities for higher skilled workers—such as nurses—are priorities and require joint action by labor sending and labor receiving countries.

The second priority area is to improve access to employment opportunities and basic social and infrastructure services, with a particular emphasis on enhancing educational attainment and skills of the poor.

- **In the social sectors, priorities include closing gaps with regard to access and quality of education.** These are key correlates of hardship and translate into unequal access to economic opportunities, especially with respect to overseas employment opportunities and public sector jobs. Enhanced skill development and training opportunities related to the tourism sector is important to allow the poor to take advantage of employment opportunities and for the development of the sector.
- **The high prevalence of NCDs in the PIC8 imposes high human and economic costs on these countries.** Adoption of measures that would prevent NCDs is thus critical. A roadmap for NCDs adopted by a joint meeting of Ministers of Finance and Health at the 2014 Forum of Economic Ministers Meeting (FEMM) meeting in Honiara provides relevant priorities that need to be translated into national action plans and implemented.
- **Disparities in access to water, sanitation, electricity and ICT are particularly pronounced in Vanuatu, Kiribati, FSM and RMI, with services often limited to the main islands, while the outer islands, where most of the poor reside, have very limited access.** Measures would aim at ensuring adequate access of the poor to public services, including targeted investments in areas where the poor are located, and reducing the cost to the poor, either by moving to more cost efficient production methods (e.g., from fuel-based to renewables-based electricity generation) and through market and public utilities reforms, or by subsidizing prices for the poor.
- **Given the high cost of providing services to populations in remote islands, in many cases this will require a two-pronged approach.** The first is to close gaps in service provision wherever this is feasible and economical. However, this may not be possible at reasonable cost in many locations and measures to enhance mobility from outer islands to access education, skills development and other services may also need to be considered.
- **Gender-based violence is extremely high in a number of countries in the region and must be addressed as a priority.** Based on the best available statistics, women in more than half of the PIC8 countries suffer from either partner or non-partner violence to a far greater extent than elsewhere in the world. Violence against women has major traumatic and disempowering effects and is associated with poverty, poor health and lack of housing, and places stresses on children's development, education, and nutrition levels.

The third priority focuses on protecting incomes and livelihoods of the poor and the bottom 40 percent from climate change, frequent natural disasters and economic shocks experienced by the PIC8.

- **The PIC8 level of exposure, new and evolving risks, and the need to protect assets and people, calls for a mainstreaming of disaster risk reduction policy into many areas of policy making and development efforts.** Priorities include: (i) strengthening policy, institutional and evidence-based decision making capacity including via easy-to-access and relevant data and inclusive, participatory approaches; (ii) strengthening disaster early warning, preparedness, and response; (iii) mainstreaming disaster risk and climate change considerations into development planning and investments (including infrastructure plans, land use plans, building codes and environmental impact assessments, as well as sectors such as agriculture, health, education, fisheries, etc.); and (iv) strengthening the financial resilience of countries to climate and disaster shocks.
- **A long-term strategy should also be developed for the atoll islands, as they have their own unique resilience needs.** There are a number of options that can be explored to strengthen physical resilience. Some atolls may be amenable to 'atoll raising', which constitutes raising the heights of atoll islands

through the addition of sand and gravel from lagoonal settings. Similarly, significant land reclamation projects could increase the size of atolls, bringing protection against sea-level rise, adding additional water aquifer capacity, and yielding quality land for development and inward investment (e.g., to attract increased tourism). There are also a range of engineering solutions (e.g., sea walls, beach nourishment, wave dissipation measures) as well as ecosystem based approaches (e.g., protection of coral reefs, pollution control, planting mangroves) that can be considered and combined through integrated coastal zone management. This is particularly needed in situations where there is very limited land available or because customary land issues limit the options available to the Government. Comparisons with migration options should also be considered and a long-term vision about climate adaptation in atoll islands should be developed.

- **Strong traditional family and community based safety nets are still effective in preventing extreme hardship.** However, traditional networks do not reach many households experiencing the deepest hardship and provide only partial insurance to households suffering shocks. In addition, traditional networks cannot manage local or aggregate shocks that affect most of their members. Governments of the PIC8 and their development partners should thus consider an expanded role in social protection that takes into account traditional networks and is mindful of fiscal and capacity constraints. In this context, one significant reform would be for countries to establish social protection systems that are capable of delivering resources quickly and efficiently to those who need them in the event of a disaster.

Knowledge Gaps

The SCD also identifies priorities for analysis and data collection to support the poverty reduction and shared prosperity agenda. Analysis and policy making with respect to poverty reduction and shared prosperity in the PIC8 are severely constrained by the paucity and low quality of data. In particular, none of the PIC8 fields regular household surveys that would allow policy choices to be informed by a good understanding of the poor and the key drivers of poverty. It also constrains the evaluation of which policies have the most impact on poverty reduction. Investment in improved information on the situation of the vulnerable and poor would also be essential to design social protection programs in the PIC8.

The particular and specific drivers of fragility in the PIC8 warrant further attention. While this SCD has used available evidence, the factors that lead half of the countries to be considered fragile situations, such as small size and remoteness, are substantially different from those typically encountered elsewhere. A more comprehensive assessment of these drivers would support development policy and programs in the region.

The SCD also highlights that economic opportunities available to the Pacific island countries are limited. While these opportunities have been known for a long time, the experience of most of these countries in realizing these opportunities has been disappointing, reflected in the poor growth performance of the PIC8. A realistic assessment of these opportunities as well as of the measures needed to realize them is essential. In this context, deep sea mining is seen by some of the PIC8 as the next big opportunity, while at the same time many raise concerns about its possible environmental impacts. This is thus an area that would benefit from an objective assessment of risks and opportunities that could inform policy choices in the PIC8. With the liberalization of telecoms markets and investments in fiber-optic cables that connect many of the PIC8, new opportunities to overcome the tyranny of distance through a focus on knowledge products may become available and deserve a critical assessment. The *Pacific Possible* research program led by the World Bank Group is providing new insights into the potential of these game-changers.

Introduction

1. This Systematic Country Diagnostic (SCD) identifies the key constraints and opportunities to reducing poverty and promoting shared prosperity in a sustainable manner for eight small Pacific island countries (PIC8): Kiribati, the Federated States of Micronesia, Marshall Islands, Palau, Samoa, Tonga, Tuvalu and Vanuatu⁴. The World Bank Group is committed to helping developing countries achieve the twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. The framework for the PIC8 SCD is based on a diagnostic of poverty and hardship in the Pacific and pathways to prosperity. The SCD begins with a context-setting diagnostic of overarching constraints, which situates the challenges of the twin goals of ending absolute poverty and promoting shared prosperity within the very specific context of the Pacific (Chapter 1). Next, the SCD examines the incidence and profile of poverty and shared prosperity in the Pacific, in order to understand their characteristics and drivers (Chapter 2). The third aspect of the framework is the identification of key pathways for ending poverty and boosting shared prosperity (Chapters 3-6). This entails identifying activities and aspects of men and women's livelihoods that have strong direct or indirect links to ending poverty and boosting shared prosperity. This identification of pathways is made in a context-appropriate way, combining global solutions and knowledge with the specific constraints and opportunities of the Pacific. Next, the SCD draws attention to cross-cutting enablers of economic governance and the business environment (Chapter 7). Addressing key weaknesses in these areas is essential for improving the delivery of basic social services relied upon by the poor, as well as fostering an enabling environment that maximizes the economic opportunities available to them. Finally, the SCD undertakes a process of prioritization of interventions that takes into account a broad view of the likelihood of success and focuses on those interventions that will have the biggest impact in achieving the twin goals (Chapter 8). The criteria for prioritizing interventions include the following: impact on twin goals, time horizon (immediacy of impact), spillovers, evidence base (whether there is evidence that an intervention has a significant impact on the twin goals), and feasibility.
2. The regional approach of this SCD is driven by the many common constraints the PIC8 face. Historically, the World Bank Group has covered the Pacific island countries in regional strategies⁵, rather than individual country strategies. As the Bank engagement in the Pacific has scaled up significantly since 2010, individual Country Partnership Strategies have been prepared for all the PIC8 except Palau and Vanuatu. The SCD marks a return to a regional approach that is justified by the similarity of development challenges faced by these countries and the importance of regional solutions to these challenges. The task of preparing a multi-country SCD is to strike the right balance between a regional perspective and adequate country specificity. This report aims to address that by using country-specific analysis to produce conclusions at multiple levels: either for the whole PIC8 region, for sub-groupings, or for individual countries.

Box 0-1: WHAT AN SCD IS AND WHAT IT AIMS TO ACHIEVE

The SCD is an analytical report prepared by World Bank Group (WBG) staff under the Bank's new country engagement model. The objective of the SCD is to identify the most critical constraints and opportunities facing a country in accelerating progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner, the twin goals that the WBG has committed to helping its member countries to achieve.

The WBG will use the SCD as an input towards the preparation of its Country Partnership Framework (CPF), which will outline the Bank's engagement and support in a country. The SCD is therefore intended to become a reference point for consultations with the Government and other stakeholders on priorities for WBG country

⁴ All countries are classified as IDA-eligible, except for Palau which is IBRD-eligible. Tuvalu is not a member of the IFC. Only FSM, Palau, Samoa and Vanuatu are members of MIGA.

⁵ For instance, World Bank 2000.

engagement. It is intended to help the country, the World Bank and other development partners establish a dialogue to focus their efforts around goals and activities that have high impact and are aligned with the two goals.

Although the SCD is expected to help inform the identification of areas where the WBG can support a country and which will be outlined in the CPF, it is not limited to areas or sectors where the WBG is currently active or expects government demand. The SCD simply seeks to identify areas that will have the biggest impact on ending extreme poverty and boosting shared prosperity in a country, whether the WBG will be involved or not. By not limiting the scope of the analysis, the SCD can stimulate an open and forward-looking dialogue between the WBG, member governments and the broader public, with a focus on what is important for the country's development agenda rather than the WBG's areas of engagement.

Complementing the SCD, the World Bank has also launched a program of research and dialogue on transformative long-term economic opportunities and challenges titled *Pacific Possible*. *Pacific Possible* will generate more in-depth analysis on long-term economic prospects with a focus on the potential in the areas of oceanic fisheries, sea-bed mining, ICT and knowledge based activities, labor mobility, NCDs, climate change and disaster management, and regional cooperation.

Chapter 1: Setting the Stage

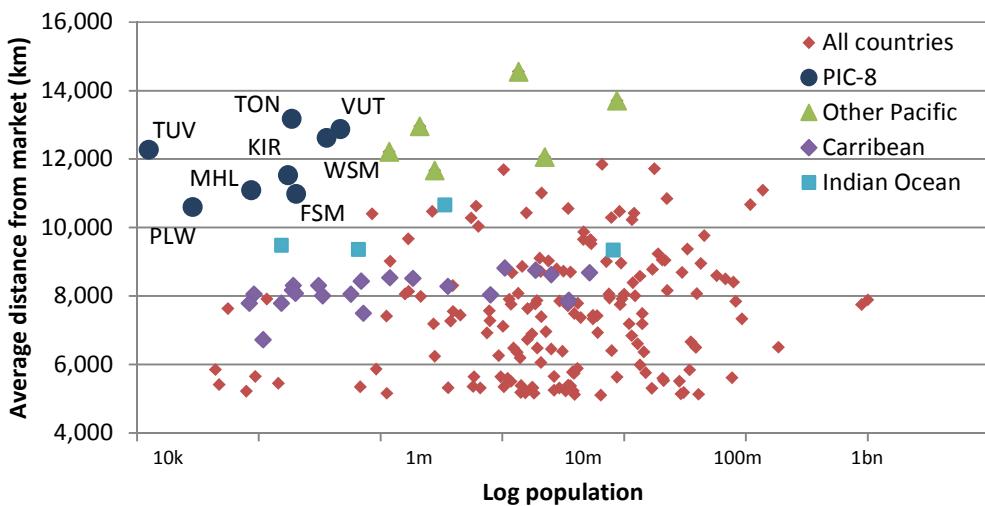


The Effects of Economic Geography

3. **The PIC8 all face particular challenges in reducing poverty and promoting shared prosperity due to their extremely small size, remoteness, dispersion, environmental fragility and high exposure to shocks.** All these countries are archipelagos, ranging from a minimum of four inhabited islands (Samoa) to more than 70 (Vanuatu). They include some of the smallest independent states on earth, such as Tuvalu with a population of 10,000 and range up to Vanuatu, with a population of 250,000.

4. **Based on their distance to markets weighted by the size of the market, the PIC8 are the most remote countries on earth and very dispersed.** The Caribbean islands are 8,000km away from centers of economic activity while the Indian Ocean islands are up to 10,000km away. By comparison, the Pacific islands are 12,000km from centers of economic activity (Figure 1-1). Most have an average population per inhabited island of less than 5,000, with large tracts of ocean between most of the islands. Kiribati is home to a population of 100,000 people that are spread over an area as large as India, while the combined land mass of these islands is less than the area of New Delhi.

FIGURE 1-1: SMALLNESS AND ECONOMIC REMOTENESS



Source: World Bank staff calculations using World Bank World Development Indicators (WDI) and CEPII

Note: x axis in log scale.

5. For the PIC8, small size, remoteness from major markets and internal dispersion combine to push up the costs of private production and public administration, lower the return to market activities and narrow the feasible set of economic opportunities. For the PIC8, remoteness implies high trade cost, primarily due to their distance from major markets, small import and export volumes, geographic location away from major shipping routes, and lack of competition among the few international shipping lines that do serve them (Yang et al. 2013, pp. 28-30).⁶ These conditions create challenges to integrate into global value chains, as critical infrastructure like freight services, which are determined by volume of trade, largely overlook the region. The small size of a domestic economy would not usually—in itself—preclude the exploitation of economies of scale or scope in the production of tradable goods and services, because firms in a small state can target much larger export markets. But where very small size is combined with extreme remoteness from major markets—as in the PICs—the costs of international trade can make access to global markets prohibitively costly, in which case the size of the domestic economy can act as a binding constraint on the productivity of these firms (Yang et al. 2013, pp. 6-8). Furthermore, in the context of globalization, agglomeration—with the greater opportunities it facilitates for specialization and for capturing positive externalities—is a key driver of productivity (World Bank 2009). For the PICs, this presents a significant challenge, because they not only lack agglomeration, but they are also remote from centers of agglomeration.



⁶ Some land-locked states in Sub-Saharan Africa may be subject to as high costs of international trade—and hence ‘remoteness’—as the PICs, although these high costs have different causes.

BOX 1-1: THE PACIFIC IN HISTORICAL PERSPECTIVE

Historians estimate that the Pacific islands were first inhabited between one and four thousand years ago. The people of the Pacific islands are thought to have migrated first to areas known as Melanesia, including Vanuatu, from around 2,000 BCE. Based on advanced and long-range seafaring techniques, these populations then ranged across the rest of the Pacific, gradually discovering and inhabiting new islands over the course of the next three thousand years.

More recently, colonial economic relationships have shaped economic structures. The Pacific islands were encountered by European explorers from the sixteenth century onwards. Around the end of the eighteenth century, the Pacific became a hotspot for whaling activity that supplied European markets with commodities derived from sperm whales including candles, cosmetics and lamp oil. Populations of whales were quickly depleted but the industry increased contact of Europeans with the Pacific nations. European settlers began arriving in the Pacific in the early nineteenth century. As Europe urbanized, the market for imported agricultural products grew and plantations, particularly for the production of the coconut product copra, developed. Trading networks of large European powers such as Germany and England plied routes across the Pacific, which provided the economic rationale for the colonization of many of the Pacific islands. As trade and colonial linkages developed, other natural resources were discovered and exploited, including large phosphate reserves in Kiribati, marine reserves such as sea cucumbers collected by Chinese traders, and valuable hardwoods. The period from the outbreak of the First World War through to the Second World War brought intense suffering to the Pacific islands, with devastating battles being waged on their shores and countries being exchanged between colonial powers.

While all of the PIC8 have regained their independence, some retain close economic ties to larger countries. With the exception of Tonga, which was never formally colonized, all of the PIC8 declared their independence during the second half of the 20th century—with Samoa first in 1962 and Palau most recently in 1994. The Republic of the Marshall Islands (MHL), the Federated States of Micronesia (FSM) and Palau have compacts of free association with the United States of America (US), which include free movement of people, sharing of territorial waters and international fiscal transfers. Tongans and Samoans were afforded open access to New Zealand after independence. While they no longer have open access, a large percentage of the population of Tonga and Samoa now possesses dual nationality or has family across both countries.

In addition to links to larger countries around the Pacific, the larger islands in the region, especially Fiji and Papua New Guinea, also play a central role. Centrally located amongst the PIC8 and with a population close to 900,000, Fiji has historically played an important role in the region via its capacity to act as a hub connecting the Pacific, and a stepping stone to the rest of the world. Although still small by global standards, Fiji is less acutely affected by small size and economic remoteness and, for instance, is generally considered to have much deeper labor markets and better connections to other regions than the PIC8. Papua New Guinea, the largest economy in the region, is also strengthening its economic ties with the smaller Pacific island countries. This includes investments in the tourism and banking sectors, but also development assistance provided by Papua New Guinea.

6. Just as private sector production costs are higher in small remote states as a result of their economic geography, so too are the costs of public administration. Lack of economies of scale in administration and service delivery play a significant role in pushing up the cost of public administration in small states.⁷ The internal

⁷ See, for instance, Srinivasan (1986, p. 211), Lowenthal (1987, pp. 35, 43-44), Bray (1991, p. 67), Baker (1992, pp. 15-17), Streeten (1993, pp. 197-199), Farrugia (1993, pp. 221-222), Medina Cas and Ota (2008, pp. 13-14), Brown (2010, p. 52), and Sarapuu (2010, p. 34).

geographic dispersion of most of the PICs further contributes to high cost of public service delivery. Due to the high costs of public service provision in the PICs and the small tax base, taxation at a level which does not impose large market distortions is generally insufficient to fund an adequate range and quality of services.⁸ Even with significant donor support, there remain persistent gaps in the provision of state functions in the PICs, with some functions not performed at all or not provided to an adequate standard. Where there is an inadequate supply of public goods and services that are inputs to private sector production, this adds to the costs and restricts the productivity of private sector firms.

TABLE 1-1: SUMMARY TABLE FOR THE 8 PACIFIC ISLAND COUNTRIES⁹

	Vanuatu	Samoa	Tonga	Kiribati	Tuvalu	Marshalls	FSM	Palau
<i>Spatial and situational indicators</i>								
Population	253,165	190,390	105,139	108,544	9,876	52,786	103,718	20,919
Population growth	2.3%	0.7%	0.5%	1.8%	0.4%	0.3%	0.0%	1.2%
Land area (km sq) 2014	12,190	2,830	720	810	30	180	700	460
EEZ (km sq)	827,891	131,812	664,853	3,550,00	751,797	1,992,23	2,992,59	604,289
Inhabited islands	72	4	36	21	9	24	65	8
Remoteness (km)	12,509	12,280	12,857	11,241	11,977	10,815	10,670	10,248
Avg population per island	3,516	47,598	2,921	5,169	1,097	2,199	1,596	2,615
<i>Fiscal indicators (ratio to GDP)</i>								
Total public spending	23.7%	42.9%	25.1%	109.4%	82.0%	29.8%	61.8%	37.1%
Development funding	4.3%	11.2%	5.4%	50.5%	12.3%	17.6%	40.6%	16.6%
Trust fund assets	0.0%	0.0%	0.0%	351.6%	345.1%	119.0%	75.9%	60.5%
Total PPG debt (PV)	21.7%	78.8%	39.6%	11.9%	38.7%	46.8%	26.6%	33.9%
<i>Economic indicators</i>								
GDP per capita (PPP US\$)	2,986	5,683	5,050	1,750	3,645	3,890	3,389	13,588
GDP per capita growth	0.7%	2.1%	1.1%	0.9%	1.6%	0.9%	0.3%	0.3%
GDP (PPP, current US\$ m)	756	1,082	531	190	36	205	352	284
Share of agriculture	28.0%	9.7%	20.7%	25.6%	22.2%	22.1%	28.8%	4.4%
Share of industry	8.8%	25.6%	19.4%	7.7%	8.7%	10.3%	7.9%	9.1%
Share of services	63.2%	64.7%	59.9%	66.7%	69.1%	67.6%	63.3%	86.5%
Imports, ratio to GDP	51.2%	50.1%	58.2%	110.5%	150.9%	108.3%	81.8%	81.7%
Exports, ratio to GDP	47.8%	30.5%	21.5%	10.5%	11.6%	41.9%	23.3%	60.9%

Notes: Data for latest year available (2013) except GDP per capita growth and population growth which are 20-year averages; remoteness is measured as the average distance from other economies, weighted by their GDP; public and publicly-guaranteed debt (PPG debt); present value (PV); PPG debt for FSM is external nominal only and external only for Palau.

⁸ What constitutes an ‘adequate’ range and quality of public services is not an objective matter but a matter of judgment and a question of social expectations of the public sector. That this is not an objective matter does not detract from the strength of its influence on behavior—for instance, PIC governments seek, and their development partners provide, significant development assistance because both judge that public services would be ‘inadequate’ in the absence of such.

⁹ Unless otherwise stated, source of data throughout report is World Bank World Development Indicators for latest year available.

FIGURE 1-2: GOVERNMENT REVENUE EXCL. GRANTS

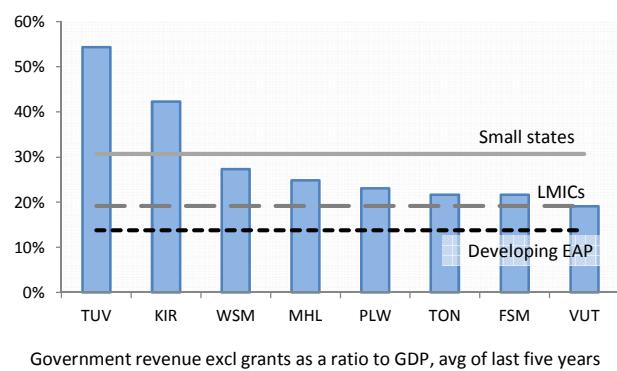
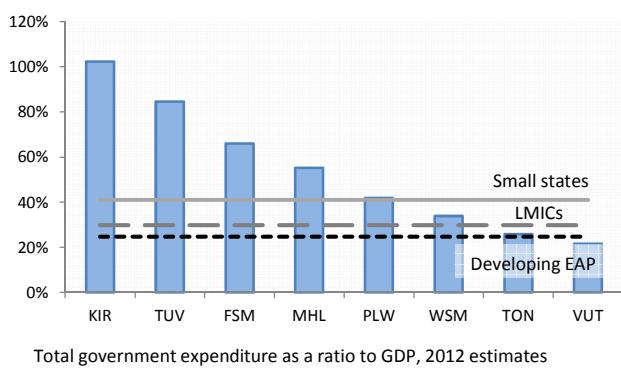


FIGURE 1-3: GOVERNMENT EXPENDITURE



Source: World Bank staff estimates and country sources

7. Structural characteristics of the PIC8—smallness, remoteness, internal dispersion, and vulnerability to natural disasters—have translated into a set of observable macroeconomic outcomes which are common across the PIC8 including: structural domestic budget deficits; structural trade deficits; and elevated risks of debt distress. Insofar as public expenditures are structurally higher than domestic revenues, the scope for building fiscal buffers is limited. Also, structural trade deficits are the norm in the PIC8, with import bills tending to be high compared with other small states (Figure 1-4) due to their narrow and undiversified domestic production bases, which can only meet a small proportion of the demand of the domestic population, such as for diesel for power generation, food and construction materials. On the other hand, as high trade costs make it difficult for firms to achieve economies of scale in the production of traded goods, exports are low compared to other small states (Figure 1-5). Like many other small states, debt sustainability is a challenge for the PICs, although this is not only driven by debt levels but also their susceptibility to external shocks and their limited capacity to service debt, given their small economic bases, low exports and limited budgetary resources.

FIGURE 1-4: IMPORTS AS A SHARE OF GDP

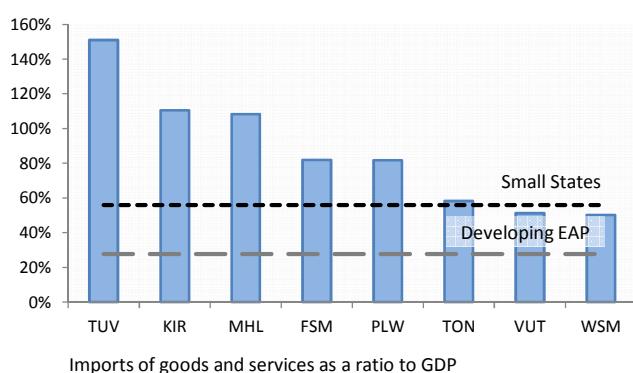
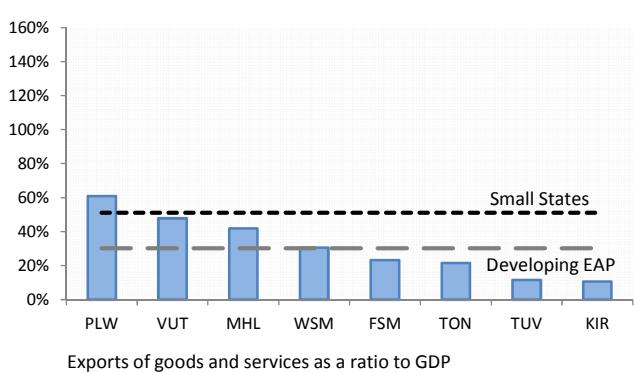


FIGURE 1-5: EXPORTS AS A SHARE OF GDP



8. Regional and international cooperative solutions hold the promise of addressing the challenges of small size and a shortage of fiscal and human resources faced by the PIC8. These gains are evident in a number of areas, including international connectivity, shared governance services, education, health and sector development strategies. Yet, as pointed out by the Pacific Islands Forum Secretariat (PIFS) in the 2013 Pacific Plan Review, the track record of success in establishing such solutions has been mixed, and building sustainable cooperative solutions remains a key challenge in the Pacific.

Growth Experiences

9. While per-capita income levels in the PICs are not amongst the lowest, their long-term trend growth rates imply that most of the eight countries are increasingly lagging behind the rest of the world. Gross national income (GNI) per capita ranges from US\$2,500 (Kiribati) to US\$10,500 (Palau). External sources of income contribute substantially to higher incomes including royalties from industrial fishing in their exclusive economic zones (EEZs) and high levels of remittances from family members living and working abroad. A further source of financing that supports higher living standards is development assistance, which in per capita terms is amongst the highest in the world. Over the past 20 years, the PICs have, on average, grown by far less than any other region, particularly East Asia. As a result, average income levels in almost all the PICs have dropped relative to the global average. Only in Samoa has income growth just kept pace with the global average. Some countries such as Palau and Vanuatu which have registered reasonable GDP growth over the period have not been able to keep pace with rapid, cumulative population growth—the population of Vanuatu has grown by 60 percent over 20 years.

FIGURE 1-6: REGIONAL LONG-TERM GROWTH¹⁰

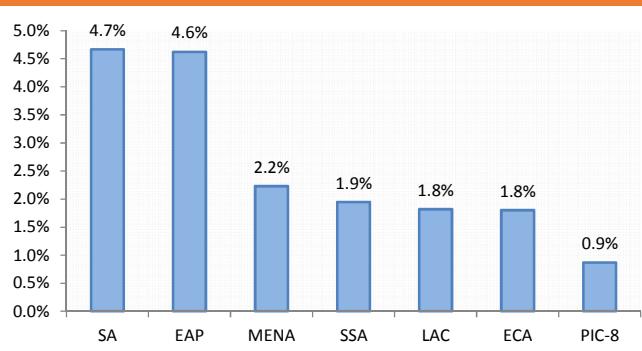


FIGURE 1-7: COUNTRY LONG-TERM GROWTH

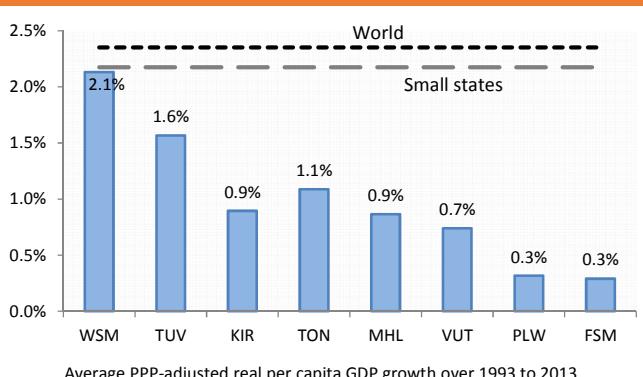


FIGURE 1-8: SECTOR BREAKDOWN OF ECONOMIC GROWTH

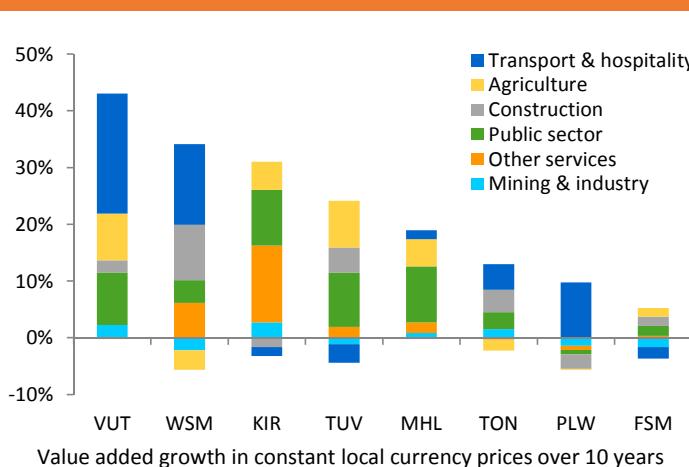
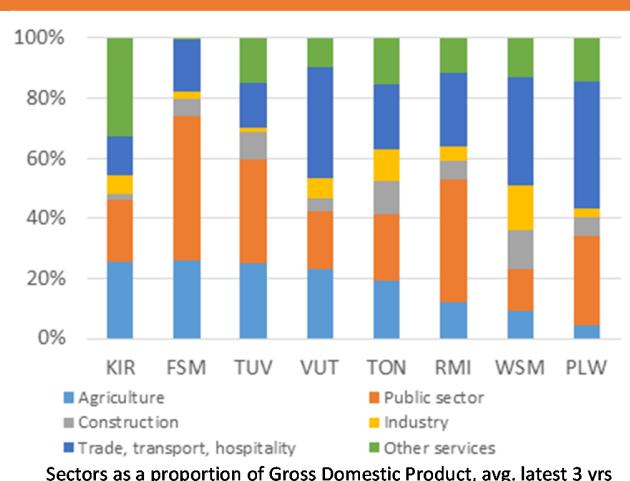


FIGURE 1-9: SECTORAL COMPOSITION OF GDP



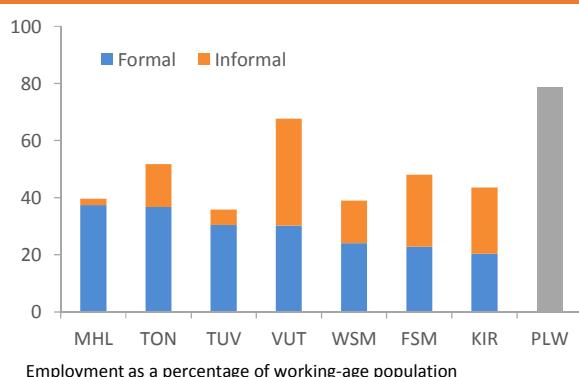
10. Economic growth in the PICs has been determined by their economic geography, with specialization in a few economic activities where they have been able to compete globally, notably tourism, and by the public sector, often financed by development assistance and natural resource revenues. The fastest growing

¹⁰ For this and all other tables and figures, PIC8 countries are excluded where data is not available.

economies, Vanuatu and Samoa, have both grown largely thanks to the rapid expansion of trade, transport and the hospitality sector as a result of increases in Australian and New Zealand tourist arrivals. Tourism-related services have sustained positive growth in Palau in the absence of other sustained drivers of growth, and supported some growth in Tonga. However, the other PIC8, which generally are not known as tourist destinations, have not benefitted in the same way. In these countries, growth tends to be lower, and sustained by the growth in public services and construction—often publically financed.

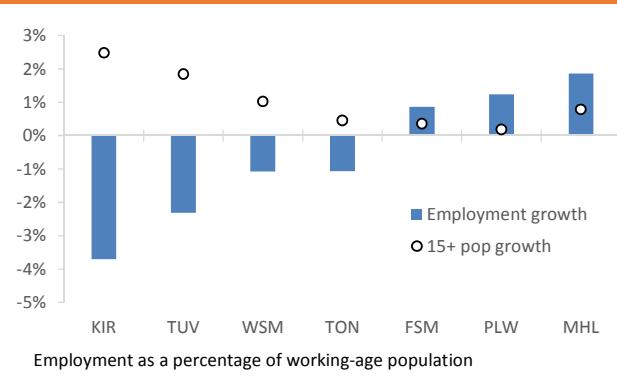
11. It is also important to note the frequent natural disasters in this region can distort the growth picture. Vanuatu, Samoa and Tonga in particular have been struck by major natural disasters over the period. In these countries, the reconstruction efforts have increased growth rates but in reality these high growth episodes have simply returned the countries to their initial positions. Notable for its absence is any significant growth in mining or industrial sectors. Agricultural growth (mainly from subsistence agriculture) has been modest at best—it has contributed the most in Vanuatu and Kiribati where population growth has been high. The recent historical experience in the region provides little indication that the conditions exist in the PIC8 for the structural transformation from subsistence agriculture to formal jobs that has often been seen elsewhere in the world as countries develop. Other sectors that have been historically important such as copra¹¹ have been in long-term decline since the 1980s when competition in these markets intensified and brought prices down too far for Pacific islands to be able to realistically compete.

FIGURE 1-10: EMPLOYMENT IN THE PICs



Source: World Bank staff estimates based on national censuses

FIGURE 1-11: EMPLOYMENT AND POPULATION GROWTH



Source: World Bank staff estimates based on national censuses

12. Given the major challenge of geography that the PICs face in generating economic growth, it is not surprising that their economies have not been capable of providing sufficient employment opportunities for their people in recent decades. Employment rates are estimated to be less than 50 percent of the working-age population in most countries. Whether formal jobs, cash work or subsistence agriculture, fewer than half the population have a working activity in Tuvalu, Samoa, Kiribati, RMI and FSM as estimated by the latest census data available. Just over half the population are employed in Tonga, and activity rates are considerably higher in Vanuatu, driven by high levels of subsistence agricultural activity.

13. Over the last 5 to 10 years, most countries have seen employment decline at the same time as working-age populations increase. Almost all countries show a trend of declining activity in the agriculture sector, yet limited or no formal sector job creation, leading to increasing numbers of people without any economic activity.¹²

¹¹ Copra is the dried meat of a coconut after the oil has been extracted.

¹² In the decade up to the latest poverty estimate, the increase in this ‘jobs gap’ (defined as change in employment relative to change in working-age population) increased by 20 percent in Vanuatu. In the five years to 2011, the number of jobs, broadly defined, had declined in both Samoa and Tonga, with the jobs gap increasing by 13 and 6 percent respectively. In Tuvalu, more than 600 jobs were lost in the 10 years to 2012 due to fewer job opportunities for Tuvaluan seafarers, compared to a working-age population growth of over 1,000.

Over the 2000s, the number of new jobs created in Kiribati, Tuvalu, Samoa and Tonga was insufficient to make up for job losses, increasing the number of people not in any employment (Figure 1-11). In all of these cases, increases in participation in education did not make up for the gap, leaving more people not in employment, education or training (NEET).

14. Earnings from natural resources provide critical sources of government revenue and foreign exchange in the PICs, but these industries tend to be capital-intensive and hence do not generate significant private sector employment. The formal jobs that are available in the private sectors of the PICs tend to be derived more from tourism and from the public sectors, which ‘crowd in’ significant private sector activity and employment via public procurement and the demand derived from the wages paid to public sector employees. Public sector employment itself tends to play a significant role in the labor markets of the PICs, particularly as a source of formal jobs. For example, in Kiribati the public sector accounts for nearly 80 percent of formal sector jobs. Overall, formal sector job opportunities are fairly limited in the PICs, with most working-age people confined to the informal sector or not in employment (see Figure 1-10).

FIGURE 1-12: POPULATION GROWTH OVER 20 YEARS

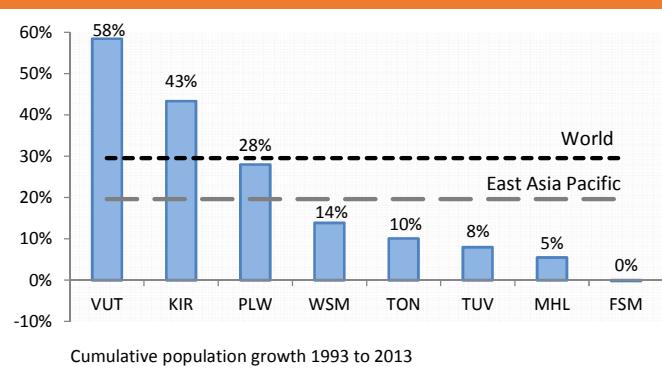
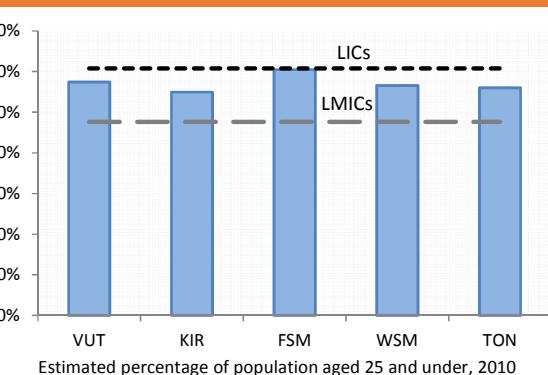


FIGURE 1-13: YOUTH POPULATION (25 AND UNDER)



15. As a result of relatively high fertility rates, many of the PICs face a youth bulge. On average 57 percent of the population in the PICs is below the age of 25—a higher proportion than the average for the developing world and more similar to rates seen in the least-developed countries (Figure 1-13). The number of people aged 0–14 substantially exceeds those aged 14–25, so the number of working-age youth is expected to grow quickly over the next decade. Given the fairly limited job opportunities in the PICs, rapid growth in the working-age population presents a significant problem.

16. Given low growth and limited employment opportunities, migration and remittances have been a critical driver of increased living standards in the PICs. Access to labor markets abroad offers a critical development opportunity for the PICs by enabling their people to move to economic areas where productivity is higher, increasing the productivity of migrating workers and improving not only their human development outcomes but also—via the remittances they provide and by knowledge transfers—human development outcomes for their extended families back home. Evidence from the PICs shows that remittance income from migrant workers abroad improves living standards in the PICs through the higher consumption it funds, and also increases investment—including in human capital through education (McKenzie & Gibson 2010b). Over time, therefore, this may help to boost economic growth in the PICs. Even in the absence of such a relationship, however, expansions in access to labor markets abroad and increases in the human capital of emigrants that enhance their prospects for securing more highly skilled jobs abroad have the potential to facilitate further improvements in standards of living at home (Haque & Packard, 2014, pp. 11–23).

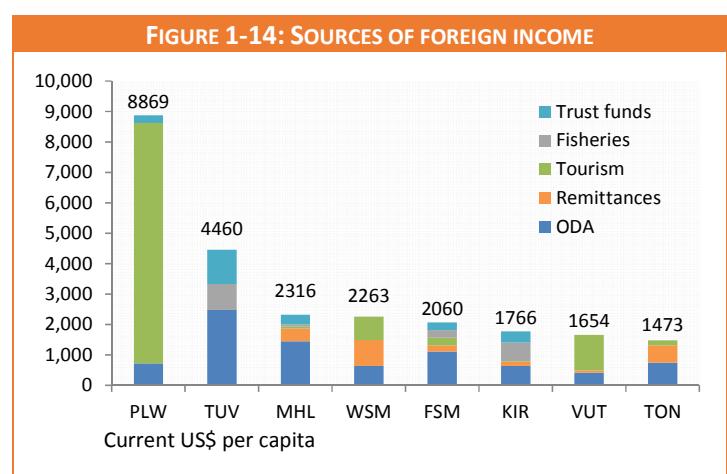
17. Unconventional revenue sources, together with revenue flows from aid and trust funds, have proved critical to maintaining minimally adequate government capacity and have been an important stimulus to economic growth in the PICs. Aid from development partners funds a large share of public expenditure in most of the PIC8, and largely due to their small populations, aid per capita in the PIC8 is amongst the highest in the world. In helping to fund the high cost of providing public goods and services in the PIC8, development assistance has helped raise living standards—particularly by supporting public sector provision of critical health and education services. In addition, it has helped

support economic activity, not only by helping to provide a healthy and educated workforce, but through the provision of public goods and services—including key infrastructure—that are critical inputs to private sector production or that help facilitate business development and trade. Development assistance has also supported economic activity in the PICs through government procurement of goods and services from the private sector and demand for private sector goods and services from public servants. The general significance of development assistance to living standards in most PICs is clearly illustrated in Figure 1-14. The significant contribution of the public sector to growth in gross value added (GVA) in many of the PICs over the last decade is illustrated clearly in Figure 1-8.

18. The PIC8 countries have also been innovative in identifying other external revenue sources and establishing national trust funds. For small countries, discrete revenue sources can provide a significant boost to the budget, such as Tuvalu's sale of its .tv internet domain and Tonga's leasing of unused satellite bandwidth. Five of the eight PICs (Palau, FSM, MHL, Kiribati, and Tuvalu) have sizeable trust funds, which have in some cases also played an important role in financing public expenditures, given a shortfall of revenues from other sources. Of these five PICs, the trust funds in FSM, MHL and Palau were established as part of the Compact of Free Association with the United States, and their main purpose is to support public expenditure programs after the scheduled phasing out of compact sector grants by 2023. Kiribati has a trust fund that was built with phosphate tax revenues, while Tuvalu has a donor funded trust fund. If managed correctly, investment income from these funds—which are invested in foreign financial assets—should become an important and predictable source of budgetary financing.

Vulnerability and Risks

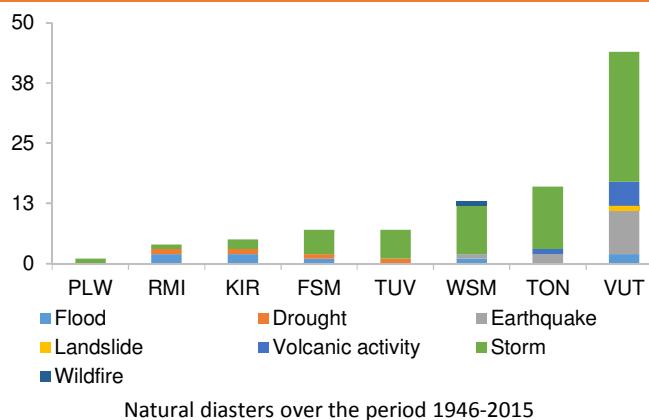
19. The Pacific region is known to be one of the most prone to natural disasters in the world. It is frequently hit by storms, earthquakes, volcanic activity, floods, droughts and landslides. Between 1950 and 2011, extreme weather-related events in the Pacific islands region affected approximately 4 million people and caused 8,693 reported deaths and damage costs of around US\$3.2 billion. Recent estimates show that the expected losses (as a share of GDP) due to natural disasters on an annualized basis in the Pacific far exceed those in almost all other countries in the world. The impact of natural disasters is, for instance, equivalent to 6.6 percent of GDP in Vanuatu—the third most disaster-prone country on earth¹³—and 4.3 percent in Tonga (World Bank 2012a). Most recently, in March 2015, the extremely destructive Tropical Cyclone (TC) Pam struck Vanuatu, Tuvalu and Kiribati. In Vanuatu alone, the cyclone resulted in an estimated US\$450 million in damage and losses, equivalent to 64 percent of the GDP.



Source: World Bank staff estimates

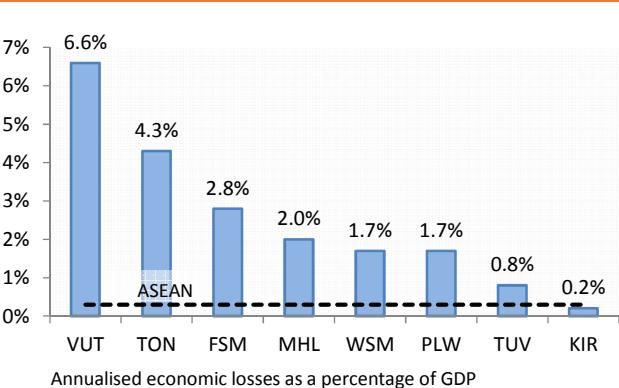
¹³ The top two countries were St Lucia and Grenada.

FIGURE 1-15: INCIDENCE OF NATURAL DISASTERS



Source: EM-DAT (the OFDA/CRED International Database)

FIGURE 1-16: LOSSES DUE TO NATURAL DISASTERS



Source: World Bank 2012a

20. The subsistence of the majority of PIC8 populations and the growth potential of tourism and agriculture depend on their land, coastal and marine natural environment, yet this is increasingly under pressure from overpopulation (such as in Kiribati and Marshall Islands) and overexploitation. Key threats to the environment and natural resources include, to varying degrees and combinations among the PIC8, coastal development, destructive fishing practices, inadequate watershed management (agriculture and logging), sewage and other forms of pollution from cities, ships and industry, solid waste disposal and mining of coastal aggregates, among others. Sound environmental and natural resources management is necessary for the sustainability of growth of sectors that depends on them, notably tourism, agriculture and fisheries. In doing so, provisions must be made for the extremely limited institutional capacity for environmental management in some of the PIC8.

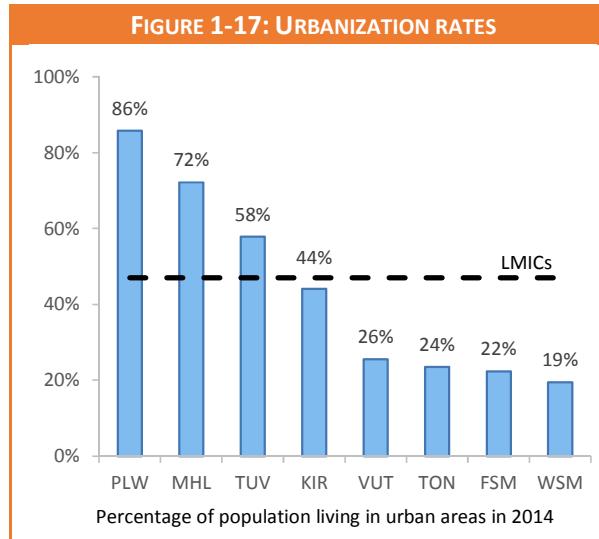
21. Climate change is exacerbating the vulnerabilities of the PIC8 through increased frequency and possibly the increased intensity of climate-related events. Apart from changing extreme weather events, climate change is adding pressure on fragile island systems via increasing average ocean and land temperatures, changes in the seasonality and duration of rainfall and increasing sea levels (IPCC 2014). The atoll nations of Kiribati, Tuvalu and Marshall Islands are particularly vulnerable to the impacts of climate change and sea level rise. With most of the land area in these countries being only a few meters above sea level, some predictions indicate that by 2100 they could be submerged in the sea.

22. The PIC8 are also highly susceptible to economic shocks. Whilst economic openness is an essential response to smallness, it can also threaten livelihoods by exposing Pacific islanders to the vicissitudes of global markets. Commonly occurring price shocks to commodity imports and exports increase hardship substantially. This vulnerability is most pronounced in the coral atoll PIC8 countries (Kiribati, Marshall Islands and Tuvalu) where there is little arable land. Households are consequently dependent on imports of basic foods and vulnerable to rising and volatile global prices. Households in the PIC8 are also highly vulnerable to global energy prices, both directly through their reliance on fuel imports and indirectly through the transport costs that make up a large part of import and export costs.

23. As a reflection of weak state capacity and vulnerability to natural disasters and economic shocks, four of the PIC8 are classified by the World Bank as “fragile states”—FSM, RMI, Tuvalu and Kiribati. The relationship between fragility and violent conflict differs between the Pacific and many other regions. For example, in Africa, state fragility is often intertwined with violence and conflict; which are largely absent from the PIC8. This implies the need to carefully tailor responses to the Pacific context.

24. Migration of people from outer to central islands and urbanization are an important pathway to overcome the lack of opportunity and public services in remote areas. However, unless carefully managed, urbanization can also generate a range of social problems, place stress on basic services and an already-stretched ecosystem, threaten social cohesion and lead to tensions. Urbanization is thought to be contributing to an increase

in individualistic sentiment, an erosion in the authority and status of customary authorities (chiefs) and increasing social tensions.



25. A range of social problems are emerging among the new urban generation, with high rates of youth unemployment contributing to substance abuse, property-related crime, prostitution and teenage pregnancy. These are new challenges, to which public institutions have little experience of responding. With the urban population in the PIC8 projected to double in the next 15 to 20 years, pressures on urban and peri-urban land are likely to increase further. However, it should be noted that even the largest towns in the region will remain very small in comparison to those in East Asia and much of the rest of the world.

26. Pressure on land caused by urbanization is a potential source of instability in most PIC8 countries. Land disputes between groups of immigrants and the hosting communities of peri-urban areas are a potential source of conflict that should be closely monitored and addressed. With increases in investment in tourism, agriculture, infrastructure, natural resources and associated land development, the volume and intensity of land transactions will increase and this will inevitably heighten social contests. Land in the Pacific has high material, cultural and spiritual value. Social organization is closely bound to land rights and management, to the extent that place of origin and personal identity have been described as synonymous.

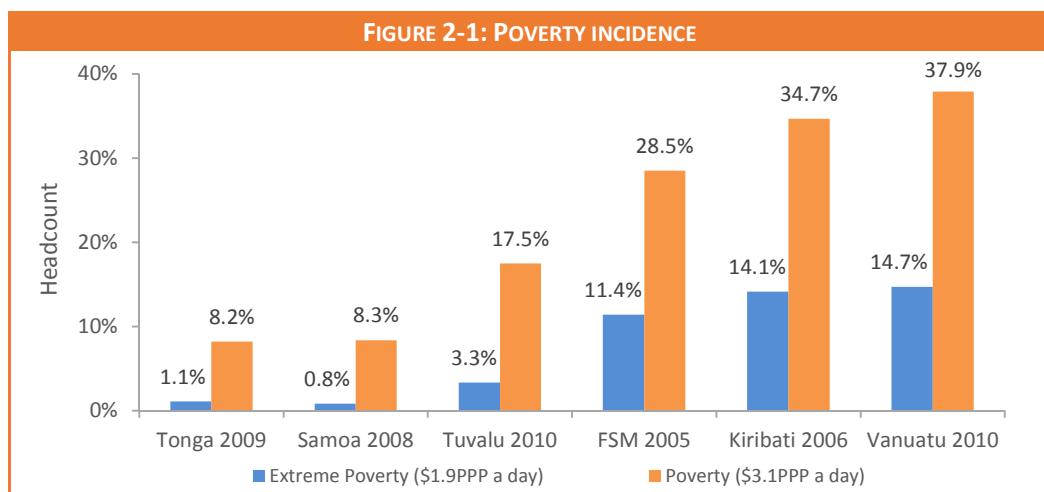
27. Under customary rule, the flexible transfer of land-use rights generally allows for and helps maintain the fabric of social relations. Land is seen as communally owned, to varying degrees, but is traditionally administered by 'chiefs'. Land disputes are the most commonly noted source of conflict affecting both rural and urban areas in PIC8. These conflicts are exacerbated by the global push for a single legal order to govern land dealings. Deal-making processes over land and natural resources are often highly opaque and the resulting deals, though providing short-term cash flows to the identified 'owners', have a poor track record in delivering longer run benefits for the broader landholding group, whether through job creation or the distribution of the proceeds. The potential for individuals to gain windfall profits from rents is fueling disputes over land, increasing social discord and intergenerational tensions. Women and youth are largely excluded from the land decision-making and benefit distribution processes.

Chapter 2: Poverty and Shared Prosperity



Poverty Incidence

28. According to internationally-comparable estimates of the \$1.90 a day (2011 \$PPP)¹⁴ poverty line, extreme poverty is low in the PIC8 and above 10 percent only in Kiribati, Vanuatu, and FSM. Prevalence of extreme poverty is negligible in Samoa, Tonga, and probably also Palau, and just above 3 percent in Tuvalu. Data is not available to assess how widespread extreme poverty is in RMI.



29. Outside of Tonga, Samoa, and Palau, poverty (\$3.10 a day in 2011 \$PPP) is relatively widespread, with one in three households in Vanuatu and Kiribati below this level. The poor are concentrated in Kiribati, Vanuatu, FSM, and possibly Marshall Islands, where over 90 percent of people in poverty in the PIC8 are located (see Figure 2-2 and Figure 2-3). While significant proportions of the population in these countries are considered to be living

¹⁴ The PPP exchange rates used are based on the International Comparison Project (ICP) 2011 round of data collection which includes all PICs.

in or very close to extreme poverty, the scale of the challenge of achieving the goal of eradicating poverty, even using the \$3.10 per day line, is less than 200,000 people.

Box 2-1: SUMMARY OF THE POVERTY SITUATION IN THE PIC8 COUNTRIES

The typical poor households in the Pacific live in a small community on a remote outer island far from the nation's capital and any other economic centers. They rely on garden farming and fishing for their livelihoods, but many islands have poor soils where few crops grow. They lack basics like electricity, water supply and decent roads. Education and health facilities exist but are hard to get to, charge for service and are poor quality, so they are not used. The only opportunity for improvement is by moving to the city, but the fare is expensive and there is nowhere to stay. Poor households are hit frequently by natural disasters like droughts, cyclones and earthquakes and each time need to appeal to extended family or wait for government assistance in order to go on with their life.

FIGURE 2-2: LOCATION OF PEOPLE LIVING BELOW \$1.90 A DAY

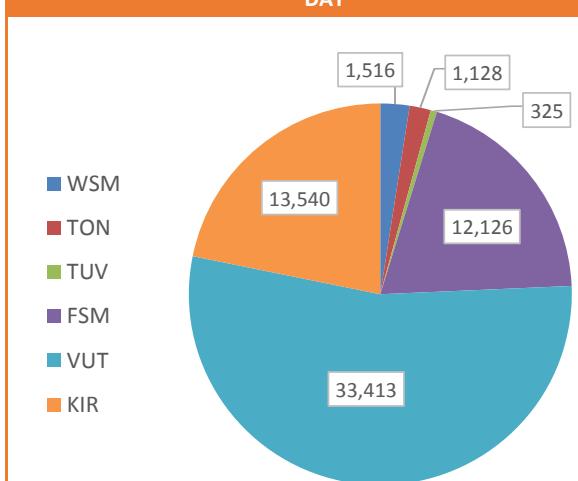
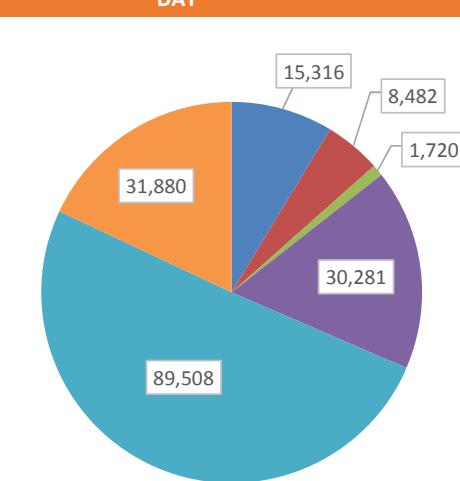


FIGURE 2-3: LOCATION OF PEOPLE LIVING BELOW \$3.10 A DAY



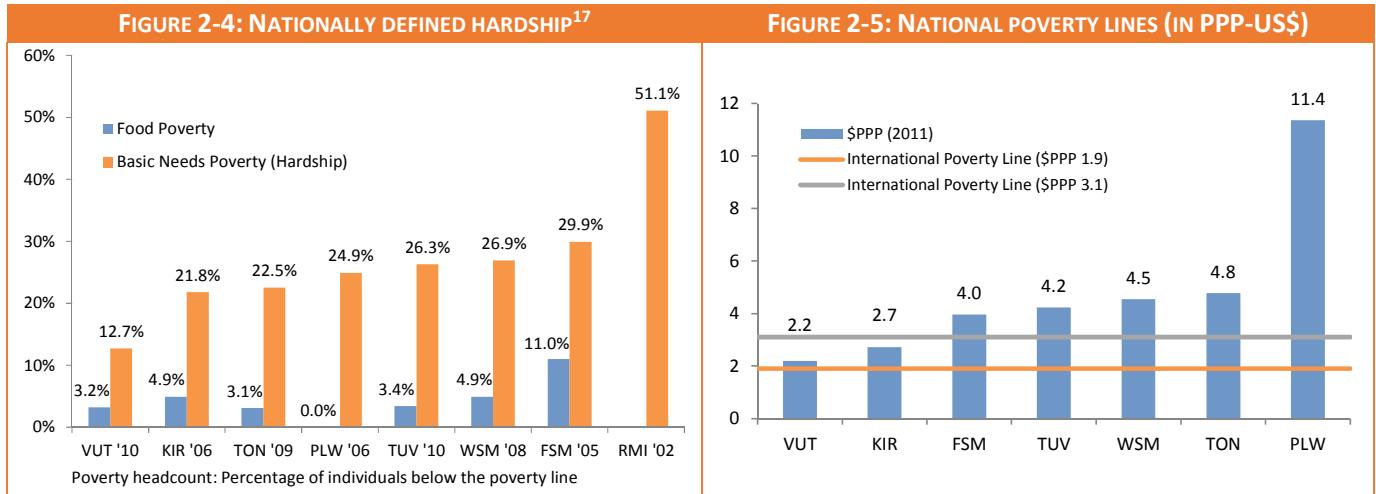
Source: World Bank staff estimates based on available HIES datasets and using 2011 \$PPP estimates.

30. Nationally-defined measures of hardship also point to generally low levels of extreme poverty in the PIC8. Many Pacific islanders consider that poverty in the Pacific is very different from poverty in other regions and there is thus a preference to talk about "hardship" instead of poverty¹⁵. There are broadly two types of poverty measures reported nationally and available for most PIC8 countries¹⁶: the "extreme hardship" and "hardship" measures of poverty. Typically, prevalence of "extreme hardship" is defined as the proportion of the population whose total spending is less than what is needed to procure the minimum food consumption basket. Incidence of "hardship" is defined as the proportion of the population whose expenditure is below a threshold that includes allowance for minimum food and non-food needs. Prevalence of extreme hardship, or food poverty, is generally very low in the PIC8, below 5 percent in all countries except for FSM. In most PIC8 countries, 20 to 30 percent of

¹⁵ The term hardship is taken to relate specifically to national poverty measures. When talking more broadly, this report uses the terms 'poverty' and 'hardship' interchangeably and based on the context.

¹⁶ Data limitations mean that statistics of poverty incidence based on international poverty lines and measures of shared prosperity are not, in some cases, available.

the population lives below the nationally-defined hardship threshold, though this rate is considerably higher for Marshall Islands. It should be noted that national hardship thresholds vary considerably between countries, making it impossible to directly compare headcount rates. For example, poverty lines in Kiribati and Vanuatu are only half the level of those used in Samoa and Tonga. Palau has by far the highest poverty lines. Also, it is notable that in most of the countries, the national poverty line is close to or higher than \$3.10/day (2011 PPP), except for Vanuatu.



31. Most of the poor in the Pacific live on outer islands, and here poverty is structural and persistent. In countries like Tuvalu, Tonga, and Vanuatu, poverty incidence is considerably higher in the rural outer islands compared to the main island. In Tuvalu, the likelihood of a household being poor is more than 30 percent higher in the outer islands. The poverty mapping done in Vanuatu clearly shows relative disadvantages of living in outer islands in this context (see Appendix 3). Living on capital islands not only means that there are more economic opportunities, but also that access to services and infrastructure is easier than on outer islands. While there are insufficiently-sized samples to break down the data further, these urban-rural figures are averages over dozens of different islands which have very different profiles of economic activity. In Kiribati, in particular, some inhabited islands are coral atolls where very little subsistence agriculture is possible, and it is thought that extreme hardship is much more prevalent in these areas than the average for rural areas suggests.

32. There is insufficient data to adequately assess the dynamics of poverty in the Pacific islands, but rural poverty is likely to be structurally persistent. There are no panel datasets or information on household income dynamics available that would provide quantitative estimates on the extent to which poverty is a transitory, intra-generational and/or inter-generational phenomenon in the Pacific. However, there are two clear typologies of poverty situations that emerge from the analysis. The first—rural poverty—which is mostly felt in the outer islands of Vanuatu, FSM, Kiribati and possibly RMI is associated with multiple deprivation and a lack of cash livelihoods. Most people in these situations will find it difficult to move out of poverty, but when they do, they are at risk of falling back with the regular occurrence of shocks. A second group are the relatively fewer households that are in poverty in urban areas, and in the other countries (i.e., Samoa, Tonga, Tuvalu). These households are more likely to experience transitory factors that place them in poverty—such as the impact of a recent shock, or idiosyncratic factors that place them in poverty, such as disability or alienation from their social networks. Most households in this group have greater access to other livelihood opportunities or support systems and are more likely to move out of poverty again. Evidence has shown that social-redistributive systems are responsive to shocks, with

¹⁷ Data for RMI may not present an accurate picture because it is 13 years old.

international remittances increasing in the aftermath of disasters, and households in hardship disproportionately benefitting from gift-giving.

FIGURE 2-6: URBAN AND RURAL POVERTY RATES

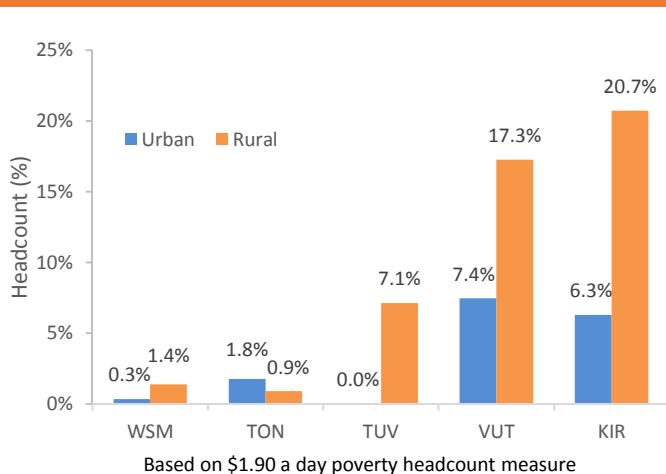
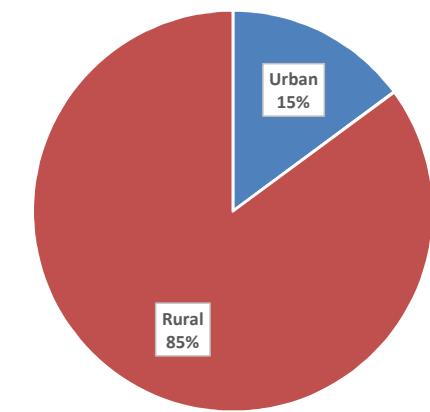


FIGURE 2-7: RURAL/URBAN SPLIT OF PIC8 POOR



33. Poverty outcomes are thought to have stagnated or deteriorated in most of the PIC8 since the latest available data was produced. Since household surveys used to calculate poverty and income estimates are only available infrequently in the PIC8, most of the poverty and shared prosperity data are some years old. While robust evidence is not available, there is a convergence of consultative views and related trends that indicate poverty and shared prosperity outcomes are unlikely to have improved since the last estimates and, in some cases, may well have deteriorated.

34. Specifically, every PIC8 country has experienced at least one major natural disaster since the latest poverty data point.¹⁸ In addition, the global economic crisis and food and fuel price rises during 2008–2010 hit the region hard, while almost all the poverty estimates relate to a period before the full onset of the effects of that crisis. Weakening demand led to the collapse of industries in some countries, such as the downsizing of the only major factory in Samoa and a reduction in vital remittances as islanders working in the US and elsewhere saw opportunities decline. As discussed elsewhere in this report, evidence also shows the food and fuel price rises over the period had a serious, adverse impact on PIC8 populations, and especially the poor.

Shared Prosperity

35. Data on income trends of the bottom 40 percent is scant and unreliable in the PIC8. The lack of multiple household and income expenditure surveys for most of the PIC8 prevents the analysis of the evolution of incomes and expenditure of the bottom 40 percent of their populations through tools such as growth incidence curves. We thus draw on the analysis of overall growth trends and measures of inequality for the assessment of shared prosperity.

¹⁸ The Desinventar dataset maintained by The United Nations Office for Disaster Reduction illustrates the frequency of natural disaster impacts. In 2008, a cyclone and related storm surge and flooding hit the main islands of FSM. In 2009, Samoa, Tonga, Palau and FSM were all hit by a tsunami which led to a large number of deaths and devastation of coastal communities. A drought in 2011 in Tuvalu led to a shortage of drinking water, which required emergency helicopter deliveries to avoid a major crisis. Cyclones have hit both Vanuatu and Tonga nearly every year. In 2012, Cyclone Evan led to loss of life and destroyed buildings, agriculture and infrastructure across large swathes of Samoa. In 2014, Cyclone Ian devastated the Ha'apai group in Tonga, while in early 2015 one of the largest cyclones ever seen hit Kiribati and caused widespread damage in Tuvalu and Vanuatu.

FIGURE 2-8: ANNUAL GDP GROWTH PER CAPITA

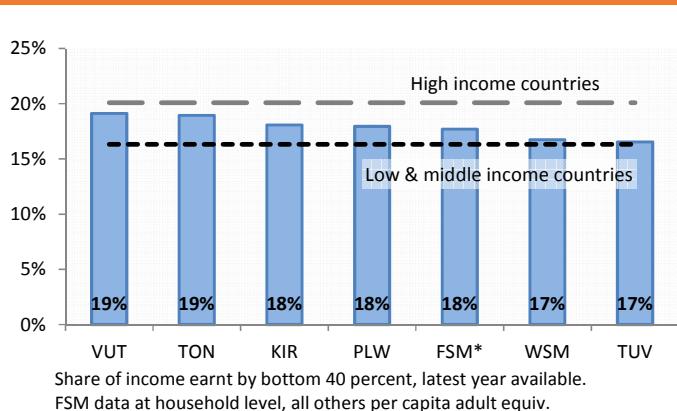


Note: Constant 2011-PPP international dollars

36. Incomes and expenditures of the bottom 40 percent are likely to have seen little growth over the past two decades given the low growth rates of per capita income in all of the PIC8. Average income per capita has grown at less than one percent annually over the past two decades, with only the Marshall Islands and Samoa having had average growth rates of more than two percent annually since 2000.

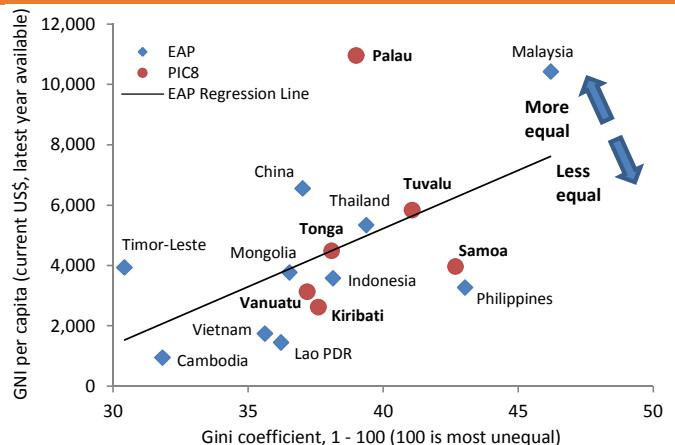
37. Although there is a preconceived notion across many of the PIC8 countries that Pacific societies are egalitarian, quantitative estimates indicate that levels of inequality are not especially low. A standard indicator of inequality, the Gini coefficient, measures how income (or expenditure) is distributed amongst the population and varies between 0=completely equal and 100=completely unequal. The country with the highest Gini coefficient in the PIC8 where data are available is Samoa with a Gini of 42.7 and Vanuatu has the lowest at 37.2. Amongst developing nations in East Asia and the Pacific, Gini coefficients tend to be higher in countries with higher income per capita as can be seen by the trend in Figure 2-10. But one-half of the PIC countries for which there is data are less equal than would be predicted by their income with only Palau substantially more equal.

FIGURE 2-9: PROPORTION OF INCOME OF BOTTOM 40



Source: Household survey data

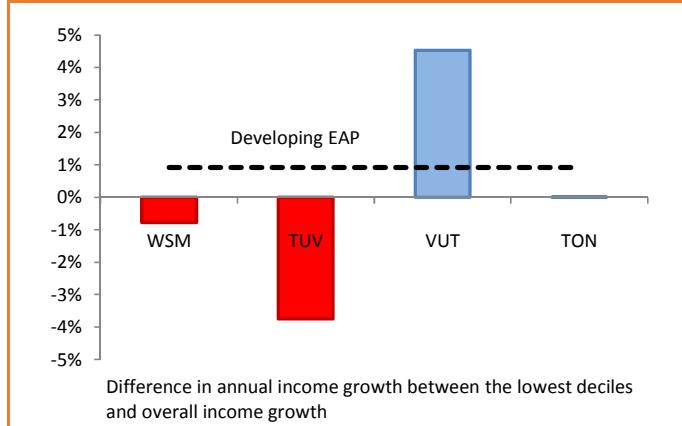
FIGURE 2-10: ESTIMATED GINI COEFFICIENTS IN EAP



Source: Household survey data and WDI

38. The share of income held by the bottom 40 percent varies between 19 percent and 17 percent in the PIC8 (Figure 2-9), just better than the developing country average of 16 percent but worse than the developed country average of 20 percent. Based on available information, however, it is not clear that growth over the last decade has benefitted the bottom 40 percent. Over multiyear periods in the 2000s, only in Vanuatu did the average incomes of the lowest four income deciles increase more rapidly than average incomes of the whole population (Figure 2-11).¹⁹ In Tonga, growth occurred at a similar rate, while in Samoa average income rates of the lowest four deciles grew more slowly than those of the whole population. The sharply slower rate in Tuvalu reflects economic stagnation and the loss of job opportunities for Tuvaluan seafarers. This is in contrast to the median experience in EAP over the 2000s of modestly faster growth of incomes of the bottom 40 percent in relation to overall income growth. While traditional social structures are mostly effective at ensuring people have basic food and housing, there is an increasing disparity between the ‘have’ and ‘have-nots’ when considering a modern level of basic needs. Access to cash incomes, basic infrastructure and social services and other basics like nutritious food or mobile phones are only available to some, and there has been uneven progress in extending access to all.

FIGURE 2-11: SHARED PROSPERITY ESTIMATES



Source: Household survey data

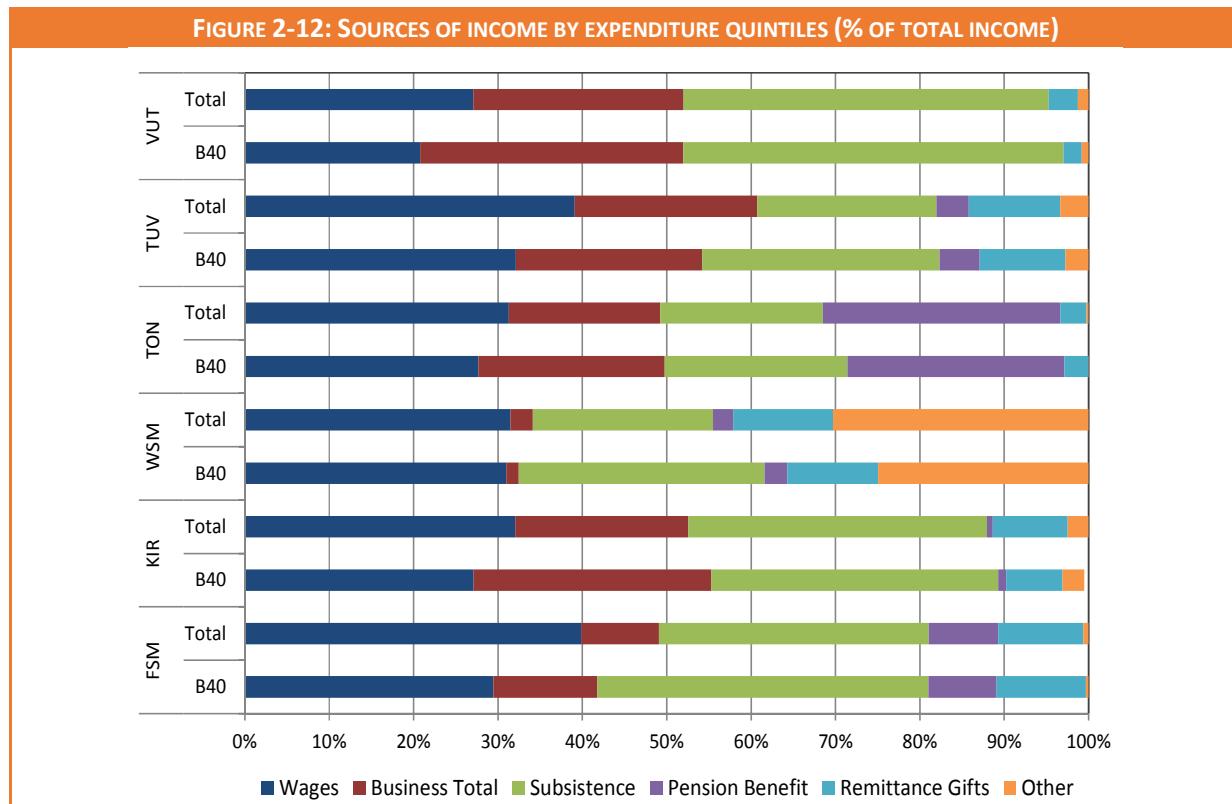
The poorest segments of the population in the PIC8 countries are more likely to rely on subsistence farming. For the countries where information is available, there is a wide variation in employment in agriculture. In Vanuatu, 76 percent of the B40 work in agriculture, compared to about 40 percent in Kiribati and 13 percent in Tonga. In FSM, 40 percent of the income of poorer households comes from subsistence agriculture (Figure 2-12)—a higher rate than that for the overall population. Such a pattern is visible for all the PIC8 to different extents. In

Drivers of Poverty

39. The poorest segments of the population in the PIC8 countries are more likely to rely on subsistence farming. For the countries where information is available, there is a wide variation in employment in agriculture. In Vanuatu, 76 percent of the B40 work in agriculture, compared to about 40 percent in Kiribati and 13 percent in Tonga. In FSM, 40 percent of the income of poorer households comes from subsistence agriculture (Figure 2-12)—a higher rate than that for the overall population. Such a pattern is visible for all the PIC8 to different extents. In

¹⁹ These estimates are based on comparison of the lowest three decile average to the total population average from published reports, except for Samoa and Tonga where historical data is available on the lowest four declines.

Vanuatu and Kiribati dependence on subsistence farming remains high even among the overall population. This is in line with international evidence which shows the poorest groups tend to depend on natural ecosystems for their livelihoods.



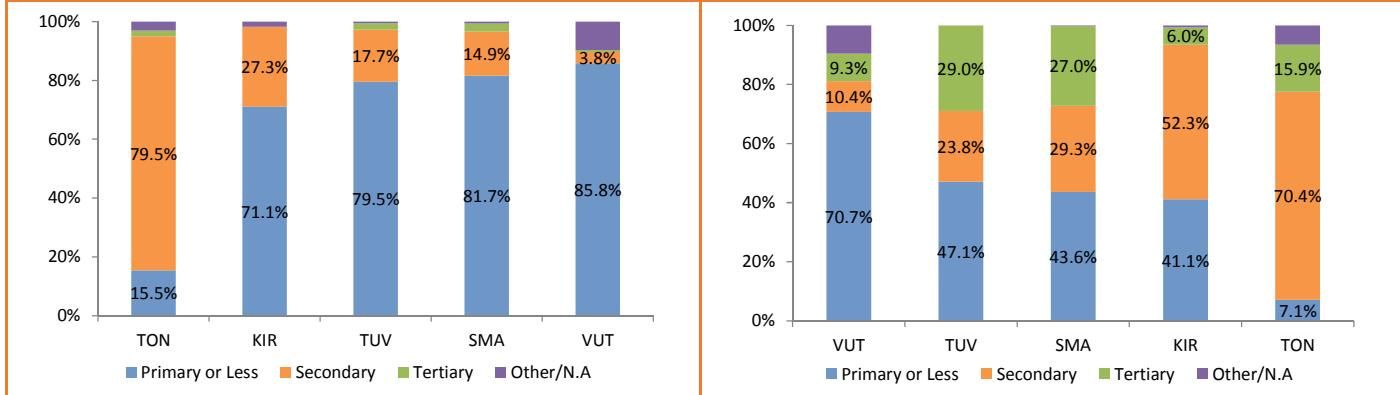
Source: World Bank staff estimates based on available HIES datasets

40. In all the PIC8 countries, securing a paid job is a significant factor in improved livelihood outcomes. For all countries with data, income from wage and salaried jobs is closely associated with increased consumption levels. In FSM, income from wage and salaried jobs constitutes only 30 percent of the total income of the poorest group, but increases to 40 percent of the total income for the overall population. A similar pattern holds in Kiribati, Tonga, and Vanuatu.

41. Educational attainment has an important bearing on poverty outcomes. With the exception of Tonga, 71 to 86 percent of the households in the B40 are headed by persons who have education only at the primary level or less (Figure 2-13). This is in contrast to the majority of household heads in the top 20 percent expenditure group, who, except in the case of Vanuatu, have education at the secondary level or higher. In fact, lower education increases the likelihood of being poor in most countries. In Kiribati, for example, households headed by a person with less than full secondary education are nearly 30 percent more likely to be poor than households with full secondary education or above (Figure 2-15). In Tuvalu, less educated households are about 11 percent more likely to be poor. The education level, especially of the poor, is extremely low in Vanuatu where the majority of the PIC8 poor reside.

**FIGURE 2-13: EDUCATION LEVELS OF HOUSEHOLD HEADS –
BOTTOM FOUR DECILES**

**FIGURE 2-14: EDUCATION LEVELS OF HOUSEHOLD HEADS –
TOP TWO DECILES**

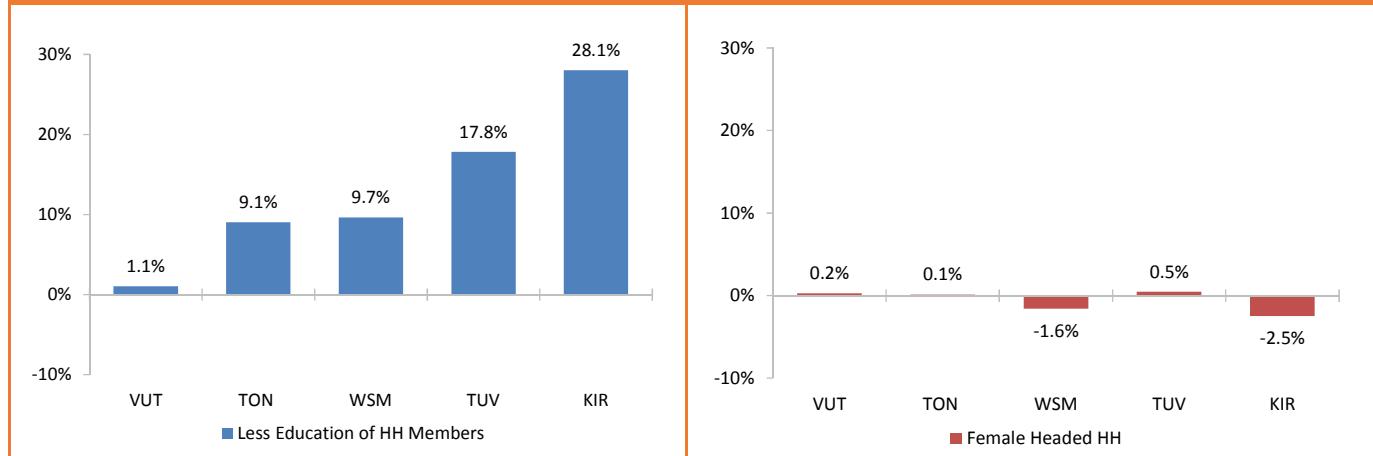


Source: World Bank staff estimates based on available HIES datasets.

42. The vulnerability of the PIC8 to natural disasters and economic shocks translates for households into high levels of vulnerability to poverty, hits the poorest and vulnerable harder and can perpetuate cycles of poverty. These aggregate level shocks impact whole societies but the poor are generally disproportionately affected, because they lack adequate financial means to deal with shocks, and tend to have high risk profiles by, for instance, living in higher risk areas. Furthermore, as poorer groups become affected by disasters and climate shocks repeatedly (for instance by low-intensity, high-probability shocks such as frequent storms, floods, or droughts), they have less chances of re-building their livelihoods and investing in human capital, thus becoming trapped in a cycle that sinks them further into poverty. In addition, poverty can actually increase disaster risks due to potential linkages between poverty and the over-utilization of resources.

**FIGURE 2-15: EDUCATION LEVELS AND LIKELIHOOD OF BEING
POOR**

**FIGURE 2-16: FEMALE HEADED HOUSEHOLDS AND LIKELIHOOD OF
BEING POOR**



Source: World Bank staff estimates based on available HIES datasets

Note: (1) 'Less education' is defined as the completion of lower secondary or less.²⁰ (2) The education level of household members is captured from a member whose level is the highest in the household.

²⁰ The analysis is based on the ordinary least squares (OLS) regression by setting the household size as a separate independent variable which enables a more refined relationship between the education level and being poor. The degree of likelihood may be affected by unlisted factors (for example, working industry, location).

43. While at the aggregate level remittance inflows are high in some of the PIC8 (Tonga 24 percent of GDP, Samoa 20 percent of GDP, and Marshall Islands 12 percent of GDP), they do not appear from the HIES data as important sources of income. In addition, dependence on remittances and gifts does not show clear association with consumption levels; where it does, it is slightly skewed in favor of less poor households. In Samoa, a major remittance-receiving country, gifts and remittances are not as important as incomes from salaried jobs or subsistence production for any of the expenditure quintiles. Further, they also do not show any systematic association with expenditure levels. This is also the case in FSM and Kiribati. In Tonga (another high remittance-receiving country), Tuvalu and Vanuatu, dependence on remittances as a source of income is small overall, but the share of remittances in total income increases marginally for the higher expenditure groups.

44. These are surprising findings in light of the large size of remittances in some of the PIC8. This is especially so given that remittances have been shown to reduce income inequality between households in the PIC8, which would suggest migrants are either coming from households in the lower end of the income distribution or sharing their remittances with those households (World Bank 2006), and to have had a beneficial impact on human capital development.

45. Data indicate that female-headed households are only marginally more likely to live in poverty (Figure 2-16). About 20 percent of households are female headed (except Vanuatu, 13 percent) of which it is only in Vanuatu, Tuvalu and Tonga where they are more likely to live in poverty than male-headed households, but the difference in likelihood is insignificant. In Samoa and Tuvalu, female-headed households are marginally less likely to live in poverty.

46. Despite this finding, unequal gender roles, lack of voice and political participation, and violence against women in the PIC8 perpetuate poverty and exacerbate women's hardship. Analysis of HIES and census data shows that women have lower employment rates in all the PIC8 where data is available, reaching as low as 16 percent in RMI. Women are more likely to report they are not active in the labor market because of home duties or caring responsibilities. Women in most countries are also more likely to be unemployed than men. The unemployment rate from census data is over 70 percent for women in RMI, compared to 49 percent for men. In Kiribati, Vanuatu and FSM the difference is more marginal, while in Tuvalu women are slightly less likely to be unemployed. It should be noted that, when women work, they are more likely to work as public servants in Kiribati and Tonga, but slightly less likely in Vanuatu. A smaller proportion of women work in agriculture in Kiribati and Tonga, but the trend is again reversed in Vanuatu.

47. In many of the PIC8 countries, women face constraints in the control of assets such as land which is largely customarily owned and transferred through traditional cultural systems. In the Marshall Islands, Tuvalu, and Vanuatu, women are rarely able to own land independently. In Tonga where land is individually titled, women are not legally able to own land, although they can hold leases. In other PIC8 countries where land is communally held, it is often the case that control of the asset is administered by a 'chief' or the national equivalent position of traditional authority. In all cases, such positions are overwhelmingly held by men, although there are some cases of female traditional leaders, such as the female Matai in Samoa.

48. Women in the PIC8 are also seriously under-represented in parliament with on average only around one in 30 seats held by women, compared to an average across all developing nations of one in five. In Samoa, only individuals with the chiefly Matai titles can be elected to parliament. While both women and men can receive the title, only 10.5 percent of Matais are women. Women are, therefore, significantly disadvantaged when wishing to enter politics. Similarly in Tonga, until 2010, 14 of the 32 parliamentary seats were reserved for cabinet ministers appointed by the king, nine were reserved for nobles and nine were elected by popular vote. Therefore, as only men can be nobles, the number of possible parliamentary seats available to women has been limited.

FIGURE 2-17: POLITICAL REPRESENTATION OF WOMEN

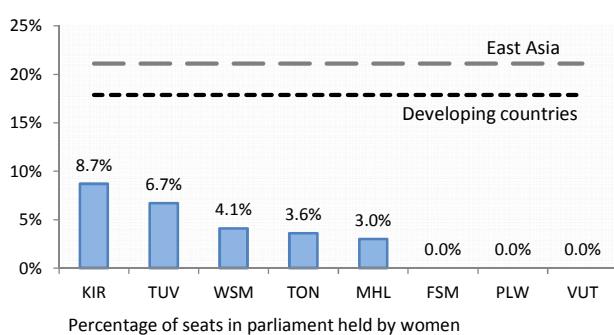
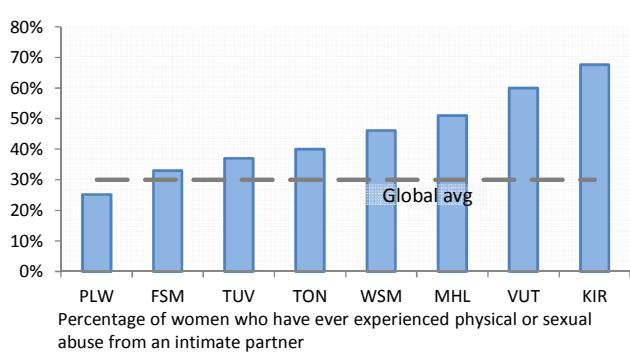


FIGURE 2-18: GENDER-BASED VIOLENCE PREVALENCE



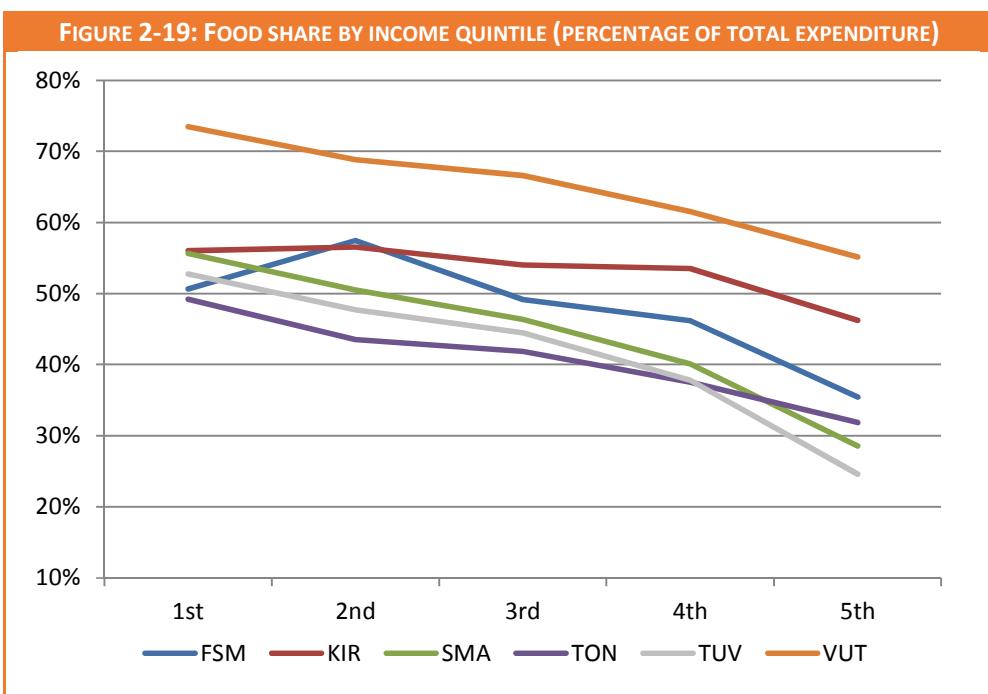
Source: Country sources and World Health Organization

49. Domestic and sexual violence is a common phenomenon throughout the PIC8 region. Sixty-eight per cent of ever married women aged 15-49 in Kiribati and 60 per cent in Vanuatu have been subject to gender-based violence and gender-based violence prevalence rates are very high in 5 out of 7 countries, with data on Tuvalu not available. Violence against women significantly and negatively affects not only their health, well-being and agency, but also affects the public health system, business, and children's development, education, and nutrition levels. It is also self-perpetuating and women who have experienced intimate partner violence are seven times more likely to have children who are also abused than those who have not experienced partner violence.

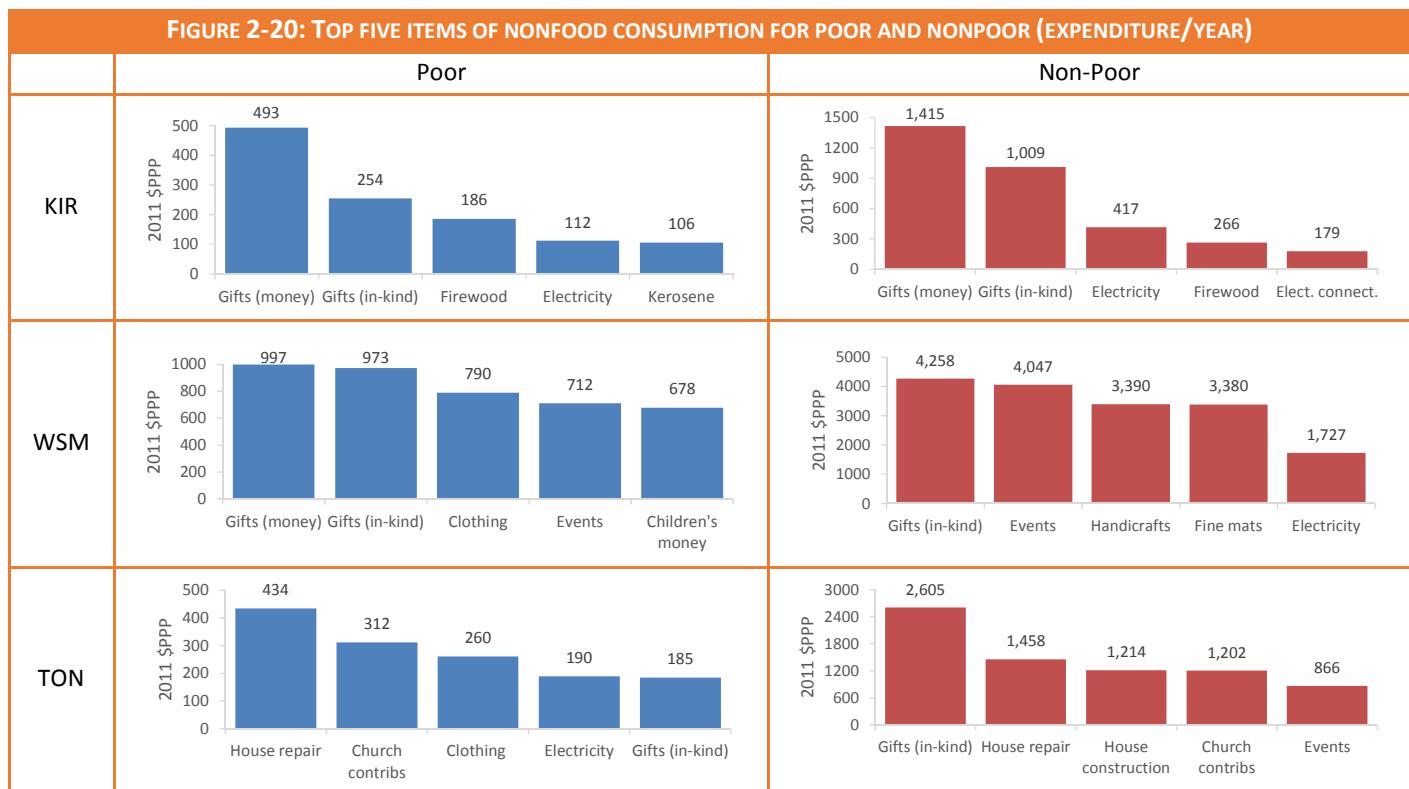
50. Furthermore, the overwhelming majority of abused women in the Pacific report that they have not sought help from formal services or from people in positions of authority such as police, non-government organizations, religious or local leaders. Beyond the human costs, violence incurs major economy-wide costs such as expenditures on service provision, forgone income for women and their families, decreased productivity and negative effects on human capital. In fact, a recent World Bank study estimates that the costs of intimate partner violence annually are close to the average that developing country governments spend on primary education (Duvvury et al. 2013). Furthermore, studies have shown that by eliminating employment segregation, labor productivity globally would increase by as much as 3-25 per cent, and that women's control of household earnings has a direct positive correlation with the educational and health spending on children (World Bank 2012b).

Outcomes of Poverty

51. In all of the PIC8 countries except Palau, food accounts for more than half of the spending of the poor. It is the highest in Vanuatu where the poorest 20 percent spend at least 70 percent of the household budget on food (Figure 2-19). The food share rapidly declines for the higher expenditure groups, except in Vanuatu and Kiribati, the two poorest countries.



Source: World Bank staff estimates based on HIES



Source: World Bank staff estimates based on available HIES datasets

52. The poorer population, especially in lower-income countries, get by with a less diverse diet. In Kiribati, for example, the poor exhaust 86 percent of the food budget on only five commodities (rice, fish, sugar, breadfruit and toddy) while the nonpoor spend 61 percent of their food budget on these items. Diet diversity in Samoa, Tonga, and Tuvalu (where such disaggregated food data are also available) appears to be better as less than one-half the food budget is exhausted by the top five food items consumed.

53. Contributions to community and the church are the largest nonfood expenditure items for both the poor and the nonpoor in most cases (Figure 2-20). While providing important protections, the obligations to community and traditional networks can consume a larger proportion of even low-income households' resources. Community members in the PIC8 also cite charitable contributions as being a burden that is very difficult to bear. Such contributions, although ostensibly voluntary, are often part of a peer-enforcing system where households are compelled to give as much as they can. Other prominent nonfood expenditure includes utilities (electricity) and fuels. Consumption of electricity is consistently higher for the non-poor than for the poor.

[Grassroots Views on Poverty and Hardship](#)

54. Quantitative indicators of poverty need to be complemented by qualitative information from participatory poverty assessments and consultations to help understand locally grounded views on poverty and hardship. As part of the SCD, grassroots consultations were carried out in three of the eight countries (Tonga, Kiribati and Marshall Islands) in addition to stakeholder consultations in other countries. This participatory work builds on previous literature about locally specific views on development. The analysis also includes the insights from a hardship assessment carried out by the Asian Development Bank (ADB) which included more than 150 villages and communities in eight countries (ADB 2004).

55. The results of the qualitative analysis point to the following:

- **The majority of people in the PIC8 reject extreme poverty as a defining characteristic of their country.** There is a surprising degree of consistency between countries that the vast majority of people have sufficient food and housing to survive and, as a result, phenomena commonly associated with extreme poverty, like starvation, homelessness and begging are almost non-existent. This can be attributed to wide access to food subsistence agriculture and fishing, along with the redistributive nature of traditional social networks that explicitly exist to ensure these basics are provided to all.
- **What is known elsewhere as basic needs poverty accords with local views of increasingly prevalent and growing problems of hardship.** Concepts of hardship beyond hunger and homelessness are recognized, but often considered of second order by those not facing such hardship. The societies of the PIC8 have aimed at ensuring adequate food for all, which is achieved through elaborate and effective systems of exchange and obligation. Inherent in most, if not all, of these systems is a concept akin to an extreme poverty line. Above and beyond that, the community sees no clear obligation to ensure a higher standard of living for all. This traditionally held belief remains strong in the Pacific. With economic development and increasing urbanization, however, a more modern concept of basic needs, including electricity, safe water, education and health and a small amount of nonfood household expenses, is becoming increasingly established.
- **There is recognition that traditional social networks do not protect some excluded groups.** While individuals in a community with sufficient resources may not go hungry, such systems cannot work where whole communities are deprived. This might be the case for instance in some outer islands that lack adequate agricultural land to grow enough staple crops, generally the coral-atoll islands. Secondly, urbanization and removal from social networks can lead to destitution. While those who go to the city see it as an opportunity, moving outside the village and refusing to meet community obligations can mean ostracism from traditional social networks. If such people fail to make ends meet in the city, they may find

they no longer have access to land or family benevolence, and suffer from homelessness and extreme poverty.

- **Finally, the risk of poverty is higher amongst vulnerable groups.** The mentally ill are often cited as a group which the community finds hard to consistently integrate, and they are at risk of poverty. Inability to contribute productively and greater need place the physically disabled at greater risk of poverty as well. Insofar as the elderly and women are integrated into the community, they are generally no more at risk of extreme poverty than others. Women who are household heads, however, are at greater risk as they are more likely to have experienced an adverse shock through death, disability or household break-up. Women are more vulnerable because they tend to lack direct access to economic and social resources, with male members more commonly controlling land and political voice.
- **Insecurity, risk and lack of education are also closely associated with poverty in the PIC8.** People cite the impact of natural disasters, bad health and unexpected job losses as frequently occurring triggers that push households into, or deeper into, poverty. Hardship was also perceived to be the result of poor education, with communities in rural areas often having very limited access to a decent education.

Chapter 3: Pathways to Reduced Poverty and Shared Prosperity



56. The analysis identifies three fundamental constraints to reducing poverty and boosting shared prosperity in the PIC8 arising from the PIC8's unique economic geography. The first constraint is the small size and remoteness of the PIC8 which severely limit the set of economic opportunities for these countries, reflected in only very moderate increases in per-capita incomes over the past two decades. The second constraint is mainly related to the geographic dispersion of the PIC8, where people living on the outer islands have more limited access to employment opportunities, education, health, and other public services and thus a higher likelihood of living in hardship. Finally, the PIC8 are highly exposed to economic shocks and natural disasters, which imposes another constraint on sustained economic growth for the bottom 40 percent. The SCD thus proposes three pathways mapped to these constraints, within each of which it identifies focus areas and priority actions for reducing poverty and fostering shared prosperity.

57. The first pathway focuses on fully exploiting the limited set of economic opportunities available to the PIC8. For most of the PIC8 populations, subsistence agriculture and fishing remain the main sources of livelihoods. As highlighted above, economic opportunities in the PIC8 tend to be limited to a few areas where the PIC8 are internationally competitive. In addition, government and overseas employment are important sources of income and livelihoods. The SCD explores how these economic opportunities could be expanded and how obstacles for the poor and the bottom 40 percent of the population to access these opportunities could be reduced.

58. The second pathway focuses on enhancing access of the poor and the bottom 40 percent to economic opportunities and public services. Low levels of educational attainment are one of the key characteristics of the poor in the PIC8 and higher levels of education significantly enhance the capacity to the poor to participate and contribute to economic opportunities. At the same time, good health, access to safe water and sanitation are important dimensions of human well-being. The PIC8 also face an extraordinary threat though the high prevalence of non-communicable diseases (NCDs). In addition to reducing life expectancy and quality of life, NCDs also limit peoples' capacity to lead productive lives and the cost of treatment threatens to overwhelm the PIC8's budgetary resources.

59. The third pathway focuses on vulnerability to risks and social protection. The SCD considers ways to manage and mitigate risks deriving from natural disasters and economic shocks and recommends ways to provide safety nets against shocks and enhance access to economic opportunities.

60. Reducing gender disparities is considered as a central element of shared prosperity and discussed under each of the pathways. Whilst strides have been made toward gender equality in the region, particularly in the area of education, the PIC8 remain plagued by high levels of infant and maternal mortality as well as recording some of the highest levels of gender based violence globally. In addition, women in the PIC8 are less likely to be in formal employment, likely to be paid less than their male counterparts and, remain under-represented in parliament and other decision making agencies. However, the World Development Report (WDR) 2012 on Gender Inequality highlights that increasing gender equality is just not the right thing to do; it is the smart thing to do as gender equality can raise productivity, improve development outcomes, including prospects for the next generation, and contribute to more representative decision making in societies.

61. Finally, the SCD also focuses as set of cross cutting issues that are critical to support progress along the three pathways. This includes a focus on strengthening public expenditure management, connective infrastructure, the regulatory environment for private sector activities, and access to finance.

TABLE 3-1: KEY CONSTRAINTS AND AREAS OF PRIORITY ACTIONS FOR REDUCING POVERTY AND BOOSTING SHARED PROSPERITY

	Source of constraint	Area of priority actions	Impact on twin goals
Pathways to reducing poverty and boosting shared prosperity	Remoteness, smallness, and geographic dispersion limit PICs economic opportunities	Fully exploiting the limited set of economic opportunities	Increased incomes and government revenue
	Remoteness and lack of education and skills excludes the poor from many economic opportunities and access to quality public services	Fostering access to economic opportunities and public services	Increased incomes and access to services for the poor
	Natural disasters, economic shocks, and climate change create poverty traps	Protecting incomes, assets, and services for the poor	Sustained progress in poverty reduction and shared prosperity
Enablers	Progress along the three pathways is held back by weaknesses in macroeconomic management, infrastructure, public expenditure policies, access to finance and the regulatory framework	Addressing selectively weaknesses in economic governance and the business environment	Improved environment for the pursuit of poverty reduction and shared prosperity

Chapter 4: Pathway 1: Fully Exploiting the Limited Set of Economic Opportunities



62. Fostering shared prosperity requires that economic opportunities be expanded and that obstacles that prevent the B40 from fully participating and contributing to such opportunities are removed. The opportunities reviewed in the subsequent chapters either directly generate income-earning opportunities (tourism, overseas employment and remittances), generate revenue for government (primarily fishing) that can be used to fund pro-poor programs, or generate subsistence goods, especially food from agriculture and fishing for households' own consumption.

63. The approach of reviewing specific sectors rather than seeking to identify overall constraints to economic growth is a reflection of the narrow set of economic opportunities available in the PIC8. The typical approach of identifying weaknesses in the business and investment climate has proven to be of limited use for small island countries. First, it tends to generate long lists of required reforms that typically exceed the capacity of the PICs. Second, while in larger economies the private sector plays a dominant role or at least has the potential to do so, in the PIC8 the relative importance of the various sources of income and livelihoods is quite different.

64. Subsistence agriculture plays an important role to meet the food needs of poor households, but the potential for commercialization of agriculture is limited due to small scale and remoteness of the PIC8. Fishing and tourism are, for most of the PIC8, the only significant foreign exchange-earning private sector activities. Relatively large public sectors benefitting from large aid inflows and income from remittances are the other two sources of income that provide stimulus to domestically oriented private sector activities. The domestically oriented private sector is, however, typically small and very much dependent on activities in the aforementioned



areas. For each area we discuss its role with respect to generating income, supporting livelihoods and providing opportunities for the poor, and identifying priority measures to broaden economic opportunities.

Agriculture

65. Agriculture (crops and livestock) is fundamental to the livelihoods of most residents of the PIC8 and has broader linkages to the cost of living, food security and health outcomes. The contribution of agriculture to GDP is relatively high in most of the PIC8 (Table 4-1). The proportion of the labor force employed in agriculture, hunting, fishing and forestry averages 24 per cent across the PIC8. This most likely underestimates the importance of agriculture to livelihoods: agriculture continues to provide food security and income generation to most rural households; these households in turn make up 70 per cent of all households across the PIC8. Moreover, as discussed in Chapter 2, poorer households are typically concentrated in rural areas where women as well as men are engaged in agricultural labor. However, evidence shows that in Vanuatu a larger proportion of women work in agriculture than men. The agriculture sector in the PIC8 has important cross-sectoral linkages, affecting the cost of living and health and nutrition outcomes for all of the population.

TABLE 4-1: SELECTED AGRICULTURE-RELATED CHARACTERISTICS OF THE PIC8

Country/region	Area (km ²)	Agricultural land (% of area, 2012)	Rural pop. (% of total pop, 2014)	Employment in agriculture* (% of working-age pop, 2012)	Agriculture, value added (% of GDP 2013)	Food exports (% of merchandise exports)
FSM	700	23.3	77.6	21.6	26.3	-
Kiribati	810	42.0	55.8	22.0	25.6	88
Palau	460	10.9	13.5	20.0	4.4	-
Marshalls	180	72.2	27.6	23.1	15.3	-
Samoa	2,830	12.4	80.7	25.7	9.9	32
Tonga	720	43.0	76.4	26.2	20.7	76
Tuvalu	30	60.0	41.2	25.0	22.2	-
Vanuatu	12,190	15.3	74.1	28.8	28.0	85
Small states	-	35.5	53.8	26.9	5.2	13
LIC	-	38.8	70.2	-	32.7	22
MIC	-	44.5	51.0	-	10.0	11

Sources: World Development Indicators; Food and Agriculture Organization Statistics

Note: * Includes agriculture, hunting, fishing or forestry. Food exports as a % of merchandise exports—latest year available.

66. Subsistence farming predominates, with most households selling small surpluses in the domestic market as their only form of cash income. Traditional farming systems are predominantly based on root crops, tubers and coconuts; a wide variety of fruits and vegetables are also cultivated on most islands apart from the atolls. Livestock production (with the exception of Vanuatu) is almost entirely subsistence-oriented for household consumption or cultural obligations.

67. Agricultural conditions and potential vary both within and among these islands, which can be broadly classified into two groups. The first group comprises Palau, FSM, Tonga, Samoa, and Vanuatu, which are predominantly volcanic islands with relatively fertile soils; the latter two also have a large land area relative to the other PIC8 countries. Tonga and Vanuatu have succeeded in exporting a range of agricultural commodities (vegetables, root crops and vanilla for Tonga and beef, cocoa and coffee for Vanuatu), while Samoa is shifting towards more diversified production to substitute for high levels of food imports. The second group consists of

Tuvalu, RMI and Kiribati, which are predominantly small, low-lying coral atolls with poor soil fertility. Some of these countries export copra, but production is generally subsistence-oriented.

68. The development of the agriculture sector can be a powerful driver of economic growth, poverty reduction and shared prosperity. GDP growth generated in agriculture is at least twice as effective at reducing poverty as growth generated by other sectors, controlling for the sector's size.²¹ Given that poorer households are typically concentrated in rural areas in the PIC8, agricultural growth can play an important role in reducing disparities between rural and urban areas, particularly for the most vulnerable rural households (often located on the more isolated islands).

69. While subsistence agriculture dominates the PIC8, there is potential for some households to move towards semi-commercial and commercial production. The challenge is the very limited market access, with the reality of high transport costs making the PIC8 uncompetitive in most markets with some exceptions such as beef from Vanuatu which has seen heavy investment since colonial times, or for certain products that are considered premium quality and have a niche market (for example, coffee and cocoa in Vanuatu, or organic extra virgin coconut oil). Where there are prospects for agricultural exports, improvements in postharvest handling and processing are needed to ensure access to overseas markets. A shift in focus towards domestic markets may provide more realistic opportunities for increasing sales of agricultural products. This would mean encouraging the production of goods that are usually imported. Local production can often be of better quality than imported perishable goods, but the challenge is to be able to compete on price. Tourism also offers increasing opportunities for local agricultural products (see section on tourism). For both the domestic and export markets, ensuring consistent quality and supply will be essential to increasing sales.



70. Diversifying agricultural production will also improve nutrition security. Expenditure on food still constitutes a major component of household budgets in the PIC8. While subsistence farming may provide staple root crops and some fruits and vegetables, many households purchase meat and fish to meet daily protein requirements; expenditure on rice, flour and baked goods is also high (SPC 2011). These commodities are almost always imported, and thus the volume and value of food imported into the PIC8 is significant—and increasing over time. In 2010, food imports accounted for on average 20.5 per cent of merchandise imports in the six PIC8 countries for which data is available, compared to 4 percent on average across all the Asia-Pacific region. Reliance on imported food is particularly high in the coral atolls of Kiribati, Tuvalu and RMI, where the lack of arable land constrains subsistence farming. Increased consumption of imported foods, which are typically high in sugar and sodium, has contributed substantially to the high prevalence of non-communicable diseases seen in most of the PIC8. More efficient and diverse domestic production can improve consumers' access to a healthy and nutrition-secure diet.

71. Improved agricultural productivity in the PIC8, particularly if targeted towards products that would otherwise be imported, can serve as a buffer against food price shocks. Reliance on imported food, even for low-income households makes the PIC8 countries particularly vulnerable to global commodity price shocks. As is the case in other lower-income countries, poorer households in the Pacific spend more of their budget on food than wealthier households but unlike elsewhere they also typically spend a higher proportion of this budget on imported products (Cororaton and Knight 2014). A recent study found that food costs constitute 60 to 70 percent

²¹ As countries get richer, the superiority of growth originating in agriculture in providing benefits for the poor appears to decline. See World Bank 2008.

of the total costs required to meet basic needs in Kiribati, Samoa and Vanuatu (World Bank 2014a). In recent years, food prices have been high and volatile, and the resulting spike in consumer prices has been much higher in the Pacific islands than in East Asia or other developing countries (World Bank 2014a). While urban dwellers may rely the most on purchasing food and are highly vulnerable to these shocks, households in hardship spend a larger proportion of their total budget on food and may be equally vulnerable. A simulation exercise conducted in 2014 (World Bank 2014a) predicted that a future increase in fuel, rice and wheat prices similar to that seen in Kiribati in the 2007 food/fuel crisis could be expected to push 6 percent of the population into hardship. (World Bank 2014a).

Constraints to agricultural development in the PIC8

TABLE 4-2: CONSTRAINTS TO AGRICULTURAL DEVELOPMENT IN THE PIC8				
Country	Subsistence agriculture	Commercial/semi-commercial agriculture		
		Horticulture	Tree crops ²²	Livestock
Group 1				
Tonga	Weak extension services	High labor costs		Limited domestic feed sources
Samoa		Rocky soil High labor costs		Weak genetic diversity Poor animal husbandry
Vanuatu	Susceptible to plant diseases	Limited mechanization	Senile coconuts	Weak extension services
FSM		High labor cost		
Palau		High labor cost Limited land area		
Group 2				
Kiribati	Weak extension services	Infertile soils Limited land area	Senile coconuts	Limited land area Limited domestic feed sources
RMI	Susceptible to plant diseases	High labor costs Lack of water		
Tuvalu				

Source: Landon-Lane 2015

72. Agricultural development in the PIC8 is constrained by multiple factors. These factors vary depending on the type of agriculture in question (subsistence crops, horticulture, tree crops or livestock), and on specific country conditions. These constraints are summarized in Table 4-2 above.

73. In addition to these specific country constraints, climate change poses a significant threat to agriculture in the PIC8.²³ Expected impacts include less predictable rainfall (most islands do not have the water storage or irrigation infrastructure to mitigate the impact of extended droughts), more extreme rainfall events (which can lead to substantial crop losses), and sea water intrusion and inundation during storm surges (resulting in salinization of agricultural land and diminished productivity).

Priorities in agriculture for the PIC8

74. While opportunities for export of agricultural products are likely to remain limited, opportunities for small-scale local trade, import substitution to supply the tourism sector and selected niche and cash crop

²² Coconuts, cocoa, coffee

²³ The South Pacific Applied Geoscience Commission has rated Vanuatu as vulnerable, and all other PIC8 countries as highly or extremely vulnerable, to climate change impacts (Landon-Lane 2015).

exports offer possible gains for many. The suggested priorities for agriculture in the PIC8 in the framework of this SCD follow.

75. Supporting productive, resilient subsistence agriculture: As the cornerstone of food security in the PIC8, efforts should be made to improve the productivity of subsistence producers. Substantial gains can be made with relatively small investments in improving farmer awareness of good agricultural practices and the appropriate use of low-cost inputs. Besides facilitating this knowledge dissemination through public extension services, which will require substantial capacity development and increased operational budgets, partnerships with the private sector, NGOs, and community groups can also be leveraged. Improved productivity is expected to particularly benefit women who are responsible for household food production. Key environmental sustainability risks to be considered include deforestation due to agricultural expansion, and water and soil pollution from excessive use of fertilizer and pesticides.

76. Facilitating market access for horticulture and tree crop producers: Producers wishing to engage in semi-commercial or commercial production should be supported in doing so through the provision of technical advice and improved access to credit for on-farm investments. This is most relevant for horticultural and potentially cocoa production in Samoa, Tonga and Vanuatu, and coconut production in the atoll islands. This support should be gender sensitive, particularly in countries where women have not traditionally engaged in cash crop production (notably Vanuatu). Market information services should also be improved—the use of low-cost platforms to disseminate information (for example, through mobile phones) offers potential to reduce information asymmetries. Market access infrastructure—including farm access roads, wharf facilities, and collection/storage centers—needs to be rehabilitated in those countries where there is most potential for commercial production. If producers are to be able to tap into the growing tourist demand for fresh local produce, investments in improving food safety practices along the value chain will need to be made, with strong collaboration between the public and private sectors. Encouraging and strengthening aggregated farmer organizations will also help producers to reduce transaction costs when dealing with buyers. Finally, investments could be made in branding and marketing selected differentiated quality products, potentially using geographical indicators.

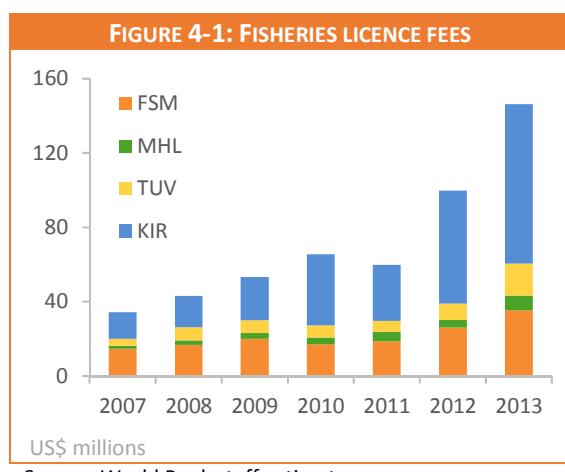
77. Enhancing the contribution of livestock to food security and livelihoods: Small-scale livestock production, particularly of poultry, can play a more important role in PIC8 households. Although many households already have backyard poultry operations, productivity is low. Support to small-scale poultry production, with a focus on appropriate nutrition and husbandry techniques, will help to improve productivity with surplus meat and/or eggs able to be sold on the local market. For Vanuatu and Samoa, where there is a beef industry, support should be given to improving cattle slaughtering services so that they are more hygienic and result in better-quality meat more suitable for the overseas and domestic-tourism markets.

78. Making agriculture climate resilient: This area of work is cross-cutting and relevant to all three of the preceding priorities. Farmers should be equipped with the necessary skills and tools to adapt to the impact of a changing climate and the increasing frequency and intensity of extreme weather events that are expected in the Pacific. This includes the adoption of climate-smart agricultural practices and crop varieties, drawing on the extensive research of Pacific regional organizations in this field.

Fishing

79. The resources, services and biological diversity of the Pacific Ocean are essential to the economies and development of the PIC8, and are also of significant value to the international community. The Pacific islands ocean region covers some 11 percent of the world's oceans. These shared fisheries resources include, among others: (i) oceanic fisheries (largely tuna) that provide public revenues; (ii) coastal fisheries that directly sustain rural livelihoods and contribute to food security and sometimes exports; and (iii) the natural habitats and biodiversity that sustain them.

80. The region's oceanic fisheries supply much of the world's tuna, with global demand steadily increasing.
The wider Western Central Pacific Ocean area produced 2.6 million tons of tuna in 2013, representing over one-half of all of the world's tuna catch and yielding revenues at first sale on the order of over US\$6.3 billion. Approximately 60 percent of this tuna catch (or some 35 percent of the world's total) was taken from PIC waters. The total first sale value of the tuna caught in PIC waters was estimated to be over US\$3 billion in 2013, of which PICs received roughly 7 percent as a result of access fees paid by largely foreign fleets. Even at this relatively low level of return from what is one of the more profitable fisheries in the world, revenues from the sale of access constitute the largest single source of public revenues for a number of PICs (Figure 4-1). In addition to revenues from access fees, very little value addition takes place within the region. In many countries the diseconomies of isolation reduce the profitability or competitiveness of tuna processing operations, and thus its capacity to pay for access to resources.



81. The coastal fisheries throughout the region play a very different but equally crucial role in PIC economies. Although they do not generate significant amounts of national revenue, they are crucial supporters of local livelihoods, food security and dietary health in all PICs. Fish and seafood are a primary source of animal-based protein in Pacific island diets, and in some countries per capita consumption exceeds 100 kilograms per year (compared to a global average of 16 kilograms per year). PIC coastal fisheries are, for the most part, relatively small and localized and support only a few viable (although extremely valuable) export fisheries (for example, bêche-de-mer, trochus, and other specialized products), as well as coral reef fisheries for local consumption that are highly susceptible to overexploitation. Women are particularly dependent on coastal fisheries for informal economic opportunities including handicrafts. Aquaculture has been proposed in various PIC8 countries to replenish the stocks of coastal fisheries and provide additional outputs for sale on overseas markets, but development is generally constrained by a lack of long-term investment capital, technical/commercial competence, and export market access. Aquaculture for import replacement is generally deemed to be unviable due to the competitive price (and convenience) of imported tinned fish.

82. Both the oceanic and coastal fisheries depend on the natural habitats of the Pacific Ocean to sustain them, including coral reef ecosystems, mangroves and wetlands among others. These habitats also serve the important function of protecting villages and communities from storms and flooding, whose intensity is only expected to increase with climate change. They also play a vital role in helping to mitigate climate change, as coastal vegetated habitats such as mangroves and sea grass beds sequester significant amounts of carbon. Finally, they are home to some of the world's most significant marine biodiversity. For example, in 2012 the Conference of the Parties of the Convention on Biological Diversity named 26 large areas throughout the Western South Pacific—including the Phoenix Islands in Kiribati and the Tonga Archipelago—as having met the criteria for ecologically or biologically significant marine areas worldwide. Maintaining, or in some cases restoring, healthy ocean environments and resources will, therefore, be fundamental to building resilience to climatic shocks and longer-term changes in the region.



Constraints and challenges

83. Inadequate policy, governance and institutional arrangements for fisheries and oceans management at the national and regional level: National fisheries agencies face three key challenges in dealing with fisheries management issues: (i) increasing workloads and responsibilities in the face of shrinking budgets and limited human capacity; (ii) limited connections to fishery stakeholders; and (iii) the absence of strong policy or planning frameworks (SPC and FFA 2010). Furthermore, regional responsibilities and activities associated with offshore fisheries have tended to divert attention and resources away from coastal fisheries. At the national level, fisheries governance has been largely unsuccessful in achieving sustainable capture fisheries or aquaculture development, and considerable improvements are needed in performance and service delivery.

84. At the regional level, Pacific island nations have adopted a number of regional policies, policy frameworks and initiatives to promote greater coordination and cooperation on fisheries matters.²⁴ The implementation of these policies and initiatives is led largely by the Pacific Islands Forum Secretariat, the Pacific Community, the Secretariat of the Pacific Regional Environment Program, the Pacific Islands Forum Fisheries Agency, and the University of the South Pacific. Collective action for fisheries management has already had considerable success, such as with the purse seine fishery targeting skipjack tuna. The challenge is to ensure that these regional arrangements are adequately resourced, that the arrangements are transparent, and that they are respected by national governments.²⁵

85. Insufficient data and information on the status and exploitation of fisheries and marine resources: Reliable, up-to-date data are essential for effective monitoring and management of fisheries resources. Yet, time series data on production, export and licensing statistics are incomplete and at times inconsistent. There is seldom robust statistical information available for stock assessments and the calculation of maximum sustainable yields from coastal fisheries in particular.

Priorities in fishing for the PIC8

86. Natural resources governance: Oceanic fisheries can provide greater economic returns to the PIC8, but not through expanding catches. The opportunity lies in enhancing the natural capital of the fishery and hence the value of access, rather than the quantity of fish caught or access rights sold. Enhancing this capital can be achieved through the establishment of clear catch limits aligned to sustainability, and economic incentives for maintaining these limits and increasing catch value. Conservation efforts must also be made to ensure that fisheries are not overexploited and that stocks are allowed to regenerate. At the regional level, PICs have adopted an “oceanscape” approach, aiming to establish and effectively manage multiuse marine areas that reflect the archipelagic nature of the region. Such areas, when well-designed, can help support and enhance fisheries, for example by providing a refuge for reproduction of fish that spill over into fishing grounds.

87. The purse-seine vessel day scheme (VDS) implemented in 2009 by the Parties to the Nauru Agreement (PNA)²⁶ to manage access to the tuna fishery provides a good example of effective regional collaboration on fisheries management. It works similar to a ‘cap and trade’ scheme for fishing: each year the PNA countries set the total catch limit needed to maintain a healthy fish stock, and translate that catch limit into individual vessel fishing days, which are allocated to countries by a PNA Office based on an agreed formula, and then the countries sell the days. The vessels days are valuable because they limit catch to sustainable levels of production and this scarcity has value that can be traded. Prior to the introduction of the VDS, PNA countries captured little of the

²⁴ In particular, the Pacific Islands Regional Ocean Policy in 2002, the Pacific Islands Regional Ocean Framework for Integrated Strategic Action in 2005, and the Framework for a Pacific Oceanscape in 2010.

²⁵ The dilemma posed by transboundary natural resources such as fisheries is that they require collective management, but often offer greater short-term incentives for individual actions (a specific country may gain greater revenues by selling access outside of collective arrangements, at the expense of neighboring countries).

²⁶ FSM, Kiribati, Marshall Islands, Nauru, Palau, PNG, Solomon Islands and Tuvalu.

value of the tuna caught in their waters. As a result of introducing the VDS and subsequently a benchmark price, the price of a vessel day increased from US\$1,500 in 2010 to US\$6,000 in 2014, and total revenues to PNA countries increased from US\$70 million in 2009 to an estimated US\$280 million in 2014 (although this is still less than 10 percent of the value of the catch). A number of experts believe that the price of vessel days can continue to climb if the system is further strengthened, and this fishery could sustainably return over US\$450 million per year to Pacific island countries.

88. For this to happen, however, compliance with the resource management system will need to be increased to strengthen its integrity (as, for example, some countries have exceeded the number of days allotted to them at the expense of the health of the resource). In addition, its scope will need to be expanded to cover as much of this regional fishery as possible, its governance mechanisms adequately resourced, and its flexibility, transparency and efficiency increased (for example, by pooling days among multiple countries, or selling them via auction). A similar VDS management system could be introduced for the tropical tuna and southern albacore long-line fisheries, significantly enhancing the sustainability and the value of this natural capital asset, and subsequently the benefits that it can provide to Pacific island countries.

Tourism

89. Tourism is the mainstay of private sector economic activity in many of the PIC8 countries. Tourism is the only sector to have grown significantly in the region over the last five years. It is primarily a service sector, with relatively low entry barriers. The tourism supply chain is unique as it brings an export market to the PICs, thereby creating potential onward linkages not only for tourism-related businesses but also by stimulating demand for a range of domestic supply chains such as fresh produce and local artwork and handicrafts (see Box 4-1). Tourism is relatively labor-intensive with the potential to support significant domestic job creation. Furthermore, tourism is one of the few industries in the Pacific in which women and young people form a high percentage of job holders. For young people, especially those who are unskilled, tourism is a potential pathway to productive employment as it provides an alternative to out-migration and urban poverty. Tourism is accountable for significant infrastructure demand in the PIC8, providing a rationale for increased investment into airport, port and road infrastructure that otherwise may not be undertaken due to limited demand from a small domestic population base.

90. Among the PIC8s, there is large variation in the size and scale of tourism. The major destination in the Pacific is Fiji, which accounts for around one half of the regional market, and is regarded as by far the most advanced destination in the Pacific and a leader in innovation and execution in the sector. Amongst the PIC8, the four countries of Palau, Samoa, Vanuatu, and Tonga are regarded as mid-tier or high-potential destinations in the Pacific. Tourism is a major driver of GDP in each of these economies, as well as a major source of foreign exchange earnings and employment; these countries see between 50,000 and 150,000 visitor arrivals per year by air.

Box 4-1: LINKAGES BETWEEN AGRICULTURE AND TOURISM

Tourism is an important source of revenue for most PIC8 countries, and substantial investments are being made in further increasing tourist arrivals. Visitors often express a desire for fresh, local produce (provided that food safety concerns are met), and yet many hotels in the region rely on imported food, which is perceived as having a more consistent quality and supply than domestic produce. Establishing linkages between domestic agriculture and local hotels, restaurants and tourist facilities can provide significant opportunities for smallholder farmers. Several initiatives in the region aim to facilitate these linkages. For example, the Samoa Agricultural Competitiveness Enhancement Project (SACEP) seeks to link hotels with aggregated farmers' groups, while the publication of *Me'a Kai: The Food and Flavors of the South Pacific* in 2010 aimed to increase demand for Pacific cuisine amongst tourists.

91. The atoll nations of Kiribati, Marshall Islands and Tuvalu have much more limited prospects for the development of tourism. Each of these island destinations has fewer than 6,000 visitor arrivals per year, with less than 0.1 arrivals per capita. In the case of FSM, tourist arrivals data has not been made available since 2005. All of this highlights a limited focus on tourism development and tourism promotion. To build a viable, sustainable tourism destination, significant investment is required in infrastructure, destination management, marketing, upgrade of hotel stock and capacity building for the sector. For these islands, it would thus be difficult to gain a positive return on investment from additional tourist spending, even within a long-term horizon.

TABLE 4-3: TOTAL INTERNATIONAL AIR ARRIVALS TO THE PIC8 2011-14

	2011	2012	2013	2014
Kiribati	2,194	4,907	4,595	-
Marshall Islands	4,559	4,590	5,390	-
FSM	19,874	38,263	42,109	35,440
Palau	118,055	124,117	114,127	146,867
Samoa	127,603	134,660	124,673	131,795
Tonga	48,191	47,433	48,188	-
Tuvalu	1,201	1,085	1,302	1,416
Vanuatu	93,824	108,145	110,045	108,808

Source: South Pacific Tourism Organisation (SPTO)

TABLE 4-4: CONTRIBUTION TO GDP AND EMPLOYMENT TRENDS

	2002 Tourism GDP %	2011 Tourism GDP %	2002 Tourism Employment %	2011 Tourism Employment %
Kiribati	14.5	14.5	1.7	10.0
Palau	49.0	50.0	-	50.0
Samoa	9.5	20.0	10.0	18.0
Tonga	5.0	12.0	3.2	15.0
Tuvalu	3.0	3.0	-	0.7
Vanuatu	16.6	35.0	12.0	32.0

Source: SPTO

92. Despite tourism being a major economic sector for much of the Pacific region, tourism intensity in the PIC8 is far below that of other tourism-dependent island states (Figure 4-2). Three-quarters of tourists to the PIC8 (with the exception of Palau) originate from Australia and New Zealand, giving them access to an arrivals market of less than 30 million people. This can be compared to the islands of the Caribbean located next to the North American source market of 350 million people. Over the past 15 years, most PICs have seen a decline in the share of total arrivals coming from long-haul markets such as the United States and Europe, due to changing travel patterns and, more recently, the effects of the global financial crisis. Over a similar period, Australian and New Zealand (ANZ) arrivals have grown (in absolute terms), with the PIC8 destinations offering relatively inexpensive short holidays from these markets.

**FIGURE 4-2: VISITOR ARRIVALS PER CAPITA
(TOURISM-DEPENDENT ISLAND STATES)**

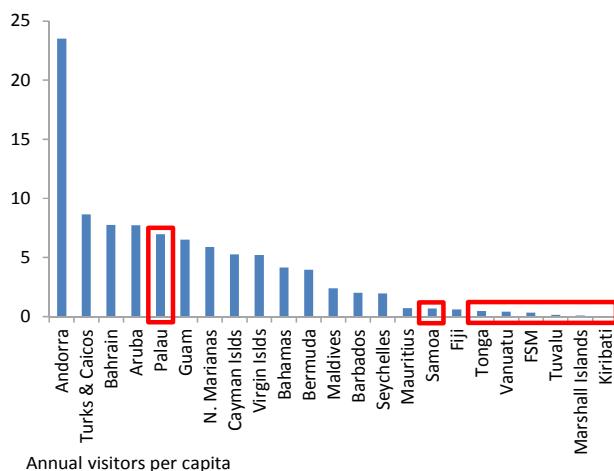
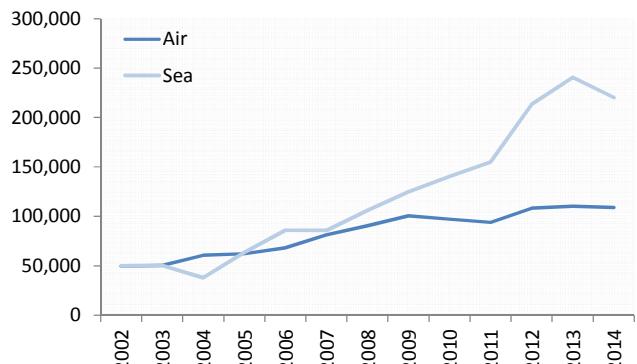


FIGURE 4-3: VISITOR ARRIVALS TO VANUATU



Source: Vanuatu National Statistics Office

93. The PIC8 countries are known as relatively undeveloped, beach holiday destinations with a pristine environment. Holiday tourists make up the majority of the market of Vanuatu and Palau, while those visiting family and friends constitute nearly one-half of all arrivals to Samoa and Tonga. Countries such as Kiribati and Tuvalu receive very few tourists yet rely on business and government visitors to provide extra earnings. The Pacific, outside Fiji, has few internationally recognized hotel brands and experiences difficulty in attracting global investors to the hospitality sector. Tourism operators are often small, with limited sector experience and face high operating costs as well as the effect of unpredictable and often seasonal cash flows. Lack of sound data and information on the tourism sector in the PIC8, along with poor connectivity and untargeted and/or underfunded destination marketing activities reduce the PIC8's attractiveness to tourism investors compared to other hospitality investment opportunities, particularly in neighboring Asia. Nevertheless, some interregional investment has taken place, partially fueled by regional provident funds and donor grant support. Samoa and Tonga have seen investment from the Lamana and Reddy Group respectively. Samoa has in 2014 also seen the entry of Starwood Hotels.

94. The cruise industry is a substantial subsector of tourism in the Pacific. Cruise passenger arrivals were approximately 650,000 for the seven main cruise destinations in the South Pacific in 2012, generating estimated earnings of US\$64 million a year in direct passenger expenditure. Cruise visitor flows are highly concentrated; 77 percent of the South Pacific calls in 2012 were to two destinations: Vanuatu and New Caledonia. The ANZ markets are the dominant providers of cruise passengers to Pacific destinations; the Australian market has been growing substantially and reached over one million passengers in 2014 (Cruise Lines International Association Australasia 2014).

95. Cruise ship passenger flows are particularly vital to Vanuatu. Twice as many international visitors now arrive by cruise ship than by air, as reflected in data from the Vanuatu National Statistics Office. Over the past decade, Vanuatu's cruise arrivals have grown by 15 percent per year. Cruising to Vanuatu has been buoyed by an advantageous location within a few days sail of Australia, a varied destination offering centered on Port Vila, and consistently positive passenger feedback. In 2013, more than 240,000 people arrived in Vanuatu by cruise ship, which translates into 490,000 passenger days. Each cruise ship voyage brings an average of AUD260,000 in spending to Vanuatu and one cruise ship passenger brings AUD125 of spending. A 2014 study into the economic impact of cruise ships to Vanuatu found cruise companies, their passengers and crew spent \$34.6 million in Vanuatu in 2013; this is equivalent to approximately 10 percent of Vanuatu's exports (IFC, 2014).

Potential for market development

96. Significant growth in arrival numbers for the PIC8 will depend on their ability to attract tourism from new markets. With an annualized growth rate of 3.7 percent between 1990 and 2013, tourism growth in the Pacific region has been robust. While growth is forecast to be maintained in the coming years, there are some worrying signs. Arrivals growth between 1995 and 2005 was 4.3 percent but in the nine years since then, growth has been only 1.9 percent per year. Amongst the PIC8, only Vanuatu and Palau have seen growth above 4 percent since 2008. Regional tourism bodies expect growth from Australia to ease following a weakening of the currency and the economy, but recovery in New Zealand and the USA is expected to support growth in arrivals from those countries. Growth from Asia is anticipated, particularly from China, which is already the world's largest outbound tourist market with 100 million citizens leaving the country in 2014. This figure is forecast to climb to 200 million by 2020. China is the top source market for Maldives, Seychelles, Mauritius and, since 2014, Palau; in the region it is the second largest source market for Bali, and the second largest market for both New Zealand and Australia. Chinese tourists travel heavily in the Pacific in low season and can be a market buffer in years of declining arrivals from developed countries. While the initial beneficiaries of Asian growth have been PICs with direct air access, particularly Fiji and Palau, Vanuatu and Samoa also stand to benefit. Palau's success in attracting a significant number of tourists from new source markets has also highlighted new challenges as tourists from new markets may have different expectations and spending patterns and require adjustments in the tourism offer. Within source markets, targeting of tourist groups that are likely to bring the most benefits to a tourism destination is also critical.

97. Rather than competing on cost, the island environments of many PIC8s are suited to lower-impact, higher-return tourism. Indonesia, Thailand and Philippines, though further from Australia, have a cost advantage on the Pacific. It is unlikely that the PIC8 can sustainably succeed with a cost-based strategy as their high operating costs and low tourist volumes render them high-cost destinations. Apart from the economics, the PIC8, have complex social structures, related limits on land ownership, and some burdensome bureaucratic requirements on new businesses. As a result, PIC8s are unlikely to quickly become major destinations for mass tourism. Most stakeholders agree that the unique qualities of the Pacific, including history, culture and an uncrowded and unspoilt environment, should remain major drawing cards, and need to be preserved.

98. Cruise shipping has the potential to offer benefits for some of the PIC8s through greater local linkages, especially in the South Pacific. The rapidly growing cruise market in Australia is thought to be eating into the lower-cost end of the Pacific air-based tourism market. Cruising generally offers a cost advantage to resort-based tourism, and contemporary cruises specifically target their marketing to price-conscious family travelers. One of the major attractions of this market is that multinationals are responsible for everything from awareness marketing to transport, meals and accommodation; thin capacity in PICs is not a detriment to attracting cruise tourists. In line with this market structure however, extracting value for local businesses from cruising is a strategic challenge for many PIC8s.

Constraints to tourism growth

99. Long-haul tourists face a long and expensive trip, while tourists from Australia or New Zealand have an adequate range of flights but convenience and cost remain challenging. Evidence from visitor surveys suggests that while tourists value what the PIC8 have to offer—pristine beaches, natural environment and a relaxing, friendly culture—these are commodities which can typically be found in other closer destinations. Tourists coming from ANZ to the larger PIC8 countries have a choice of direct/one-stop services of reasonable frequency, but convenience and cost are often deterrents. Flights to the PIC8 are often scheduled for middle-of-the-night arrivals. A cost comparison of various holiday options researched in November 2014, shows that flights to Samoa and Tonga were as or more expensive than flights to Bali or Phuket; 4 star hotel accommodation was more expensive in the PIC8s reviewed (Samoa, Tonga, Vanuatu) than in South East Asia. When looking at a long haul arrival

markets, higher cost of travel is expected. However, there are few routes offering direct or one-stop access from Asia or the US, with related time and cost penalties and the lack of flexibility that comes with infrequent access.

100. A fundamental constraint to the expansion of tourism in the PIC8 is limited growth in small, regional markets and high risk due to market concentration. Tourism arrival growth from ANZ is now flattening out after a period of growth. The share of Australian holiday-makers choosing Pacific destinations has declined between 2000 and 2013, as Australians increasingly travel to Asia. In 2000, Thailand received 7 percent of all Australian holiday tourists, while the Pacific islands (including Fiji) received 9 percent. In 2013 Thailand received 11 percent of all Australian holiday-makers, while the Pacific received 7 percent. High concentration of ANZ tourists in the PIC8 market has increased the cyclical nature of tourism; most Pacific destinations now have a very pronounced high season (June-October) corresponding to winter in the Southern hemisphere leaving PICs more exposed to business cycles in those two source markets. At the same time, intra-Pacific competition for arrivals from the same sources creates a fundamentally negative dynamic that stymies development of regional cooperation. Each of the PIC8 competes in a close to zero sum game.

101. Linkages from the tourism sector to the local economy tend to be smaller in small island environments, diluting positive economic impacts. A large proportion of the operating costs for tourism establishments such as hotels and restaurants is spent on imports, given that food used by the tourism sector is imported, nearly all energy is generated from imported fuel and required items for maintenance and upkeep are brought in from abroad. Skilled hospitality positions are occasionally filled by expatriate staff, though in the PIC8, companies tend to have a limited number of international positions, due to cost restrictions. It is important to note that ‘importing’ these high skills helps create the many more complementary lower skill jobs that benefit the local population. Introducing skilled staff for senior positions is also an opportunity to provide hands-on training for local hospitality workers, bringing understanding of a more sophisticated operating environment to PIC8s and helping to professionalize and raise standards in the industry. Over time, there is likely to be a skills transfer to the local population, but even then it is highly likely that there will still be a need for skilled expatriate workers (as also observed in countries with highly developed tourism sectors).

102. While many of the PIC8s offer a range of accommodation at the lower and mid-level, a lack of high quality accommodation is regarded a weakness, including the absence of international brands in many PIC8. Many of the mid-tier Pacific countries are regarded as suffering from over-supply of small-scale accommodation. Market entry and exit is not stringently regulated relative to other tourist countries and small operators can enter the market with a relatively modest investment. This attracts many owner-operators without experience in the industry, looking to invest in the Pacific as a lifestyle choice. This has resulted in accommodation that is not fit for purpose being quickly constructed, sold and resold in a continuing cycle of Pacific boom and bust, which crowds out potential long-term investors in large-scale properties managed by international brands. Occupancies in Vanuatu hover around 60 percent on an annualized basis, while in Samoa and Tonga occupancies are between 40-50 percent. This compares to around 75 percent in Fiji and upwards of 90 percent in Maldives and Palau.

103. Two major challenges for cruise market development are distance from Australia, which prevents significant growth in cruise arrivals for many PIC8s, and extracting more value from the ships in countries where they do call. Cruise itineraries are highly dependent on duration of voyage, with tourists preferring 7-10 day itineraries so distance from source markets is a fundamental constraint. In countries located near key source markets, further development of cruise shipping is constrained by lack of electronic hydrographic charts and lack of landing facilities in promising destinations near established routes. Linkages from cruise ships to the local economy are even smaller than for air tourism.

Expanding the tourism sector

104. Product improvement, market differentiation and identification of high-value niche markets across the globe will be important to increase tourism growth in a sustainable manner. Research from Fiji, Cook Islands and

Vanuatu shows that tourists arriving from long-haul markets stay longer, spend more, and are more likely to visit outer islands (spreading the benefits of the tourist dollar outside urban centers). They are more likely to be attracted to the Pacific for its culture and history than for its beaches, which they can find closer to home. They also travel in the Pacific's low season (November-April), helping to balance out demand for airlines and accommodation providers. The PIC8 will not be able to compete with destinations in South East Asia on a cost basis but instead should differentiate and actively market their product to attract tourists who select the destination due, at least partially, to unique features within a country—its geography, history and culture, rather than due to commonly found tourism products. The Pacific is very well-placed to compete for high-value tourism given its unique cultural offering and uniquely pristine, uncrowded environment—which compares favorably with locations such as Maldives or the Caribbean. Targeting niches in fast-growing global markets, notably the fast growing tourism market of China, can produce quick results and give PIC8s market experience that can result in better targeting of markets in Europe and the US.

105. Important regional linkages exist via Fiji which the PIC8 can leverage by improving connection scheduling in light of tourism travel patterns. Fiji has an inbound international capacity in excess of 700,000 seats from eight ports outside the region and 11 ports within the region. As such, Fiji is a stepping stone for tourists to travel onwards to most of the PIC8. Tourists use Fiji as a gateway to the Pacific from longer haul overseas markets, including: Hong Kong SAR, China; Seoul; Los Angeles; or Honolulu; as well as those coming through Australia and New Zealand. Yet intra-Pacific connectivity remains challenging for tourists. As an example, connecting from Fiji to Vanuatu is inconvenient due to long layovers, requirements for a domestic connection, and seemingly constant changes to intra-Pacific flight times, which can wreak havoc on holiday plans made two to six months in advance.

106. Improved connectivity and better infrastructure will be critical to tourism sector growth in the PIC8. The most important connectivity improvement for the air tourism sector is to create more convenient flight connections from key markets, including from high-potential developing markets, as well as better coordinated intra-Pacific travel schedules that are subject to fewer timing changes. For instance, improved coordination of flight schedules would lead to fewer changes to schedules and more convenient connections and flight timings for PIC8 destinations. In other areas, the small size of PIC8 markets limit their ability to further integrate with larger markets like Fiji. Connections are often made more difficult because PIC8 destinations lack the airport infrastructure to safely and conveniently receive standard-sized aircraft. Improvements in airport and other tourism infrastructure that goes hand-in-hand with measures to build demand will support the market to grow. Finding innovative ways of attracting additional seat capacity to PIC8s from high-growth tourism markets will be critical to growing arrivals and value. Various forms of time-bound subsidies may be considered. Where significant research has been conducted, impact can be clearly measured (for example, increased tourism revenue), and an initial market push may be required.

107. Maximizing the potential of cruise ship tourism to the region will require appropriate infrastructure developed in close consultation with business demand. For PIC8s located further from Australia, such as Samoa and Tonga, the best way to significantly increase cruise arrivals is to support the location of a ship directly in the Pacific, which would allow for fly-cruise packages to access these islands. Fly-cruise packages are widely used in Europe and the Caribbean. To extract greater value from cruises, opportunities for supplying ships locally, as well as greater employment of nationals from the countries ships sail to, can be promoted. There is also a strong economic case for increasing visits to new and smaller destinations, by encouraging development of electronic charts and landing facilities in destinations likely to see high demand. Supply chains tend to be shorter in small destinations, with producers usually selling crafts directly to tourists. With proper destination and environmental management, impacts on the natural environment can be planned and controlled. In particular waste and sewage management will require significant commitment and self-discipline from cruise ship operators, considering the long distances travelled and lack of land to properly dispose of waste and the weak regulatory capacity of most PIC8. In the PIC8, while Tonga and Samoa are relatively well-charted, the northern islands of Vanuatu are in need

of mapping to attract cruise ships. PICs which desire more cruise business also need to either provide adequate wharves or properly constructed tender landings.

108. Harnessing the power of technology is key for tourism development in the PIC8s, especially given that leisure and business travelers now expect constant connectivity. For the PIC8s, more extensive and cheaper cell phone and internet coverage is vital to development of a modern tourist economy. Hotels in many PIC8s continue to charge significant fees for internet access, against global trends, while roaming remains problematic in most PIC countries, with poor coverage and a lack of connectivity to major international networks. This is a top complaint in tourist forums and ranks poorly in feedback coming through international visitor surveys. In addition, improved access to ICTs would also facilitate access to and use of services such as online advertising, search and ranking sites, reservations, and e-payments by local tourism businesses.

109. Integrating proper environmental management in tourism development planning will be key to preserving the sector's sustainability. Key environmental challenges associated with tourism development include waste management and coastal water pollution. As high-end tourism will likely lead to increased demand for hunting, recreational fishing, and diving, coral reef degradation due to improper diver behavior and illegal hunting of valuable species such as native sea turtle populations in Tonga may result. Furthermore, both high-end tourism and cruise ship calls would increase demand for locally caught, high-value fish species contributing to coastal over- and illegal fishing.

Labor Mobility and Remittances

110. Given the geography, size and changing demographics of the PIC8, labor mobility offers an important pathway to poverty reduction and shared prosperity. Many of the PIC8 countries are witnessing rapidly growing populations and a youth bulge, but domestic labor markets are not growing fast enough to absorb all new entrants, especially the unskilled who are most likely to be poor or in the bottom 40 percent of the population. As a result, PIC8 populations are increasingly seeking to either migrate from rural to urban areas or migrate abroad in search of employment in metropolitan countries around the Pacific Rim, most notably Australia, New Zealand and the United States.

TABLE 4-5: PREFERENTIAL LABOR MOBILITY SCHEMES/AGREEMENTS FOR THE PIC8

	KIR	MHL	FSM	PLW	WSM	TON	TUV	VUT
Australia								
Seasonal Worker Program	Yes	No	No	No	Yes	Yes	Yes	Yes
New Zealand								
Recognized Seasonal Employer Scheme	Yes							
Samoan Quota	No	No	No	No	Yes	No	No	No
Pacific Access Category	Yes	No	No	No	No	Yes	Yes	No
United States								
Compacts of Free Association	No	Yes	Yes	Yes	No	No	No	No
US H2A Temporary Agricultural Visa	Yes	No	No	No	Yes	Yes	Yes	Yes

111. In many PIC8 countries, the bulk of the population lives in rural areas where poverty incidence is usually higher. Migration to the capital is often the first step to find work, but migrants can be frustrated by a lack of opportunity and join growing numbers of urban poor and unemployed. Limited opportunities and a traditional way of life lead young people in particular to move from rural areas to the capital city seeking work and accommodation, especially in those countries where external labor market access is limited (World Bank 2014b). In countries with open access to international labor markets, this can be a stepping stone to a move overseas where there are far more opportunities to earn a living. In countries with restricted access, however, migrants can get 'stuck' in the capital-leading to overcrowding, unemployment and other social problems. The most extreme case of this problem is in Kiribati, where South Tarawa is one of the most over-crowded places on Earth, and overburdened facilities and natural resources threaten a humanitarian crisis.

112. A large number of Pacific islanders live and work abroad. As recently as the late 1940s, very small populations of Pacific-born migrants lived outside the region. In Australia there were only 4,700 and in New Zealand approximately 3,000 (Bedford 2012). Today, there are large numbers of PIC8 migrants in all major receiving countries. The United States has 180,436 migrants from the seven PIC countries for which data are available, predominantly from Samoa, Tonga, and the Compact countries of FSM, Marshall Islands and Palau. New Zealand has 79,983, whilst Australia has 30,207 (Table 4-6). Peripheral labor-receiving countries include France, Canada and the United Kingdom (Bedford 2012). Rates of remittances are also some of the highest in the world, especially in Samoa and Tonga.

113. In examining migration channels, three country groupings emerge. The Marshall Islands, FSM and Palau—the countries that have signed Compacts of Free Association with the United States—are the only ones with open labor market access and have high rates of migration. These are referred to as the ‘green’ countries. Despite not having the same privilege, Tonga and Samoa have the highest outward migration rates of the PIC8 mostly through historical links with New Zealand.²⁷ These are referred to as the ‘orange’ countries. Kiribati, Tuvalu and Vanuatu have preferential access to Australia and New Zealand through the SWP, the RSE Scheme and the Pacific Access Category. While their employment opportunities are limited and population growth is high, they currently have some of the lowest migration rates in the Pacific and are referred to as the ‘red’ countries (Figure 4-4). Using these country groupings, this section assesses the opportunities and constraints faced by the PIC8 in leveraging labor mobility to achieve the twin goals.

114. The opportunities for the poor and B40 to participate in existing migration schemes are determined by travel costs and skills level. In the case of the green countries, high transport costs of reaching the US mainland

are an impediment to many low-income households who might otherwise stand to gain the most from work opportunities. Those who can afford to migrate to the US mainland are often in the

middle-to-upper quintiles of the income distribution. A survey of FSM migrants residing in the United States found that their educational level was higher than the average in FSM (Hezel and Levin 2012, p. 43). For the orange and red countries, the opportunities for the poor and B40 to participate in existing labor migration schemes vary. Existing data from the Pacific Seasonal Worker Pilot Scheme (PSWPS) impact evaluation suggests that participating households were not differentially richer or poorer than other households in their village, but came from poorer villages (Gibson and McKenzie 2011). In the RSE, the evidence is mixed—from Tonga, poorer, more rural workers were likely to participate—whereas, in Vanuatu, the average household sending a worker, while poor by global standards, was still richer than the average household not sending workers in the program (McKenzie et al. 2008).

FIGURE 4-4: PIC8 COUNTRY GROUPINGS

Open labor market access	Historical/ high labor market access	Limited labor market access
<ul style="list-style-type: none"> • Marshalls • FSM • Palau 	<ul style="list-style-type: none"> • Samoa • Tonga 	<ul style="list-style-type: none"> • Kiribati • Tuvalu • Vanuatu

²⁷ Samoans were granted preferential access to New Zealand both before independence and after, under the Treaty of Friendship and now the Samoan Quota. Meanwhile, many Tongans were granted temporary working visas to New Zealand in the 1960s and 1970s and ended up settling (Te Ara 2014). Tonga is now also a part of the Pacific Access Category.

TABLE 4-6: NUMBER OF PEOPLE FROM PIC8 RESIDING IN LARGEST RECEIVING COUNTRIES

	KIR	RMI	FSM	PLW	WSM	TON	TUV	VUT
In Australia	600	34	18	23	19,093	9,210	122	1,107
In New Zealand	1,569	21	15	9	51,681	23,430	1,479	1,779
In United States	185	19,841	4,658	4,851	109,637	41,219	-	45
PIC8 home population	101,998	68,480	106,487	21,032	194,320	106,146	10,619	227,574
% of home population	2%	29%	4%	23%	93%	70%	15%	1%

Source: Australian Bureau of Statistics 2011; Statistics NZ 2013; US Census Bureau 2010

TABLE 4-7: NUMBER OF PIC8 MIGRANTS ANNUALLY PER PREFERENTIAL SCHEME

	KIR	MHL	FSM	PLW	WSM	TON	TUV	VUT
Australia								
Seasonal Worker Program	14	N/A	N/A	N/A	162	1,497	20	212
New Zealand								
RSE Scheme	148	N/A	N/A	N/A	1,212	1,769	72	3,248
Samoan Quota	N/A	N/A	N/A	N/A	1,100	N/A	N/A	N/A
Pacific Access Category	75	N/A	N/A	N/A	N/A	250	75	N/A
United States								
Compacts of Free Association	N/A	198	271	292	N/A	N/A	N/A	N/A
US H-2A Temporary Ag. Visa	0	N/A	N/A	N/A	0	0	0	0
Total	237	198	271	292	2,474	3,516	167	3,460

Source: All data for latest year available from Department of Employment in Australia, Immigration NZ in New Zealand, and US Census data

115. Over the past two decades, preference has increasingly moved toward skilled labor in many metropolitan countries in the Pacific region. For example, in Australia skilled migration now forms 68 percent of the total migration program. The opportunities for low-skilled migration from the Pacific are limited to the SWP and family-based migration. In New Zealand, the RSE, Samoan Quota and Pacific Access Category provide important options for low-skilled workers, but the places are still limited compared to skilled pathways. Given that educational outcomes are poorer amongst the B40 in PIC8 countries, these trends are reducing opportunities for their migration.

Benefits of labor mobility for PIC8

116. A growing body of evidence demonstrates that improved labor mobility for the PIC8 provides benefits to migrants, their households, communities and sending countries. For this reason, all PIC8 countries are looking for ways to improve their presence in external labor markets—the green countries through the Compacts of Free Association, and the orange and red countries predominantly through the existing schemes in Australia and New Zealand. There are many channels through which the benefits of migration and remittances are transmitted.

117. Remittances are an important income source that helps to bring many households out of poverty in the PIC8. Those countries like Samoa and Tonga which have the highest rates of remittances also have some of the best development outcomes in the region. In PIC8 countries, remittances have been shown to reduce income inequality between households, which would suggest migrants are either coming from households in the lower end of the income distribution or sharing their remittances with those households (World Bank 2006).

118. Migration generally has a beneficial impact on human capital development. The extra income received from working in higher income countries can help households overcome the costs of human capital investments. In Tonga for instance, remittances have been proven to have a positive impact on both school attendance and post-secondary education attainment (World Bank 2006). Opportunities for migration can also generate

incentives for human capital development, which can potentially offset the loss of human capital experienced in labor-sending countries (Chand & Clemens 2008). While there are benefits to the household of remittances, evidence from seasonal work programs show that the vast majority of workers are male, meaning women are largely left out from the opportunity to gain working experience and be a primary income earner and may have to carry an additional work load in the absence of their men.

119. Knowledge transfer upon return is another benefit of migration. Both low-skilled and skilled PIC8 migrants transmit knowledge and skills to their compatriots upon return. Gibson and McKenzie (2010a) find that 13 percent of expatriate Tongans from a sample of academic high achievers provided advice to the Tongan government while overseas, and more than 50 percent provided advice to Tongan residents on study and work opportunities.

Costs of labor mobility for PIC8

120. Whilst there are clear benefits from labor migration for the PIC8, there are also potential costs, which can be significant and are often less documented and understood. The upfront costs to the individual of

relocating can be very significant, and act as a barrier for low-income households. For the most remote countries like Kiribati and Tuvalu in particular, the cost of airfares plus the cost of first reaching the capital island can be prohibitively high for the average household, let alone the poorest. While seasonal worker schemes adopt cost-sharing models, these high costs make workers from such remote islands less attractive to employers. Investments in connective infrastructure can help bring down the costs of travel, thereby passing on lower prices to travelers. Fees for remitting money can also be substantial, although regional efforts and new financial products have helped to push these costs down over the last decade.

121. The social costs of migration for migrant households can be damaging. This is particularly an issue with the circular seasonal migration schemes, which the

orange and red countries form a part of. Temporary circular migration can increase the risk of eroding family structures and relationships, causing fragmentation of social networks and psychosocial stress. Whilst there is limited empirical evidence for PIC8 countries, studies from other island states suggest adverse effects—in Jamaica, for example, the absence of migrant mothers has been found to be associated with greater incidence of children in conflict with the law (Ratha 2011).

FIGURE 4-5: PERSONAL REMITTANCES AS A PERCENTAGE OF GDP (2009-2013)

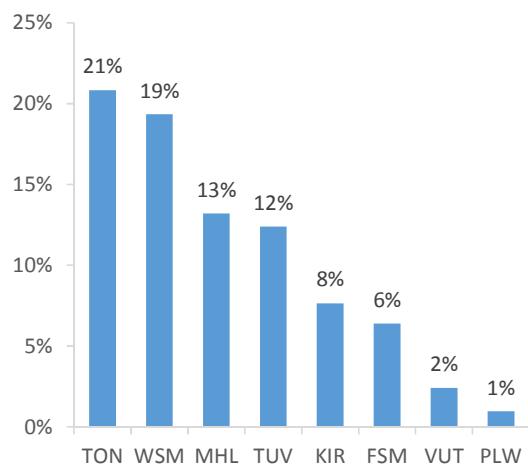
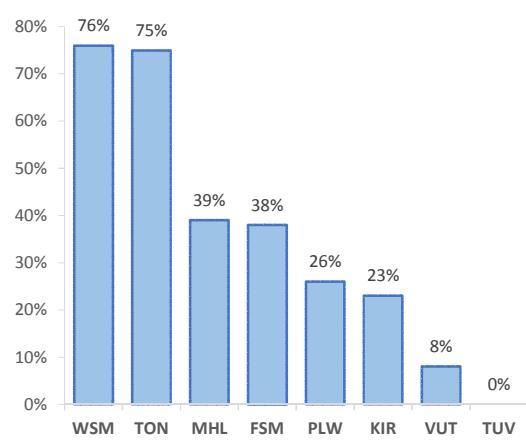


FIGURE 4-6: PIC8 EMIGRATION RATE OF TERTIARY-EDUCATED POPULATION

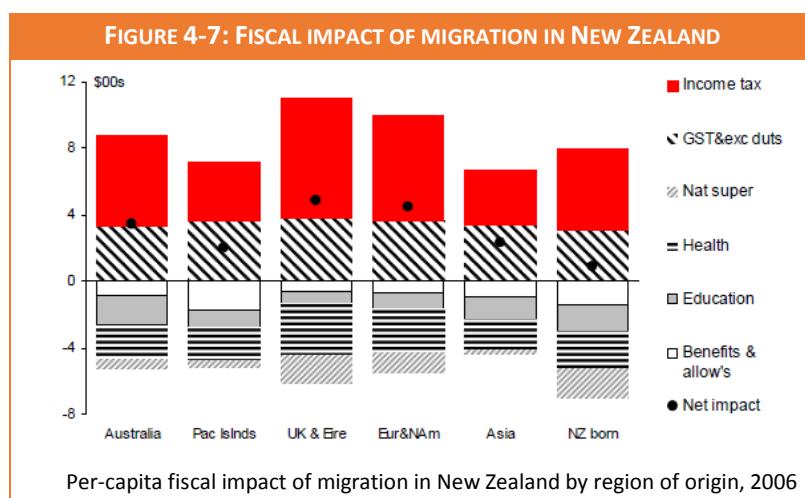


122. The large-scale loss of human capital can adversely impact labor-sending countries. What has been coined ‘brain drain’ is a common concern for PIC8 labor-sending countries. The emigration rate of the tertiary-educated population in the PIC8 is particularly high (Figure 4-6). Despite these concerns, evidence suggests that the prospect of migration is a significant factor in the decision to undertake tertiary education for many individuals, so it is not clear that in the absence of labor migration opportunities as many people would undertake human capital investments as are currently doing so (Gibson and McKenzie 2010a).

Concerns about labor mobility in receiving countries

123. There is concern about the impact of migration on wages and unemployment in receiving countries. Increased competition in the local labor market and the resulting wage impact is one of the most contentious issues surrounding migration. In many receiving countries, however, PIC8 workers work at the minimum wage rate, in areas where there are, particularly seasonal, labor shortages. These workers are, therefore, unlikely to have any impact on the local labor market, but rather act to stimulate the economy by relaxing labor constraints and increasing productivity. Yet such concerns persist, and this is a key factor in why caps have been placed on seasonal worker schemes in Australia, New Zealand and the United States.²⁸

124. Labor unions in receiving countries have a mandate to protect domestic workers and generally oppose immigration. The union movements in Australia and New Zealand have traditionally opposed labor migration from the PIC8, concerned about the creation of a ‘two-tier’ labor system, with different wages and conditions for local and overseas workers (MacLellan 2008, p. 48). In the lead up to the introduction of the SWP, however, the Australian Council of Trade Unions (ACTU) expressed some sympathy for the idea of Pacific island labor migration with a developmental component. This support was conditional on seasonal migrants being offered permanent residency. Unions in Australia and New Zealand have continually stressed that they would only support schemes that involved government and union regulation of wages and conditions and respected union membership.



Source: Hodgson & Poot 2011

125. Labor-receiving countries also worry about the potential fiscal cost associated with migrants, but evidence suggests there is in fact a positive fiscal impact (Figure 4-7). Many policy makers are concerned that low-skilled migrants will initially struggle to gain employment, and therefore depend on government services, which can place strain on the public purse. Whilst labor-receiving countries of PIC8 workers are generally wary of the potential fiscal impacts of low-skilled migration, they remain broadly supportive of the arrival of high-skilled workers who are less dependent on government benefits.

126. Studies on the fiscal contribution of migration in the two major receiving countries of PIC8 workers, Australia (DIAC 2011) and New Zealand (Hodgson & Poot, 2011), suggest these concerns are largely unfounded. The government revenue obtained from migrants’ income tax payments, as well as goods and services tax (GST) and excise duties, far outweighs the costs incurred from providing superannuation, health, education and other benefits or allowances. As a result, the net fiscal impact of migration is immediately positive for all visa categories,

²⁸ In 2015, the Australian Government removed the annual limit on how many seasonal workers can participate in the program. Program take-up is now determined by employers’ unmet demand for labor.

except parents migrating through the family visa stream (DIAC 2011). Furthermore, the annual tax revenue increases over time as migrants move into more productive, higher paying jobs. Whilst the positive fiscal impact of migration from the Pacific islands is lower than for other regions, their net contribution is still higher than for the local population.

127. A major concern for labor-receiving countries is the loss of social cohesion stemming from immigration. Entry of new and “different” groups bringing in unfamiliar cultural traits can be a concern for residents, especially in small communities. This does not, however, appear to be a big concern in Australia, a key destination for PIC8 migrants. A recent survey carried out by the Scanlon Foundation asked Australians for their views of migrants from the Pacific islands. Of those surveyed, 53 percent were positive, 42 percent neutral and only 5 percent indicated a negative response (Scanlon Foundation 2013).

[Actions to Address the Twin Goals](#)

128. Scale up seasonal migration schemes. Seasonal worker schemes offer critical opportunities for low-skilled workers. PIC8 workers from orange and red countries have the ability to work on a seasonal basis in Australia, New Zealand, and the United States. These schemes, particularly in the case of Australia, remain small relative to the size of the industries they supply workers to. Recent results from impact evaluations suggest that even modest increases in caps could generate significant development impacts. Securing a long-term binding commitment to these schemes through trade negotiations, such as Pacific Agreement on Closer Economic Relations (PACER Plus), will also be important.

129. Continue to pursue expanded quotas for permanent migration. With the exception of Vanuatu, all PIC8 countries have access to some form of permanent migration, however, for most of the orange and red countries, these opportunities remain limited. Existing permanent migration schemes, such as New Zealand’s Samoan Quota and Pacific Access Category could be expanded, whilst countries like Australia could introduce similar quotas or lottery-based schemes for the Pacific.

130. Explore opportunities for gaining access to new regional labor markets beyond Australia, New Zealand and the United States. There is recognition that looking beyond the immediate region for new regional labor destinations is critical. At the 2013 Pacific Islands Labor-Sending (PAILS) Forum, countries discussed the Korean and Japanese labor markets as potential alternatives.

131. Focus on policies which enable PIC8 workers to initially find employment abroad and transition into more productive, higher-paying jobs. This is a particular priority for the green countries where many migrants arrive in the United States and struggle to find work. Without a safety net in place, these migrants either end up homeless or return to the Compact countries prematurely. Improved demand-driven technical and vocational education and training (TVET) reforms and the development of labor market information systems would help prevent this scenario. Government-funded add-on skills training programs for migrant workers could also help upskill the overseas workforce and allow them to transition into more productive, higher paying jobs.

132. Target existing international labor mobility schemes more effectively towards the poor and B40. Whilst it is difficult to determine the extent to which the poor and B40 are able to access existing opportunities, the limited evidence suggests there could be improvements in this area. For the green countries this could include offering financing instruments to cover the initial upfront costs of migration. Revolving funds, which cover upfront costs and are later paid into as migrants commence work, can provide a sustainable financing mechanism for poor and B40 households. For the orange and red countries, which stand to gain most from lower-skilled migration routes, options for subsidizing the costs incurred should be explored for poor households looking to participate in the Pacific Access Category and seasonal migration schemes. Whilst approved employers provide a partial subsidization of the upfront costs for the SWP and RSE, governments could help ensure that poor and B40 households can cover the remainder through further subsidization, which could come in the form of vouchers.

Other options for targeting could include means-testing eligibility for the seasonal migration schemes based on levels of household income or expenditure.

Chapter 5: Pathway 2: Fostering Access to Economic Opportunities and Public Services



Education

133. Education is widely recognized by policy makers and by the people to be a key to better opportunity in the Pacific. A 2013 survey (United Nations 2015) showed that the top priority for people in six of the PIC8 countries was a good education.

134. Education is an important driver of employability in the PIC8. Education levels are strongly related to higher likelihood of being in employment. In the five countries with HIES data, almost all show a clear correlation between higher level education and increased rates of employment, although the picture is slightly mixed in Vanuatu and Kiribati due to limited opportunity and high rates of subsistence farming. Conversely, once Pacific island youths are outside the formal education system there are few second-chance pathways back into formal education or employment. Poor educational attainment is a primary factor in youth unemployment. Those youth who do not complete secondary education face particularly severe disadvantages in gaining employment and making a living, and are reliant on support from family and traditional safety nets.

135. Pacific island countries have achieved common gains in overall enrollment in primary and secondary education. Governments across the Pacific are making progress in the task of ensuring broader access to education. Indeed, more than half of the PICs do better than the average developing country at getting kids into school. As a result of concerted efforts, and with assistance from donors and non-government organizations, FSM, Tuvalu, Samoa, Tonga and Marshall Islands have sustained net primary enrollment rates well above 90 percent (Figure 5-1). All countries have increased the number of children (of the intended age) attending primary school, with the exceptions of Kiribati, with a worrying decline to 82 percent, and Tonga, with a slight decline to 96 percent. Enrollment rates are generally at or greater than parity between boys and girls. Even in those Pacific countries where girls' enrollment is lower than that of boys, the gap has been narrowing²⁹.

²⁹ Pacific island countries where girls' enrollment is lower than boys include Fiji, Papua New Guinea, Tonga and Palau at Primary; and Solomon Islands, Papua New Guinea and Niue at Secondary.

FIGURE 5-1: NET PRIMARY ENROLLMENT RATES

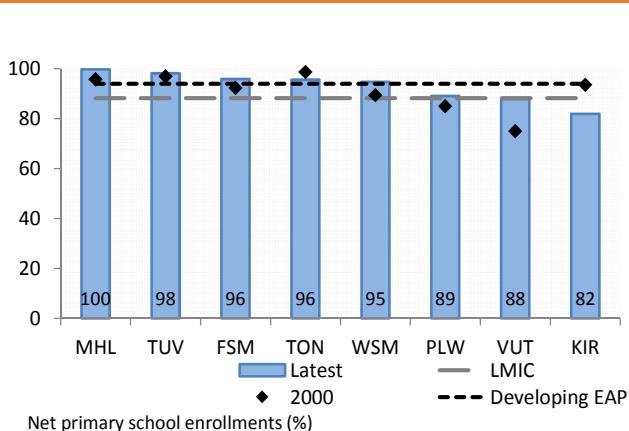
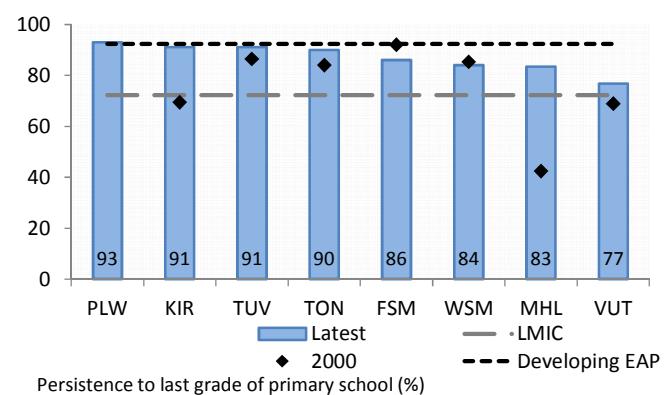


FIGURE 5-2: PERSISTENCE TO LAST GRADE OF PRIMARY



Source: Staff estimates using WDI, PIFS MDG report 2012, and country sources

136. Most PICs do relatively well in keeping kids in primary school. Except for Vanuatu, where one in four primary kids drops out, all other PICs have primary persistence rates in excess of 80 percent (Figure 5-2). Tuvalu, Tonga, Palau and Kiribati manage to keep more than 9 out of 10 kids that enroll in school until the end of primary. While these levels of persistence are generally better than other countries at similar income levels, it is important to note that there is still a significant share of the population that is being left behind even at primary level. By some way the most concerning country is Vanuatu, followed by Kiribati where both primary and secondary enrollments are low. In countries such as Vanuatu, enrollment rates mask other challenges: poor student attendance following enrollment and a significant over-age student problem, with few of the students enrolled being at the right age for that grade level.

FIGURE 5-3: SECONDARY NET ENROLLMENT RATES

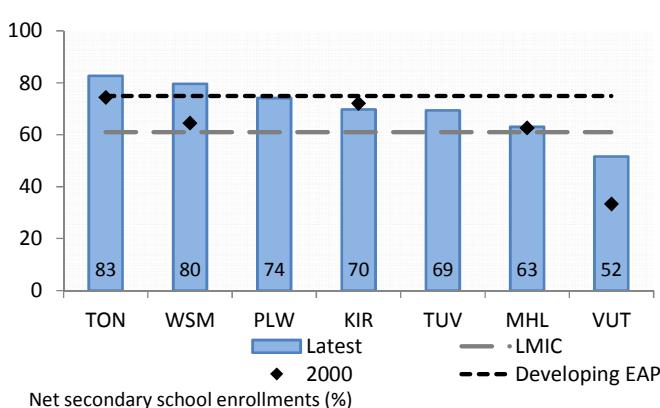
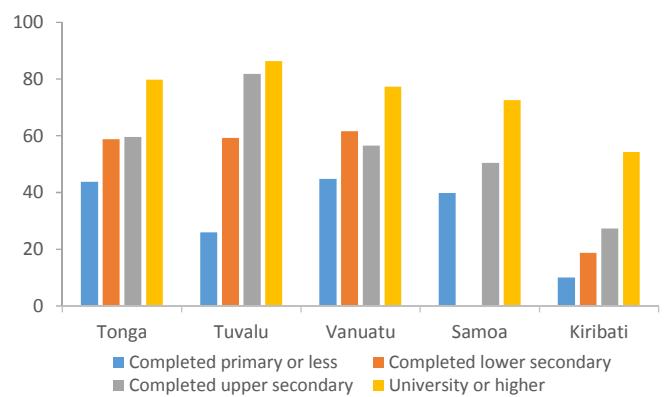


FIGURE 5-4: EMPLOYMENT BY HIGHEST LEVEL OF EDUCATION COMPLETED (INDIVIDUALS)



Note: Data did not allow lower secondary schooling to be identified in Samoa (Figure 5-4).

Source: Staff estimates using WDI; Pacific Islands Forum Secretariat, 2012; and country sources

137. Participation in secondary education has increased rapidly in Samoa and Tonga, but in many other countries the bottom 40 percent is largely excluded from this opportunity. It has also increased in Vanuatu, but remains very low. Secondary and higher education are important determinants of opportunity in the PICs. Lack of postsecondary education is, however, one of the defining characteristics of the bottom 40 percent. It is, therefore, concerning that most PICs still only manage to get 70 percent or fewer children to the first grade of secondary

school, let alone the final grade. While Samoa and Tonga have systems resembling universal entrance (80 percent participation), in Vanuatu enrollment lies close to 50 percent, and just above 60 percent in Marshall Islands.

Constraints

138. Weaknesses in the quality of education provision are undermining the gains made in extending access. Even in the countries where enrollment is high, there is an increasingly body of evidence that serious quality concerns undermine the value of education received. Regular standardized assessments of student learning outcomes in the region have consistently reported children failing to meet curriculum standards. Reading levels in the early grades are low and progression towards fluency for comprehension is very slow. Only three in ten Grade 3 students in Tonga and two in ten Grade 3 students in Vanuatu are able to read with enough fluency after three years of schooling. Samoa's Pacific Islands Literacy and Numeracy Assessment (PILNA) results also give cause for concern—only 8 percent of students were performing satisfactorily at the Grade 6 Literacy Level, with 41 percent of students partially demonstrating the skills expected at the year level.

139. Data also suggest that many children in the Pacific may not be adequately prepared for learning, with insufficient cognitive, socio-emotional and physical development to be successful in primary school when they reach enrollment age. Such deficits in school readiness and early learning have long-term impacts on employability and labor participation. A census of 3-5 year olds in Tonga in 2013-14 showed that many children had weak early literacy skills, with one in ten 5 year olds not knowing the sounds of three letters of the Tongan alphabet, one in four not knowing how to hold a book to read it, and one in four unable to draw a figure (e.g. stick figure). The role of homework, family literacy, and community support was also highlighted in providing the tools and context for children learning to read.

140. Teacher quality and skills are of greater concern than teacher numbers. While global evidence suggests that students are more likely to learn when there is a lower pupil to teacher ratio, no Pacific country with recent data has recorded national pupil-teacher ratios over 40:1 in primary and 30:1 in secondary. Outer islands have far lower ratios given the small, dispersed populations. Of greater concern are teacher quality and skills. In Tuvalu, only 40 percent of teachers are qualified. In Vanuatu, only 60 percent of primary teachers and 65 percent of secondary teachers are certified³⁰, with the lowest rates of qualified teachers in outer islands. Early Grade Reading Assessment (EGRA) results found that even more important than teachers being certified, was teachers knowing how to develop basic reading skills for students, a skill lacking from many teacher training programs in the region.

141. Concerns about quality in education are supplemented by concerns about equity in access to quality education. Structural bottlenecks in education systems and poorer student performance in rural and disadvantaged schools have often remained unsatisfactorily addressed by educational reform or investments. In Tuvalu, as many as 80 per cent of students are pushed out at Year 8, with students from poor households repeating Year 8 at twice the rate of students from wealthy households. Too many students continue to be pushed out from secondary education level without having satisfactorily gained basic literacy and numeracy skills from basic education.

142. School fees and non-tuition costs continue to entrench inequity in education access. While HIES information indicates that household expenditure on education is relatively low across income deciles (peaking at 6 per cent for the fourth lowest income decile in rural areas of Kiribati), costs of secondary education are a barrier to access for the poorest households, particularly in Vanuatu, Tuvalu and Kiribati. Primary education is fee free or highly subsidized in many PICs, but many other fees may be levied by schools for the cost of books, school building maintenance, as well as the cost burden of uniforms and transport. In Vanuatu, secondary school fees of US\$200-300 combined with the cost of boarding and transportation impose a particular barrier for poor families in rural

³⁰ In Vanuatu, a 'certified teacher' has undertaken specialized post-secondary teacher training and met the course requirements, and is qualified to teach.

areas with multiple children, particularly given the limited access to the cash economy. The pressure to meet school fees is a key driver for participation in the cash economy and seeking remittances from family members. Fee relief at secondary level would be of great assistance to low-income families and may encourage children to continue for longer at school. This is demonstrated by the experience of neighboring Papua New Guinea, where enrollment rates at primary and secondary level increased significantly following the government's direct Tuition Fee-Free scheme.

143. Poor financial management and institutional frameworks for service delivery have exacerbated resource shortages. While most PICs have comprehensive and consultatively-developed education strategic frameworks prepared based on education data, budget allocations and actual expenditure are at times significantly misaligned. In Vanuatu between 2012 and 2014, the unplanned increase in government expenditure on tertiary scholarships was equivalent to the identified financing gap for basic education. Significant development partner resources have been available to meet financing gaps, but persistent budget execution, capacity and data constraints, combined at the local level with unclear school management responsibilities of non-government entities (such as churches) and communities, have prevented available finance being translated into better outcomes at the student level. Public financial management agendas focused on core ministries have rarely engendered strengthening in Ministries of Education, usually the largest-spending line Ministry. Furthermore, the youth bulge being experienced in many countries in the Pacific is adding to pressures on the system, and risks leaving more and more youths outside the education system.

Policy responses

144. Lack of access in some rural areas to even a basic education can be addressed by ensuring adequate resources for nationwide coverage, backed up by well-functioning sectoral governance systems. The structural and geographic characteristics of the PICs make universal service provision a difficult and costly proposition. For those countries like Vanuatu, a paradigmatic change in service delivery is needed, which would involve investment in new physical assets, teachers and strengthened regional governance and public financial management (PFM) systems.

145. Improving the quality of education and learning outcomes, including through school readiness programs is important to achieving good outcomes across a range of pathways, and will also help address problems of participation. In most countries of the Pacific the focus of policy-makers eager to improve education outcomes is gradually shifting away from ensuring access toward greater emphasis on quality but the two objectives are linked. Where access is no longer a problem, failure of children to learn to read and understand simple text and to achieve basic numeracy in the early grades serves as a predictor of poor academic performance later on, increased grade repetition and dropouts. Parents are more likely to pull kids out of schools if they do not believe their children are learning. At all levels from pre-school early development, primary (functional numeracy and literacy), secondary (labor market skills and vocational training) and tertiary (high value added labor migration routes) there is a need to improve policy frameworks and sector institutions that ensure good quality and appropriate education.

146. Acting on public policy challenges such as inadequate and inequitable service delivery and the early learning crisis requires data systems which remain inadequate in the PIC8. Development partner support to several countries to improve their education management and information systems over many years has led to some improvements in the type and quality of data collected, and the capacity of education ministries to use the data. However, there are still gaps in the data collected, data are generally not available to the public in a timely manner, its quality remains questionable, and capacity to understand and act on the data remains weak in many countries. Tonga collects very basic enrollment data only, with several staff changes in the Education Management Information System (EMIS) department in recent years weakening the capacity for data collection. RMI and FSM data has been reported by the US Government Accountability Office to have reliability issues for most education indicators, and are not comparable to other countries. With FSM's education responsibilities decentralized to the

four states, and 34 percent of schools located in outer islands, collection of education data proves to be very challenging, with VHF radio the only means of communication in many instances.

147. On the basis of improved basic education, vocational and tertiary education and training programs to narrow the technical and behavior skills gap for job-seeking youth are critical to enhancing employability. Similarly, the development of business and entrepreneurship skills is critical for private sector growth in many critical sectors, e.g., tourism and SMEs. Such training programs should be: (i) aligned with demand from employers, (ii) available to university students (not only TVET), and (iii) not dependent upon the prior creation of labor market information systems (which will be expensive and take time to set up), but rather looking for evidence from the range of existing formal and informal information sources. Given the small scale of each country's student pool, the innovative use of mixed online-offline methods (combining e-learning with classroom teaching) has an important role to play for skills development and training programs. This would both help aggregate demand across the PICs (reducing costs and attracting higher quality training providers) and provide access to globally recognized training programs that will otherwise not be available in these countries due to logistical limitations.

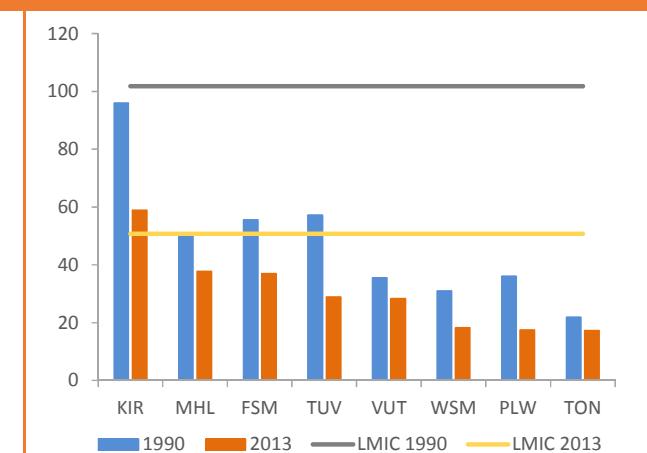
Health

148. In general, the PIC8 region has seen good progress against standard health indicators such as infant and child mortality rates.³¹ This reflects government commitment to deliver basic services, combined with often substantial investment by development partners in the sector. Progress is, however, uneven and the evolving burden of disease in the Pacific means that many countries are continuing to grapple with an unfinished agenda for meeting the health MDGs (Figure 5-5), including low child immunization rates, the (re)emergence of dengue and other vector-borne diseases,³² as well as having to respond to the increasingly complex and long-term health care needs of NCDs.

FIGURE 5-5: PROGRESS ON HEALTH-RELATED MDGS

	MDG 4 Reduce Child Mortality	MDG 5 Improve Maternal Health	MDG 6 Combat HIV/AIDS and other diseases
FSM	ON TRACK	OFF TRACK	MIXED
KIR	MIXED	MIXED	OFF TRACK
RMI	ON TRACK	ON TRACK	OFF TRACK
PLW	ON TRACK	ON TRACK	ON TRACK
TON	ON TRACK	ON TRACK	ON TRACK
WSM	ON TRACK	MIXED	MIXED
VUT	ON TRACK	MIXED	ON TRACK
TUV	ON TRACK	ON TRACK	MIXED

FIGURE 5-6: UNDER-FIVE MORTALITY 1990-2013 (PER 1,000 LIVE BIRTHS)³³



Source: Pacific Islands Forum Secretariat 2014

³¹ There are, however, considerable discrepancies between data sources, so caution is needed when interpreting data. This includes widely acknowledged concerns over poor civil and vital statistics registration.

³² For example, over the past year there have been major outbreaks of dengue and chikungunya in a number of PICs. This has resulted in deaths as well as prolonged morbidity from arthralgia and arthritis among some affected (similar to Ross River Virus and other alphaviruses).

³³ There is considerable discrepancy between sources. The most recent DHS' for Kiribati and Vanuatu gives rates of 75.1 and 31 respectively.

149. Ensuring basic health indicators is an unfinished agenda in some countries. Maternal and child mortality serve as good measures of a health system's overall performance—a system that ensures more women survive childbirth and that fewer children die from preventable diseases is generally more likely to deliver a broader range of health services well. Nevertheless, child mortality is four times higher in Kiribati than it is in Tonga, the best performing country in the region, while mortality rates are elevated in FSM and Marshall Islands compared to the rest of the PICs (Figure 5-6). There are increasing concerns about the levels of immunized children in a number of countries. For example, the DHS released in 2014 in Vanuatu reported that only 33 percent of children aged 12–23 months received a full set of routine vaccinations. While overall numbers of maternal deaths in PIC8 countries are relatively low, there is still more that could be done to reduce these further.

The NCD epidemic in the Pacific

150. The Pacific faces an urgent health challenge in the form of NCDs. The top seven most overweight countries in the world are PICs; the prevalence of obesity in adults is over 40 percent in all PIC8 countries except for Vanuatu and around 80 percent of adults are overweight (Figure 5-9). Diabetes rates are far above those seen in other low and middle income countries (Figure 5-7). The main NCDs affecting PIC8 countries are cardiovascular diseases (including high blood pressure, heart attacks, cerebral strokes), diabetes (from high blood sugar) and cancers.³⁴ The transition away from traditional foods and towards high sugar, fat, salt and highly processed imported foodstuffs is a major factor contributing to the increase of NCDs. The proportion of premature deaths from NCDs among men and women in the Pacific are far higher than the lower-middle-income country average (Figure 5-10). These predominantly preventable diseases are causing chronic long-term health problems—increasingly starting in early adulthood—that reduce the quality of life for many individuals and their families/communities, and contribute to the growing levels of acquired disability in the region. This impacts negatively on personal well-being and wealth, as well as broader productivity and related contributions to economic growth.

FIGURE 5-7: DIABETES PREVALENCE (% AGE 20-79) 2014

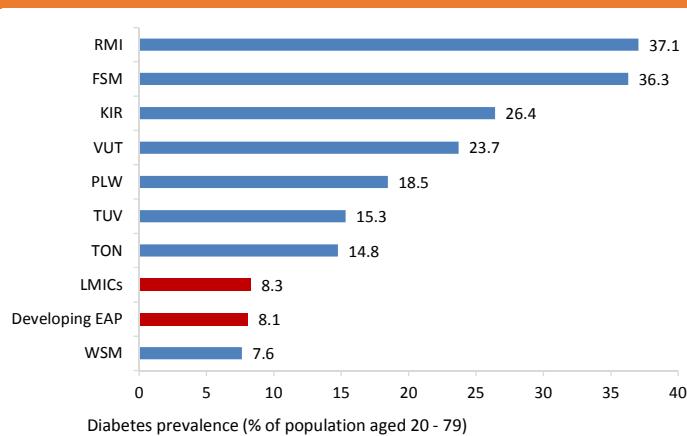
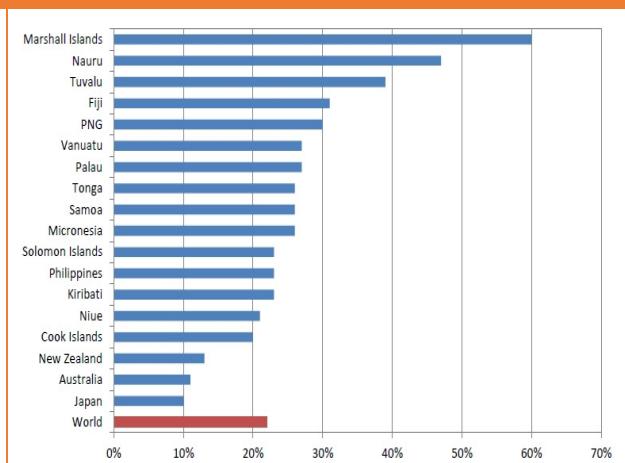


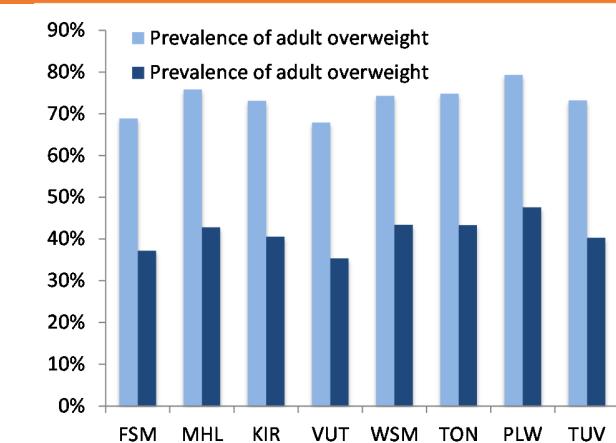
FIGURE 5-8: PREMATURE DEATH (% AGE 30-69)



Source: WHO 2011

³⁴ For further details on the NCD epidemic in the PICs, see World Bank (2014b).

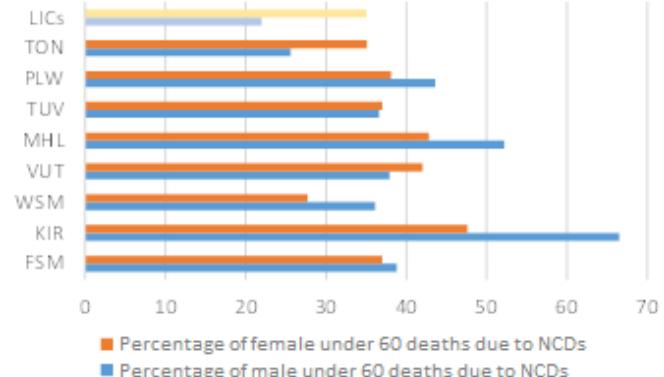
FIGURE 5-9: PREVALENCE OF ADULT OVERWEIGHT AND OBESITY IN THE PICs (PERCENT, 2015)*



*age-standardised

Source: WHO Indicators

FIGURE 5-10: PROPORTION OF PREMATURE NCD DEATHS

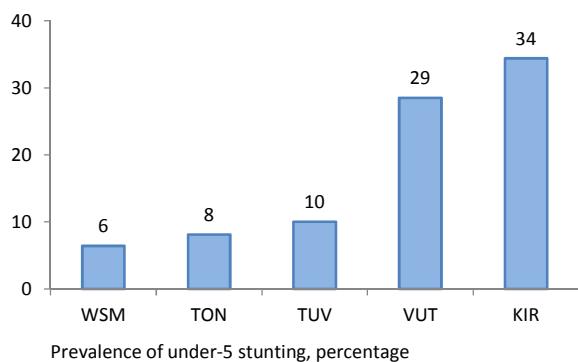
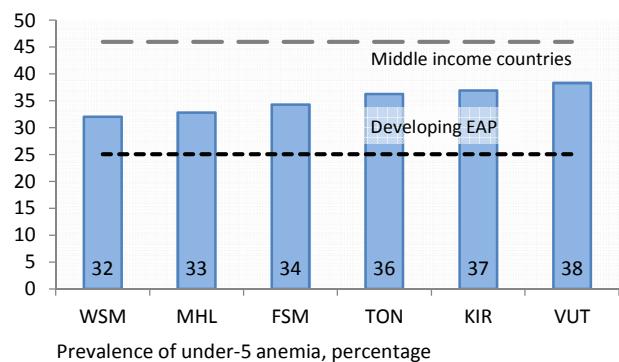


Source: WHO 2011

151. Scarce health sector resources are being channeled towards coping with urgent late stage care, rather than addressing NCD risks at an earlier stage. Trying to prevent, or at least defer, the need for patients to seek higher-level (and very expensive) curative care is essential to enable constrained health sectors to function effectively. In the PIC8, complicated late-stage cardiovascular diseases and cancer care is carried out overseas, at a huge cost to the government. Many countries' health systems are already struggling to cope with the chronic long-term care needs of patients with NCDs and an increasing disease burden is continuing to exacerbate the situation.

Malnutrition

152. The PIC8 countries are some of the worst affected by the double burden of malnutrition, with high prevalence of under-nutrition and over-nutrition. As discussed above, the prevalence of overweight and obesity is very high for the PIC8 countries. But chronic under-nutrition (underweight, stunting, wasting, micronutrient deficiency) is also a serious public health problem. While there is scarce data on under-nutrition, what is known is that in the Pacific micronutrient deficiency diseases are common—more than one fifth of children and pregnant women were found to be anemic in almost all Pacific countries in a World Health Organization study (Parry 2010). There is some data on stunting, but this is quite dated in many cases (2012 and 2013 for Tonga and Vanuatu, but 2007, 1999 and 1985 for Tuvalu, Samoa and Kiribati respectively, in Figure 5-11). Exclusive breastfeeding (a recommended global practice) rates were 60 percent or lower in six of the PIC8 countries and as low as 31 percent in the Marshall Islands. These issues all affect the body's ability to metabolise food and fight disease, contributing to obesity, diabetes, communicable diseases, and cognitive capacity later in life.

FIGURE 5-11: PREVALENCE OF CHILD STUNTING**FIGURE 5-12: PREVALENCE OF CHILD ANEMIA, 2011**

Source: WHO Indicators (latest year available)

Constraints

153. Access to health services is a problem where it is difficult to reach facilities and where they are considered to be of low quality. Common reasons given for not accessing health care in the PIC8 include a concern that: (i) no drugs are available; (ii) a health care provider will not be available; (iii) lack of transport; (iv) distance to health facility; and (v) for some, that a female health care provider will not be available. While the cost of health services is currently not seen as a major barrier to accessing care, a number of Pacific countries are introducing and/or increasing user fee arrangements. At the moment, out-of-pocket expenditure, as a percentage of total health expenditure (THE), is lower than 15 percent in Pacific countries where data are available. Whilst this appears low, particularly when compared with many other LMICs, it needs to be considered further in the context of household income to ascertain its impact on access. Increased user fees, by putting people off precautionary health care visits, may mean that people seek care at an even later stage which often requires more expensive treatment.

154. Health financing in the PIC8 is overwhelmingly public, and faces the same pressing resource constraints as for the overall government budget. Many Pacific countries already have high levels of health spending relative to income, driven by elevated costs of service provision in small, dispersed populations. PIC8 countries allocate a large fraction of their public resources to health, coupled with substantial funding from development partners. In addition to resource constraints, limited organizational and regulatory functions demonstrated by government health agencies in the Pacific reduce the efficiency of resources (Anderson et al. 2014).

Priorities

155. The combination of social determinants, limited resources and poor resource management will make the process of addressing the NCD crisis and broader health challenges in the PIC8 a difficult and lengthy one. Concerted action is needed—both within and outside the health sector—to improve health outcomes in a sustainable way for more effective individual as well as national development. The importance of addressing the social and economic determinants of health in these small countries, is in many respects greater than in most other country contexts. Even if the health sector in each country was operating extremely efficiently with quality service provision for all, improvements in health outcomes will be difficult, if not impossible, to sustain without the basic housing, nutrition, water and sanitation needs being met as well.

156. Achieving improved health outcomes requires adequate health funding, sufficient essential supplies/infrastructure and a workforce with the right numbers, skill mix and distribution. This needs to be underpinned by effectively managed and accountable institutions to oversee and integrate the allocation and use of these limited resources (World Bank 2003). While there has been considerable technical support provided in key MDG and related service areas, there has been only limited support for better planning and management of

the health sector. Doctors and nurses are often put in key management positions straight from clinical positions without any training on broader resource management and use. The mixed progress on health outcomes to date, coupled with the increasing pressures NCDs are bringing, reinforces the need for a stronger focus on overall health system performance and how finite resources (money, people and supplies/infrastructure) are managed to achieve the desired outcomes.

157. A roadmap for NCDs adopted by a joint meeting of Ministers of Finance and Health at the 2014 FEMM meeting in Honiara provides relevant priorities that need to be translated into national action plans and implemented (World Bank, 2014c). These include increased taxation of tobacco and sugary drinks to support a switch towards healthier nutrition patterns.

Gender-Based Violence

158. As discussed in paragraph 49, women in more than half of the PIC8 countries suffer from either partner or non-partner violence to a far greater extent than elsewhere in the world. Violence against women has major traumatic and disempowering effects and for those women affected often is associated with poverty, poor health, lack of housing and places stresses on children's development, education, and nutrition levels. It is also self-perpetuating and women who have experienced intimate partner violence are seven times more likely to have children who are also abused than those who have not experienced partner violence. The overwhelming majority of abused women in the Pacific report that they have not sought help from formal services or from people in positions of authority such as police, non-government organizations, religious or local leaders.

159. Leaders in the PICs have reinvigorated their commitment to lifting the status of women in the Pacific, as for example, through the 2012 Pacific Leaders Gender Equality Declaration.³⁵ For example, over the past year:

- Kiribati, Samoa and Tonga reported an increase in the number of women accessing support services for victims of violence;
- Tuvalu's Family Protection and Domestic Violence Bill was passed during its second reading in December 2014;
- In FSM, the Kosrae State Family Protection Act was passed on 27 February 2014 and signed into law on 14 March 2014; and
- Fiji established 38 Zero Tolerance Violence Free Communities.

Policy priorities

160. Even though countries have been making progress in ending violence against women, some enduring challenges remain. Prevailing social and cultural attitudes and stigma prevent reporting of violence against women. There is a lack of safe houses/shelters and other services for women in most PICs and especially in the rural and outer islands. Additional resources are therefore required to support the effective implementation of domestic violence legislation in the PICs.

161. Programmatic and policy approaches to address this key development issue range from legislative reform and enforcement of protective laws to media campaigns, community- and school-based programming, and services for survivors. Interventions can be broadly grouped under social norm change, legal reform and

³⁵ Under the Declaration, Leaders made commitments in six key areas – gender responsive government policies and programmes, improving women's participation in decision-making, economic empowerment, ending violence against women, and improving health and education outcomes for women and girls.

responses, social support and services, economic empowerment, and integrated approaches (World Bank 2014d). Priority actions include the following:

- Preventing violence relies in part on **changing norms and attitudes** that perpetuate gender inequalities and sanction gender-based violence.
- Ending gender-based violence depends on the **commitment of states to enact and implement effective and gender-equitable prevention and response mechanisms**, including prohibitions, policies, and services.
- **Laws and legal institutions** play a central role in prohibiting gender-based violence and in enabling women to realize their reproductive health rights.³⁶ Governments in the South Pacific island countries should make changes to current law, policies, procedures or regulations in order to comply with international policies such as the Convention on the Rights of the Child (CRC) and the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW).
- **Women's asset ownership** may provide exit options from unhappy or abusive relationships and can reduce vulnerability to domestic violence.³⁷
- There is also long history of **mobilization led by women for public action to change gender-based norms**, combat discrimination, and secure women's rights. Collective action may begin with a narrow focus but then evolve to address broader issues. For example, the Self Employed Women's Association (SEWA) in India began focusing on labor regulations and expanded into women's political leadership.

Access to Basic Services and Infrastructure

162. Most PIC8 countries have succeeded in providing basic services (water supply, sanitation, electricity and telecoms) in urban areas, and some across the whole country. High costs, especially for fuel import-dependent electricity remain a major barrier and significant segments of the population lack access to multiple basic services, most of whom are located on remote outer-islands. Kiribati stands out as lacking basic services for the majority of its population.

³⁶ International attention has been growing since the early 1990s, as evidenced by several key global norms and movements. The 1993 World Conference on Human Rights recognized violence against women as a human rights violation. That same year, the Declaration on the Elimination of Violence against Women was the First international instrument to address violence against women explicitly, providing a framework for national and international action. The landmark 1994 International Conference on Population and Development called on governments to take legal and policy measures to prevent and respond to violence against women and girls.

³⁷ In Kerala, India, a panel survey of ever-married women (that is, married women, widows, or divorcees) found that more than 70 percent of the women who owned land or housing and who had experienced long-term physical violence had left their husband and the matrimonial home, and few had returned. In contrast, almost all of the 20 percent of women who did not own such property went to live with their parents, and, ultimately, half returned to their husbands.

FIGURE 5-13: ACCESS TO IMPROVED WATER SOURCE

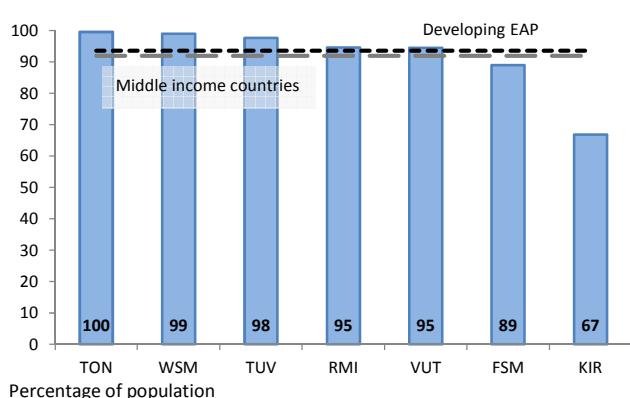
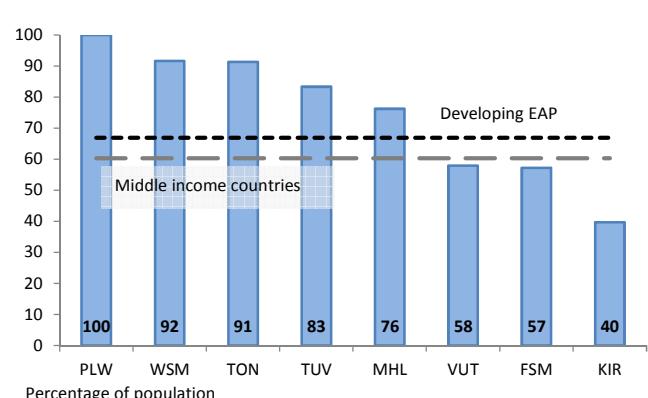


FIGURE 5-14: ACCESS TO IMPROVED SANITATION



163. A number of PIC8 countries have succeeded in providing near universal access to an improved water source, with Tonga, Samoa, Tuvalu and Marshalls all recording coverage of 95 percent of higher. In Vanuatu and FSM, around 10 percent of the population does not have access to an improved water source. In Kiribati, a worryingly large proportion of people—a third of the total—do not have access to improved water, and this is far below average for developing countries. In all countries, it is important to note that while this is access to piped or well-water, few if any of the PIC8 countries have the means to provide water that is considered safe to drink.

FIGURE 5-15: ACCESS TO ELECTRICITY

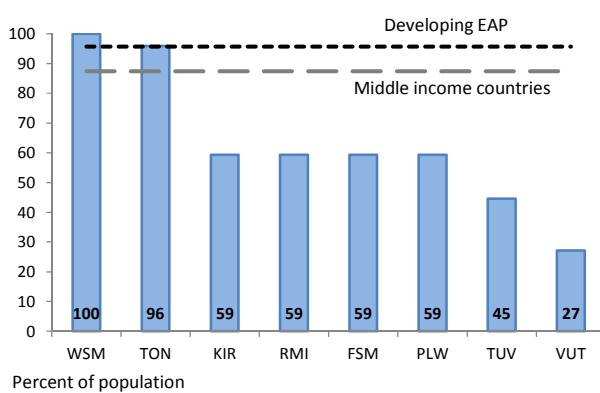
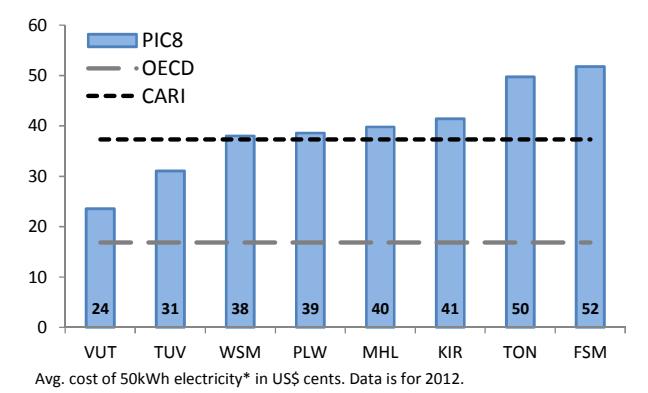


FIGURE 5-16: COST OF ELECTRICITY (LOW USAGE)



Source: Pacific Power Association 2012

164. Access to improved sanitation facilities is generally good in most countries with three countries covering more than 90 percent of the population and most above the regional and MIC averages. However, Vanuatu, FSM and Kiribati are lagging in universal coverage, with Kiribati the most severely so. Less than half of the population in Kiribati has access to toilets or other sanitation facilities. In all cases, the vast majority of those missing out on these basic services are in the outer islands, where infrastructure is more costly to implement for smaller populations.

165. Only half the PIC8 have near-universal access to electricity and high costs remain a barrier. In Tonga, Samoa and Tuvalu access to electricity is essentially universal, while in RMI 4 out of 5 people have access. However, it is Kiribati, FSM and Vanuatu where large proportions of the population lack the ability to get electricity connections, with coverage in Vanuatu extremely low at only 17 percent. The urban centers of Port Vila and Luganville are the only areas of Vanuatu that have any form of electricity grid. However, even those that are able to access electricity may not be connected if costs are prohibitively high. Prices in all countries are above the Organization for Economic Co-operation and Development (OECD) average, with the price of energy in Tonga and FSM nearly triple what it costs in OECD countries. This is despite relatively low taxes in most PICs and the fact that the majority of countries provide lifeline subsidies for low-volume consumers³⁸.



FIGURE 5-17: COST OF A LITER OF UNLEADED PETROL

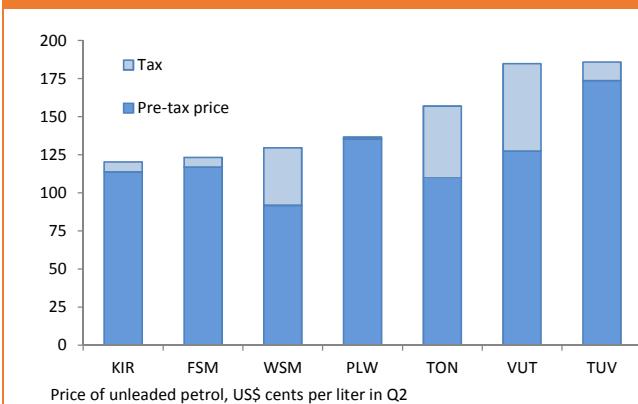
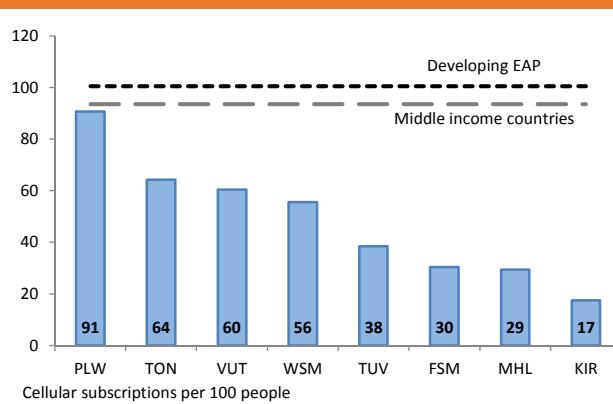


FIGURE 5-18: MOBILE PHONE OWNERSHIP



Source: SPC 2014

166. Mobile phone coverage—an important part of remaining connected in remote communities—is very mixed. Mobile phone penetration has been increasing rapidly in some countries as sectors have liberalized and developed. In Samoa and Palau there is close to 1 phone subscriber per person. In Vanuatu and Tonga, there are just over one for every two people, still consistent with most households having at least one phone. In the other four countries, access is considerably lower, with only one phone per three people in Tuvalu, Marshalls and FSM, and in Kiribati fewer than one in five people have access to a phone. Lack of access in these countries is driven by poor infrastructure, and not primarily to constraints to households buying a phone. In many of the outer islands, there is no mobile network at all. While mobile phone costs in some countries (Tonga, FSM) are comparable to the developing EAP average, in others (Samoa, Kiribati, Vanuatu) costs are twice as high, which of course reduces the ability of low-income households to use phone services.

³⁸ Vanuatu has the lowest rate in the regional for low-volume users due to its lifeline tariff. This however, cuts off above this level and imposes a very high penalty rate so a user with even slightly higher consumption will pay a far higher cost for electricity.

FIGURE 5-19: INTERNET ACCESS

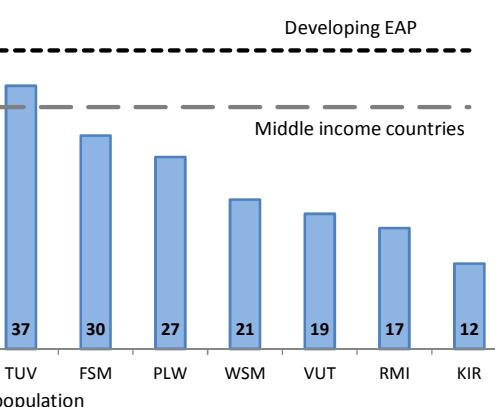
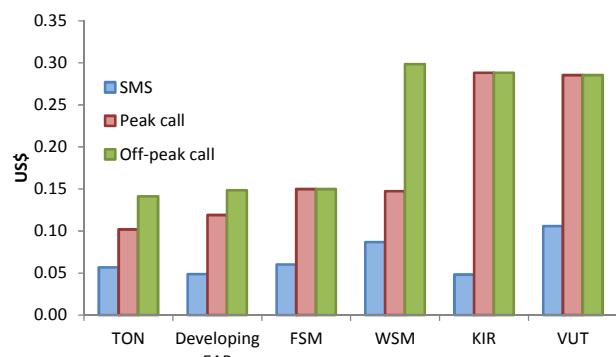


FIGURE 5-20: MOBILE PHONE USAGE COSTS



167. While data is limited on connective infrastructure coverage, coverage of navigable roads per capita is very low in some countries (Figure 5-21) and sea-freight costs are high. For those countries with small land masses, such as Tuvalu and Tonga, lack of road coverage may not be such a pressing constraint as less road infrastructure is needed to maintain connectivity. Where coverage is low in countries with larger islands and denser populations, such as Vanuatu and FSM, however, such limited coverage is likely to be a key constraint to communities. Shipping and internal connectivity play a key role in trade in basic goods in the PIC8. The PIC8 countries are not located on any major shipping routes and services are infrequent, although regional organizations such as the Central Pacific Shipping Commission have improved reliability. Ports are extremely small, even compared to other small islands, which increases the costs per container shipped even further and, as a result, freight rates are high (Figure 5-22). Domestic shipping is a major challenge, particularly due to aged and poorly maintained domestic vessels, difficulty in accessing finance for vessel procurement and maintenance, and inadequate servicing of less profitable shipping routes.

FIGURE 5-21: ROAD COVERAGE

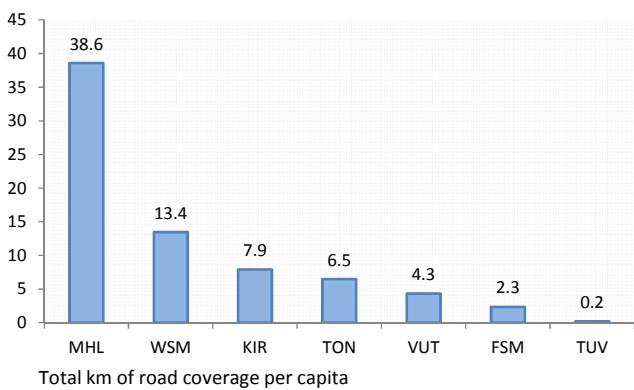
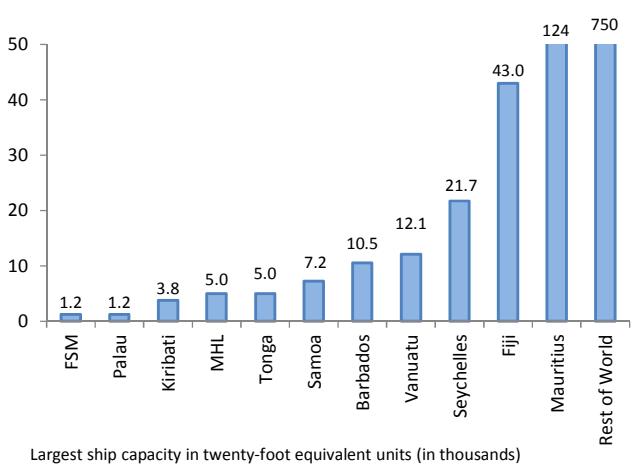


FIGURE 5-22: SEA-PORT CAPACITY



Source: Pacific Infrastructure Performance Indicators, PRIF

Source: United Nations Conference on Trade and Development 2014

Priorities for action

168. Firstly, action is needed on basic infrastructure services. In order to support progress against both of the twin goals, infrastructure coverage gaps need to be addressed. To date, much development effort has gone into

ensuring good quality services in urban areas, and nationwide in some countries. Much of the population in Vanuatu, Kiribati, and FSM, however, lack access to basics like sanitation facilities and electricity and it is very unlikely that communities will share in national prosperity without these services. Greater private sector participation in the utility sector with adequate regulation can help to expand services, improve quality, and reduce cost. In particular, public private partnerships (for example, O&M and BOOT)³⁹ can help attract private sector capital and expertise.

169. Secondly, land transport infrastructure on larger outer islands and outer-island shipping services need to meet a basic standard and gaps need to be addressed. It is understood that in some parts of the region, such as the outer islands of Vanuatu, there are almost no navigable roads, severing communities' access to essential services like schools and hospitals as well as economic opportunities, and significant public investment and maintenance is required to ensure they serve the communities' needs. In all the archipelagos of the PIC8 region, maintaining regular outer island shipping services is a challenge when serving disparate, small communities. Such services are, however, a lifeline for communities—bringing food and basic goods in and providing a connection to capital islands where public services and economic opportunities are clustered. The efficacy of domestic shipping services is quite variable around the region, and it is a priority to address market failures which result in rural areas being cut off by high-cost, infrequent or sporadic shipping services.

Public Sector Spending and Employment

170. While in most economies, the role of the public sector with regard to poverty reduction and shared prosperity is primarily through public service delivery and economic policy, in the PIC8 the direct impacts of government employment as a source of income are equally important. This is a reflection of the dominant role of the public sector in most of the PIC8 and the limited employment opportunities in the private sector. As noted above, the size of the public sector varies significantly across the PIC8, but represents in most of them an important source of employment, incomes, and demand for private sector goods and services, in particular in the Micronesian countries of Palau, FSM and Marshall Islands.

171. Formal sector employment and poverty status are closely related in the PIC8. Public sector employment constitutes a large share of formal employment opportunities in the PIC8. In FSM, Marshall Islands, Kiribati, and Tuvalu, in particular, the public sector provides most formal sector employment. The share of income generated from formal sector employment increases from the poorest to the richest quintile for all countries for which data are available. For FSM, Kiribati, Tonga, Tuvalu and Vanuatu, the share of wage income in total income of the top quintile is about 50 to 100 percent higher than that of the bottom quintile. Only Samoa shows relatively little difference in the share of wages in total income across quintiles.

172. The benefits of public sector employment are broad and widely shared. Public sector salaries are often well above average levels of income. Recent analysis suggests that the average public servant earns around five times GDP per capita in Kiribati and around 2.8 times GDP per capita in Tonga, compared to global norms of about 1.2 times (World Bank staff estimates). In both countries, public service salaries are also higher than average private sector salaries. Benefits of public sector employment also include training opportunities, international travel, and opportunities to form global networks that would be very unusual in most private sector employment. Given strong social pressures for sharing wealth, the benefits from higher pay and broader opportunities are widely shared, with every public sector job often supporting the living standards of a wider family group or community. Training and networking opportunities available to public sector employees are often a key gateway to international labor market opportunities and much higher standards of living, sometimes via scholarships and further higher education.

³⁹ Operate and Maintain (O&M); Build, Operate, Own, Transfer (BOOT).

Constraints to access to public sector employment

173. Fiscal constraints leave little room for expanding public sector employment. Indeed, in the North Pacific island countries the fiscal adjustment required in response to shrinking sector grants from the US is likely to result in a reduction in employment levels in the public sector.

174. The poor tend to have less access to public sector employment opportunities than the nonpoor. This is likely to be due to three factors. Firstly, the poverty analysis clearly shows that poorer households tend to have less education than the nonpoor. This puts them at a disadvantage in competing for public sector jobs. It also implies that poorer households will, at best, only have access to lower-paying, lower-skilled public employment opportunities. Secondly, in most of the PIC8, most of the public sector employment opportunities are spatially concentrated on the main island and in urban areas. As hardship and poverty are most prevalent in rural areas and outer islands, there is clearly also a geographic constraint for poorer households to access public sector employment opportunities. Finally, access to public sector employment opportunities is also impacted by weakly developed merit-based systems in most of the PIC8, which puts persons who lack connections and influence at a disadvantage.

Enhancing access of the poor to public sector employment opportunities

175. Reducing the skills and geographic disadvantages of the poor in accessing public service employment is critical. Our suggestions, therefore, aim to help the poor to overcome obstacles to gaining access to public sector employment rather than direct “affirmative action”. This will require reducing inequalities with respect to access to quality education between the poor and the nonpoor. With respect to geographic disadvantages, strengthening public service delivery in the outer islands can play an important role. Not only would it bring improved public services to these areas, but it would also bring easier access to public sector employment opportunities to populations in the outer islands. Furthermore, this would also have the typical multiplier effects, where income from public sector employment in the outer islands would also generate increased demand, including for services and agricultural products produced on the outer islands. It is, however, important to note that employment opportunities in the public sector already are an important factor underpinning movements from the outer to the central islands in the PIC8.

176. It is important to note that merit-based appointment and promotion in the public sector are also vital, given the likely continued importance of the public sector as a source of employment. Strengthening merit-based systems would help to ensure that investments in skills and education of the poor actually translate into increased economic opportunities. Recent experiences during the Arab Spring indicate the extent to which frustrations regarding nepotism and inequality in the distribution of public sector opportunities can undermine social cohesion and fuel conflict.

177. Donors can support increased local employment in the delivery of projects. With a substantial proportion of public expenditure in small PICs financed by development assistance, donors can also contribute to local employment creation by increasing the participation of local vendors and labor in project delivery. Donors could introduce preferences in their procurement processes for businesses using local labor or produce.

Chapter 6: Pathway 3: Protecting Incomes, Assets and Services for the Poor



178. Pockets of deprivation along with a high-risk profile in all PIC8 countries make protecting incomes and livelihoods a major challenge. As already discussed above, Pacific islanders are highly exposed to both natural and economic shocks. This presents a challenge for both the significant proportions of some populations that are in, or close to, poverty. Poverty and vulnerability are closely linked concepts, and experiencing hardship can increase vulnerability and vice-versa. PIC8 households experiencing hardship often do not have the resources to effectively prepare for shocks, or may be forced to make decisions that increase their vulnerability. Meanwhile, vulnerable households face substantial negative impacts when shocks occur, such as the loss of assets or access to income and these impacts can be difficult to recover from.

179. Social protection programs can help to mitigate these vulnerabilities, but this has historically been an area of limited government involvement in the PIC8. Strong traditional practices of resource sharing have held families and communities responsible for the most vulnerable members of society and for those affected by negative shocks, such as natural disasters. These traditions continue and, in many respects, are effective, but there are some shocks that they are unable to mitigate, and some groups of people that are excluded. Furthermore, traditional safety nets are likely to erode as development and urbanization increase.

180. The types of shocks that the poor and B40 in the PIC8 face can be broadly categorized into four areas: natural, economic, health and socio-political. Natural shocks include disaster events, ongoing environmental damage and other natural events that are difficult to predict, such as droughts and excessive rainfall (World Bank 2014a, p. 29-49). Economic shocks include unpredictable changes in employment, income streams, prices, and other factors. Health shocks are equally wide-ranging, and include injury, illness, and death. Socio-political shocks include theft, violence, and ethnic or other types of conflict (World Bank 2014a, p. 29-49).

Disaster Risk Reduction and Resilience Building

181. Multiple sectors are often impacted in PICs when a disaster strikes, and this can have significant economic impacts on both the private and public sectors. As noted in paragraph 19, the Pacific Region is subject to frequent and very costly natural disasters in the form of storms, earthquakes, volcanic activity, floods, droughts, and landslides. Climate change is widely believed to increase the frequency and intensity of natural disasters. In addition to losses of productive activities, the destruction of critical infrastructure has the potential to impact all people, but vulnerable groups in particular. Disaster events can also create new vulnerabilities by affecting employment and livelihood-generating abilities, personal safety, public health and sanitation, household efficiency, and food production. Accordingly, restoration of health facilities, water supply systems, schools, and housing should be considered a priority following a disaster event. Accordingly, disasters, climate and weather extremes and projected changes in climate are a core development challenge for the PICs.



182. In many cases existing technical knowledge and financial capacity in the PIC8 is insufficient to adequately address climate and disaster vulnerabilities and reduce risks. Most PICs have low implementation and absorptive capacities, which is a common constraint for small island countries. In most countries, the effectiveness of early warning and response is also influenced by the expansive geographical spread of the country and the limitations and high costs of communication systems.

183. Translating national climate and disaster resilience policies into sector policies as well as donor fragmentation have been significant challenges. In addition, local institutions, civil society groups, village communities, community volunteers and urban resident welfare associations are not properly trained in disaster risk management (DRM) and climate resilience. Donor support in the area of climate and disaster resilience is fragmented in the PIC8, with countries having to manage multiple projects, over-stretching their limited institutional capacity. The fragmentation is due in part to the multiplicity of adaptation and disaster risk management funds at the global level but also due to the failure to consolidate approaches at the national level. The problem of fragmentation of climate financing and the multiplicity of climate initiatives at the national level is only likely to increase as the PICs get more support⁴⁰ to address their increasing vulnerability to climate and disaster risks.

184. Partly as a consequence of these constraints, until recently, disasters have been viewed as unpredictable and unmanageable. Resources have tended to be focused on post-disaster response, recovery and reconstruction rather than the more cost-effective approach of risk reduction and preparedness. Practical experience and scientific advances have increased the ability to predict and reduce the impacts of most natural hazard events, particularly those that are weather related. The result is a paradigm shift from disaster management to disaster risk reduction and climate change adaptation (DRR/CCA). DRR/CCA has proven to be a cost-effective investment. The economics of investments in improved DRM and early adaptation to climate change show unambiguously high rates of return, particularly for affected people in coastal areas. The cost-benefit ratios of enhanced early warning systems can vary from 1:4 to as high as 1:40 (Rogers & Tsirkunov, 2013). The

⁴⁰ Financing for climate and disaster resilience to Small Island States has increased in recent years and they currently receive an estimated US\$684 million a year in climate and disaster resilience assistance (World Bank analysis). About 46 percent is provided through bilateral sources and about half through multilateral development banks.

estimated outlay for retrofitting buildings to be more cyclone resistant can be relatively small at about 10 percent of the total building costs.

Informal Social Protection Systems

185. Throughout each of the PIC8 countries, a strong ethos of resource sharing is common to traditional networks and they are believed to both help equalize welfare and act as a form of insurance. These networks are based on blood relation, village, language, and other factors that have long been established by custom (Nanau 2011; Sviridova 2013). Across PIC8 countries requesting goods and services from one's network members in times of need is common practice. The general understanding is that giving will be reciprocated should the need arise. Meeting these requests, often called gift giving, is considered an 'important obligation of extended kinship networks, and failing to do so brings shame and can weaken network ties' (World Bank 2014a, p. 52). Traditional networks play an important role in determining access to land, how other resources are shared, and political power in many countries (Fukuyama 2008).

186. Across the PIC8 countries informal social protection systems function in different ways, but share many common features. Some of these features include lineage systems of inheritance, communal rather than individual land ownership, the power of chiefs or elders to allocate or reallocate land, a powerful sense of social belonging and obligation (in extended groups), ceremonial gift-giving as an integral part of this obligation, and redistribution of gifts so no community member experiences lack of food or basic needs (Gibson 2006). There are few limitations on what resources can be shared, but three specific methods of resource sharing are particularly important: (i) specialized exchange; (ii) generalized reciprocity; and (iii) communal collection (Table 6-1).

TABLE 6-1: METHODS OF RESOURCES SHARING	
Specialized exchange	Individuals or households exchange goods or services of similar value with each other. This type of exchange helps diversify the consumption goods available to each member of a community and helps to allocate labor to where it is needed.
Generalized reciprocity	Individuals or households provide resources to one another when in need. As with all forms of resource sharing reciprocity is generally expected, however, in practice this type of exchange is redistributive. This is because better-off individuals and households are expected to share resources with less well-off relatives and community members, who are often unable to reciprocate fully.
Communal collection	Contributions are made for ceremonial events, as well as resource collection for community-wide needs. Households are expected to provide food or other resources for ceremonies and celebrations, including weddings and funerals. These resources are shared with all those attending and, depending on the event, remaining resources may be partitioned among community members. This type of resource sharing is now also widely utilized by churches and religious organizations.

Source: World Bank 2014a

187. These methods of resource sharing may serve the purpose of providing informal insurance and act to support people experiencing hardship and protect them against some negative shocks. Evidence shows that households in Kiribati and Tuvalu with sick or injured household members are more likely to participate in gift exchange than healthy households. There is little evidence to suggest, however, that the net value of gifts received by households experiencing morbidity is any higher than for other households.

188. In addition to intrahousehold resource sharing, many households also donate to their local churches and to community causes. Religion is an important part of life for the PIC8 countries, and churches and other

religious organizations often rely on the financial and in-kind support of their members. In the countries with available data (Tonga and Tuvalu), a large share of households report donating cash, goods, or services to religious organizations. While the households deepest in hardship (in the bottom expenditure decile) are the least likely to report donating, the share of households reporting donating does not increase substantially with expenditures. Across countries, donations are sizeable, ranging from 2-10 percent on average of total annual household expenditures (World Bank 2014a, p. 56). These results accord with anecdotal evidence that all members are expected to contribute, and those who cannot afford to contribute directly often put in a great deal of time to fundraise. Whilst churches often provide assistance in return for contributions, there are no available data on how readily available these services are for poor members of the church.

189. While informal social protection systems are beneficial to many, they do not reach all the poor and B40. Most households in PIC8 countries participate in gift exchange, but households that are often experiencing the deepest hardship are least likely to participate. The data collected from household income and expenditure surveys suggests that many households experiencing the most severe hardship are not receiving assistance from traditional networks. Several factors could be related to these households' inability to obtain assistance, including 'a lack of family members (which could contribute to both hardship and disconnection from networks) or previous failure to meet network obligations' (World Bank 2014a, p. 55).

190. In some cases, network obligations may help perpetuate poverty by encouraging the poor to give when they are not in a position to. There is some indication that the high levels of charitable contributions in many PIC8 restricts households from moving far above the poverty line, and remaining vulnerable. These social pressures sometimes push households to contribute more than they can truly afford. In qualitative surveys carried out in the early 2000s, participants in Samoa, Tonga, and Tuvalu cited the burdens of meeting community and church obligations as one of the top causes of hardship (Abbott and Pollard 2004).

191. Traditional safety nets are unlikely to be effective in insuring against aggregate or repeated shocks. For example, when shocks co-vary at the local or aggregate level, it is likely that all network members will be impacted within a similar timeframe, making it difficult to transfer resources to each other. Similarly, shocks that occur with some frequency can be too costly for networks to insure. More broadly, the limited global evidence that exists suggests that informal insurance does not come close to replacing lost resources (Udry 1994).

192. Urbanization and international migration are also weakening households' commitments to traditional networks. Migration out of rural areas into cities and abroad can bring significant employment benefits through increasing returns to labor, however, urban arrivals often struggle to find work and, by virtue of distance, become disconnected from traditional networks. The necessity to use cash also reduces the role of food and material exchange in reducing hardship. Meanwhile, those who are able to access international labor markets are able to earn significantly higher wages, but tend to remit less over extended periods of time.

193. The existing limitations and trends threatening informal social protection systems suggest that they can only provide partial insurance in the long run. While traditional systems of resource sharing are important to the well-being of many in PIC8 countries, hardship and vulnerability are still major challenges. Traditional systems do not reach everyone, and evidence from household surveys suggest that those in deepest hardship may be the least likely to benefit. Governments, therefore, have a role to play in 'complementing traditional systems with hardship reduction and risk management efforts' (World Bank 2014a, p. 66).

Formal Social Protection Systems

194. Most PIC8 countries are not involved in the provision of social assistance programs (noncontributory programs targeted to the poor and vulnerable). Governments in the region are often reluctant to become involved in direct transfer programs to those experiencing hardship, for fear of undermining traditional systems. In addition, the egalitarian ethos of most Pacific societies makes means-targeted programs unattractive to policy makers and viewed as potentially unfair. Other constraints to introducing social protection systems include the

very limited fiscal space of government budgets, and limited numbers of specialists to implement programs and poor data for targeting. Of the three PIC8 countries covered in the World Bank's Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) index, the level of social safety net coverage for the bottom 20 percent is relatively low, ranging from 4-8 percent (Table 6-2).

195. Governments also provide little social insurance (programs that minimize the negative impact of economic shocks on individuals or households), but some programs show promise within country constraints. Many countries provide transfers or subsidies to small groups of people identified to be in need. Broader measures to support those in hardship or experiencing shocks are generally not in place due to fiscal and capacity constraints, as well as lack of information, particularly in the smaller islands. Programs that have been tried by some governments and development partners in the Pacific are usually ones with lower information requirements, such as cash-for-work schemes.

TABLE 6-2: PIC8 SOCIAL SAFETY NET PERFORMANCE INDICATORS									
Survey Year	Coverage		Benefit Incidence	Adequacy		Gini Inequality Reduction %	Poverty Headcount Reduction %	Poverty Gap Reduction %	
	Poorest 20%	Total		Poorest 20%	Total				
KIR	2006	4.840	4.571	8.846	8.895	5.618	0.105	0.906	1.196
FSM	2000	4.617	6.254	3.585	50.573	19.965	0.901	6.862	11.961
PLW	2006	8.668	2.900	25.159	8.277	10.470	0.148	0.914	1.811

Source: ASPIRE 2015

196. Some governments have created noncontributory, or social insurance programs for the elderly. In Kiribati, the Elderly Fund provides a universal noncontributory pension of \$40 per month to all citizens 70 years and over. As of May 2010, there were 2,090 beneficiaries (97 percent of those eligible). Tonga set up the Social Welfare Scheme for the Elderly in 2012, providing a monthly stipend of \$37 per month to those over 75 years of age. These types of funds are relatively simple to administer, as proof of age is the primary requirement for eligibility. In addition, because qualification ages are set relatively high, the pool of eligible individuals remains small and costs limited. At the same time, such funds have the potential to reduce hardship, as households headed by elderly people are more likely to be in hardship. Transfers to elderly women have also been found to improve the schooling and nutritional outcomes of children in the same household, so among the elderly living with extended family, the benefits may be shared (Yoong, Rabinovich, and Diepeveen 2012).

197. Many governments administer contributory insurance programs for the elderly, but these programs reach only a small proportion of the broader population. Almost all Pacific governments mandate that formal sector employees and their employers, including civil servants, contribute to pension funds (Sviridova 2013), however, because formal sector employment is small (typically representing less than 25 percent of overall employment across PIC8 countries), these funds cover very few people. For example, in Kiribati, fewer than 4 percent of households in the HIES report either contributing to or receiving payments from the National Provident Fund (World Bank 2014a, p. 60).

198. Most PIC8 countries have relatively limited labor regulations and insurance programs to protect workers' wages and income. Only Samoa and Vanuatu have placed a legal limit on the number of hours required for a standard workday. Two PIC8 countries have no minimum wage in place and none have formal unemployment protection schemes or health insurance for permanent employees (Table 6-3). Several PIC8 countries have active labor market programs aimed at unemployed youth, however, these are generally small-scale and fragmented.

TABLE 6-3: LABOR REGULATIONS AND INSURANCE PROGRAMS						
	Minimum wage for a full-time worker (US\$/month)	Standard workday	Maximum working days per week	Major restrictions on night work?	Unemployment protection scheme?	Health insurance for permanent employees?
Kiribati	No	No specified limit	7	No	No	No
Marshalls	421.63	No specified limit	7	No	No	No
FSM	357.38	No statutory limit	7	No	No	No
Palau	551.54	No statutory limit	7	No	No	No
Samoa	178.65	8 hours	6	No	No	No
Tonga	No	No legal limit	6	No	No	Yes
Vanuatu	326.14	8 hours	6	No	No	No

Source: World Bank 2015

199. Instead of providing formal social protection, many PIC8 governments focus on providing free or low-cost services to the population. This may include the provision of free or low-cost health, education, and other services that are universally available. The quality and accessibility of these public services varies across PIC8 countries.

200. Several PIC8 countries regulate the prices of some commodities, but regulation is costly to implement effectively and potentially distortionary. Countries such as Kiribati regulate the prices that retailers charge to consumers on a wide variety of commodities, while other countries, including Tuvalu and Tonga, have price controls on a small number of basic goods, mostly petroleum and staple food imports. The monitoring of prices is complex and costly to effectively implement and can lead to deterioration of the quality or availability of goods. In some countries, enforcement capacity is minimal, while in other countries low-quality versions of goods are sold at controlled prices while better versions are not.

Targeting Opportunities towards the Poor and B40

201. There are no social protection programs in the PIC8 that explicitly target the poor and B40. PIC8 governments generally target groups that are more likely to fall within the low expenditure deciles, such as the elderly and disabled. While these schemes do not directly target the poor, microsimulation analysis has found that they reach poor households proportionally more than their distribution in the population because households with older members or people with disability are generally poorer than other households.

202. Targeting programs will require improved data and public sector capacity. In many PIC8 countries, data are collected sporadically and are not always of high quality. Reliable funding to conduct nationally representative surveys is still lacking for many countries. Targeting social protection programs with poor quality or outdated data can lead to significant inclusion and/or exclusion errors. Furthermore, designing a means-targeted approach to social protection, such as proxy-means testing (PMT), requires appropriate data which are lacking in most PIC8 countries. The only PMT-based program in the Pacific region, the Poverty Benefits Scheme in Fiji, currently benefits from significant technical assistance from the World Bank.

Priorities

203. Invest in the collection of data required to improve the targeting of existing social protection programs.

While some PIC8 countries conduct nationally representative surveys to collect income/consumption data every five years, others struggle to obtain donor funding for such activities. Investing in the regular collection of quality data would permit a more targeted approach to social protection. This could both help to ease the fiscal impact of formal programs and address some of the equity concerns expressed by senior policy makers. While the targeting of individuals would also require significant investment into improved administrative data, nationally representative surveys could support geographic and categorical targeting, which may also be more compatible with community-oriented social norms in the PIC8.

204. Design scalable social protection programs *ex-ante*, which can respond to negative shocks and are fiscally affordable.

Like most policy initiatives, establishing and operating social protection programs takes time and effort. Design aspects of these programs—like targeting and delivery mechanisms—require a significant amount of fine tuning. It also takes time for administrators to build up experience in how to operate social protection programs effectively (World Bank 2014a, p. 76). If social protection programs can be established before a major shock occurs, they have the potential to be scaled up quickly and effectively in the wake of a shock unlike when preparations for their establishment only begin after a major shock has struck. Maintaining these programs with a fairly limited scope on a continuous basis enables continuous learning and the build-up of knowledge and experience, giving the programs much greater chances of being successful in mitigating major shocks when they occur (World Bank 2014a, p. 76). It is important to note that limited fiscal space is a constraining factor, and given the relatively widespread informal social protection, the priority at present is considered to be disaster-response mechanisms, rather than ongoing social benefit schemes to disadvantaged groups.

205. The most important activities to be undertaken by Government with development partners' support in order to strengthen climate and disaster resilience include:

(i) strengthening policy, institutional and evidence-based decision making capacity including via easy-to-access and relevant data and inclusive, participatory approaches; (ii) strengthening disaster early warning, preparedness, and response; (iii) mainstreaming disaster risk and climate change considerations into development planning and investments (including infrastructure plans, land use plans, building codes and environmental impact assessments, as well as sectors such as agriculture, health, education, fisheries, etc.⁴¹); and (iv) strengthening the financial resilience of countries to climate and disaster shocks. These resilience building measures will help reduce the risk of PICs to future disaster and climate shocks. Long-term engagement with PICs is required to address transformational adaptation policies and investments. Many of the measures are relevant to most of the PIC8, and would benefit from a regional approach to bring down costs and drive high-level policy focus.

206. A long-term strategy should also be developed for the Atoll Islands, as they have their own unique resilience needs.

There are a number of options that can be explored to strengthen physical resilience. Some atolls may be amenable to artificial ‘atoll raising’, raising the heights of atoll islands by adding sand and gravel from lagoonal settings. Similarly, significant land reclamation projects could increase the size of atolls, bringing protection against sea level rise, adding additional water aquifer capacity, and yielding quality land for residential or commercial development. There are also a range of engineering solutions (e.g., coastal defense structures and measures, beach nourishment, wave dissipation measures) as well as ecosystem based approaches (e.g., protection of coral reefs, pollution control, planting of mangroves) that can be considered as part of integrated coastal zone management. This is particularly important where retreat is not possible due to the low land levels or because customary land issues limit the options available. Comparisons with migration options should also be considered and a long-term vision about climate adaptation in atoll islands should be developed.

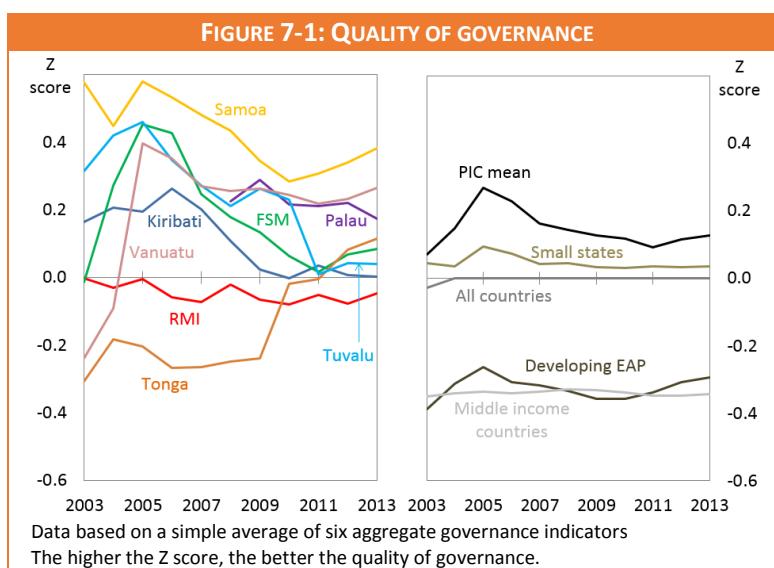
⁴¹ Sectoral implications for the agriculture, fisheries, health and education are included in Chapter 4: Pathway 1 and Chapter 5: Pathway 2, Chapter 6: Pathway 3 for disaster and climate risk.

Chapter 7: Addressing Selective Weaknesses in Economic Governance and the Business Environment



207. **Good governance is critical in supporting economic development and improved well-being for all.** Sound economic management and regulation, political stability and accountability, the rule of law, and the efficient provision of public services and infrastructure are all aspects of effective governance that are essential to supporting economic activity. They also play a central role in the pursuit of poverty reduction and fostering shared prosperity by: (i) creating an enabling environment to maximize economic opportunities for the poor; and (ii) delivering basic social services that tend to be relied upon by the poor.

208. **The Worldwide Governance Indicators suggest that the average quality of governance across the PIC8 is higher than that in the rest of the world (Figure 7-1).** These indicators report on six broad dimensions of



Source: World Bank Worldwide Governance Indicators

governance: voice and accountability; political stability and the absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption. The average quality of governance in the PICs also exceeds that in relevant comparator groups, including other small states, other developing countries in the East Asia and Pacific region, and other middle-income countries. The PIC8 tend to underperform, however, in the areas of government effectiveness and regulatory quality due to thin public sector capacity. On the other hand, the PIC8 (on average) substantially outperform in the areas of voice and accountability, political stability and the absence of violence/terrorism, and rule of

law, which together boost their ‘average quality of governance’ as defined by these indicators. There is also substantial variation within the PIC8 on some of these indicators.

Key Constraints

High costs of public administration and service provision

209. The public sector in the PIC8 is subject to geographic constraints, which elevate the costs of public administration and service provision, giving rise to a larger public sector. With populations that are very small, the PIC8 encounter a greater range of functions in which they are unable to take advantage of economies of scale. Moreover, in the countries where populations are thinly dispersed or divided across separate islands, economies of scale are even harder to achieve than the total population figures would indicate (Tumbarello, Cabezon, and Wu 2013, p. 6). In such contexts, states may not be able to exploit economies of scale in the provision of local roads, policing or education—activities that account for large shares of public personnel and spending and where economies of scale can normally be exploited even with fairly small populations. The situation is likely to be similar for other infrastructure services like water, electricity, and telecommunications in small states with low population densities. As indicated in Chapter 1, frequent natural disasters also act to raise the cost of maintaining public infrastructure and support recovery.

210. In addition, the PIC8’s remoteness from major markets means they face increased costs for traded inputs to government activities—further pushing up the cost of public administration. Just as the combination of small size and remoteness pushes up the cost of nontradable and tradable inputs to firms, so too it pushes up the cost of these inputs to governments. Overall, the combination of these factors—size, remoteness and dispersion—is likely to push up the cost of public administration and service provision in the PICs. While there is considerable variation among the PICs, many have higher levels of public expenditure as a share of GDP than is typical in other countries, including small states.

211. In some instances, the government also has to carry out private sector functions where returns are insufficient to attract private sector operators. Small markets mean there is little profit or scope for private firms to engage in a wide range of basic markets. For example, interisland shipping services that are the arterial connections for dispersed populations are, at best, only marginally profitable, whereas with larger populations increased scale would make such services a more viable business proposition. In the PICs, the public sector is the provider of last resort for such essential goods and services and, by the same logic, the cost base of the public sector is thus elevated by servicing small populations over a high-cost landscape. Moreover, although the public sector tends to be relatively large in relation to PICs’ GDPs, it remains small in absolute terms, and capacity is very thin. These constraints all diminish the ability of the public sector to govern in a manner which maximizes opportunities for the poor and provides for their basic needs.

Thin public sector capacity

212. Even though it is large relative to GDP in the PICs, the size of the public sector is small in absolute terms, with very thin capacity. With only a limited pool of human resources from which to draw public servants, and weaknesses in the provision of secondary and tertiary education, the PICs are often unable to access the skills required for some public sector functions from local labor markets. There are often too few people to complete all of the functions required in a particular department or ministry, meaning that available staff are stretched across too wide a range of functions. The public sector also faces competition for human resources from the local private sector and development partners, and capacity-building efforts are often undermined, as staff with newly acquired skills and qualifications move to new roles in or outside of the public service.

213. A key challenge for these countries is thus to ensure adequate capacity to support effective public service delivery and regulation by: (i) adopting administrative, regulatory, and policy approaches that are consistent with thin capacity; (ii) adopting regional approaches in areas where building capacity at the national

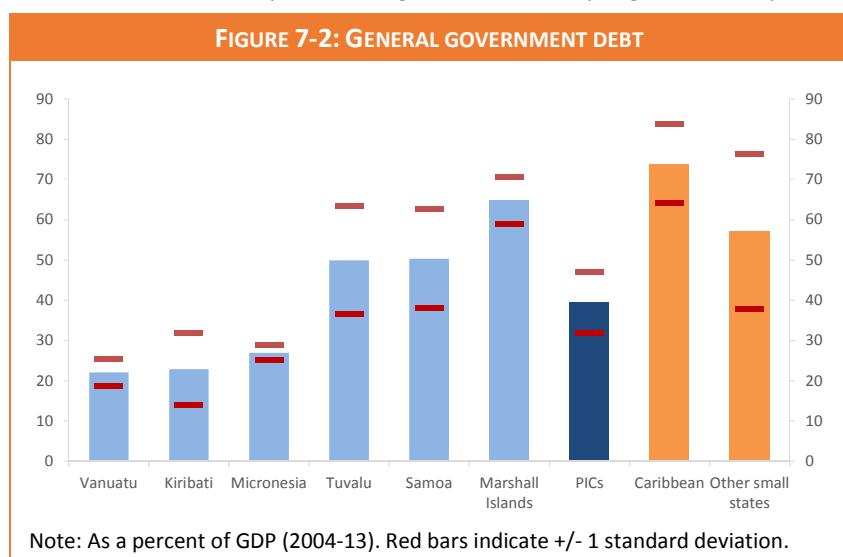
level is not feasible or economical; and (iii) undertaking civil service reforms that set appropriate incentives for adequate use and development of capacities. In addition, technical assistance to carry out work and functions that are beyond national capacities is likely to remain a feature of PIC governments.

Limited set of macroeconomic policy instruments

214. In general, macroeconomic management affects the welfare of the poorest and most vulnerable through a number of channels. By providing a stable and low-inflationary macroeconomic environment, sound macroeconomic policy provides a necessary (though not sufficient) condition for sustained growth in aggregate economic activity, which in turn is generally linked to the income growth of the bottom 40 percent. Sound macroeconomic management should also provide some insulation against the effects of exogenous shocks, which tend to hit the B40 hardest, while ensuring that adequate public resources are allocated to welfare-enhancing expenditures on social sectors at all points in the economic cycle.

215. However, standard macroeconomic policy tools tend to be more constrained in the PICs than they are in other countries. In particular, given structurally high levels of public expenditure, it is difficult for the PICs to build the fiscal space necessary to adequately respond to the frequent external shocks to which they are subject, while the role of monetary policy is limited by the use of the exchange rate as a nominal anchor.

FIGURE 7-2: GENERAL GOVERNMENT DEBT



216. Structural (excluding grants) budget deficits also limit the ability of the PICs to build up buffers in good times to use to stabilize the economy in bad times. Aid plays an important role in financing the deficit, and can also play a stabilization role in PIC economies, particularly in the wake of a natural disaster and economic shocks. Aid flows can, however, be

volatile and are generally insufficient in size to finance the full range of socially and/or economically worthwhile public investments in the PICs.

217. Like many other small states, debt sustainability is a challenge for the PICs, although this is not driven by high debt levels per se (Figure 7-2). Rather, it reflects the susceptibility of the PICs to external shocks and their limited capacity to service debt, given small economic bases, low exports and very limited budget resources. Many PICs have elevated risks of debt distress, although the level of outstanding debt is considerably lower than the average in other small states.

FIGURE 7-3: PIC INFLATION AND EXCHANGE RATE

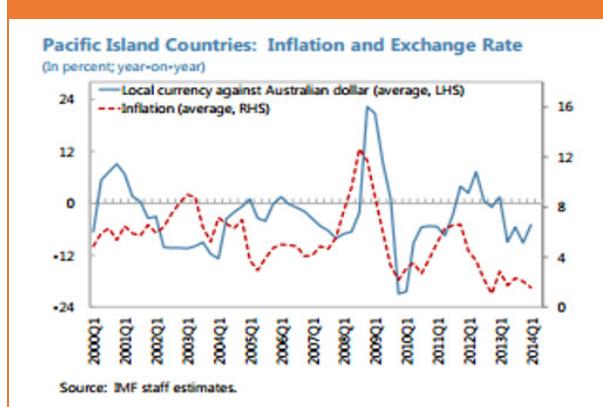
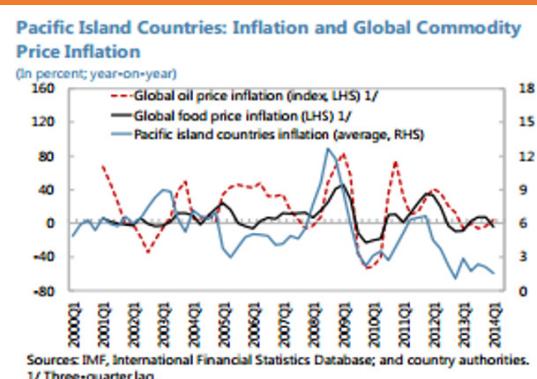


FIGURE 7-4: PIC INFLATION AND GLOBAL COMMODITY PRICE INFLATION



218. The ability of monetary and exchange rate policy to play a stabilizing role in the PIC8 is generally minimal. Five of the eight countries do not have their own central bank and hence have no independent monetary policy. Of these countries, Kiribati and Tuvalu use the Australian dollar and FSM, Marshall Islands and Palau use the US dollar. Samoa, Tonga, and Vanuatu each have a local currency pegged to a basket of trading-partner currencies. These monetary policy arrangements, which all involve the use of the exchange rate as a monetary anchor, can be viewed as the natural outcome of the structural characteristics of the PIC8 (Figure 7-3).

219. Most PICs have high import bills and a small, undiversified set of exports, with the majority of trade with a small number of trading partners. In these circumstances, the advantages of a fixed exchange rate are readily apparent, reducing a key source of uncertainty for importers and exporters, while providing a transparent and credible nominal anchor for monetary policy. Because exchange rate movements and import prices pass through to consumer prices so directly in the PICs (Figure 7-4), the ability of an independent monetary policy to control inflation—which is one of the major advantages associated with a floating exchange rate—is limited. This can also be seen in the Caribbean, whose small island states in many ways have similar structural characteristics to the PIC8, and where the monetary arrangements are broadly similar. The Organisation of Eastern Caribbean States (OECS) and the island of Barbados have a fixed peg, which has resulted in generally low inflation.

220. With limited macroeconomic economic tools at their disposal, the PIC8 are exposed to shocks that can destabilize the economy and adversely affect households. Externally driven price shocks, such as the fuel and food price rises experienced in 2007-08, pose particular challenges for macroeconomic policy in the PICs. These tend to have a large impact in the PICs, which are more heavily reliant on imports of food than other developing countries, due to generally underdeveloped and undiversified agriculture sectors, and in some cases limited available land. Global food prices are of particular importance in those PICs that are located on agriculturally unproductive coral atolls, such as Kiribati, Tuvalu, and Marshall Islands, where the ratio of food imports to GDP is between three and five times higher than the developing country average. Moreover, poor households in the PICs tend to spend a higher proportion of their budget on imported food, leaving them more exposed to food price shocks. Dependence on oil is also high.

221. Given their reliance on imports, and the challenges for exports posed by a high cost-base, supportive trade frameworks are particularly beneficial for the PIC8. In the past, preferential trade access for the Pacific islands has been an effective means of development support, such as the South Pacific Regional Trade and Economic Cooperation Agreement. However now as most countries in the region have moved to multi-lateral low trade tariffs, preferential access for the PIC8 has been eroded. While the move to multilateralism is in line with WTO objectives, the PIC8 have seen little benefit via reduced costs of imports and it has further eroded any opportunities for the PIC8 to compete in export markets under bilateral and regional agreements. Further reforms

to lower trade barriers in the PIC8, including non-tariff barriers, and actively support access and trade facilitation would have a positive impact on shared growth prospects and the cost of living of many of the poor in the PIC8.

Regulation and competition policy

222. Ensuring a conducive business environment is one of the most important policy levers governments have to support increased private sector growth. Given limited opportunities, such growth is not assured even with an optimal business environment, but improvements would help increase the chance of businesses making the most of opportunities as and when they arise. Reducing red tape and administrative burdens can also encourage more firms to enter the formal economy, which would result in better access to the financial system, facilitate supply contracts with larger companies, and improve access to government services, while also increasing tax revenues to the government. An improved legal and regulatory environment can also reduce risks and translate into greater investment by firms.

TABLE 7-1: EASE OF DOING BUSINESS SCORES

	Better than EAP average	Around the EAP average	Worse than the EAP average
Starting a business		WSM, TON, VUT	KIR, MHL, FSM, PLW
Getting construction permits	KIR, MHL, FSM, PLW, WSM, TON	VUT	
Getting electricity	MHL, FSM, WSM, TON	PLW, VUT	KIR
Registering property	PLW, WSM	KIR, VUT	TON
Getting credit	TON, VUT	MHL, FSM, PLW	KIR, WSM
Protecting investors		WSM, VUT	KIR, MHL, FSM, PLW, TON
Paying taxes	KIR, TON, VUT	MHL, FSM, PLW, WSM	
Trading across borders	KIR, MHL, WSM, TON	FSM, PLW, VUT	
Enforcing contracts		KIR, MHL, PLW, WSM, TON, VUT	FSM
Resolving insolvency		FSM, WSM, VUT	KIR, MHL, PLW, TON
Overall	WSM, TON	PLW, VUT	KIR, MHL, FSM,

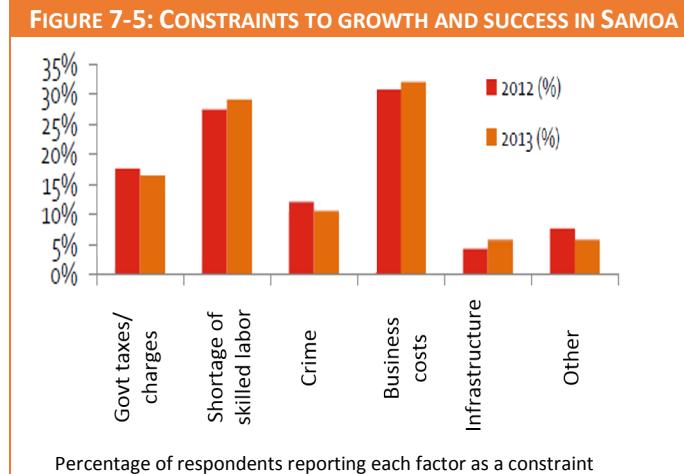
Source: World Bank 2015

Note: Based on distance-to-frontier score, not rankings; ‘better’ and ‘worse’ defined as DTF score of greater than 10 above or below EAP average DTF, respectively for components, 5 above or below for overall DTF.

223. In some cases the PIC8 suffer from weak regulatory frameworks that add to the costs and risks of doing business. In general, the PIC8 perform slightly less well in the *Doing Business* survey than the EAP average. There is, however, considerable variation within the group, with two countries—Samoa and Tonga—doing better than the EAP and global averages (using the DTF measure) and the other four PICs in the survey doing less well. The highest ranked PIC8 country in the ‘ease of doing business’ index is Samoa which at 67th place ranks three places above Ghana and three places below Cyprus. The lowest ranked is FSM which at 145 (out of 189) ranks just above Mali and two places below the West Bank and Gaza. Vanuatu has gone backwards from 57 in 2009 to 76 according to the 2015 *Doing Business* Report. Given the extreme constraints to governance and human resources that many of the PIC8 face, their global rankings, particularly for the top three, are commendable. It does remain the case, however, that in the less well-performing countries, weak administrative infrastructure translates to constraints on business, and in all countries there are specific areas of regulation that could be improved.

224. The *Doing Business* indicators across the various PIC8 countries highlight that starting a business, enforcing contracts, protecting investors and resolving insolvency issues are generally the biggest problems affecting the ease of doing business. All PIC8 are assessed as having less efficient regimes for starting a business

than generally seen in the EAP region. Countries like Samoa and Tonga have made major improvements in this area in the last few years by introducing modern new electronic and online systems, reducing the time taken to register a company to as little as 24 hours. Investment in new systems and streamlined regulation could reduce barriers for start-up and investment. Laws for insolvency are also underdeveloped, as PIC8 countries have struggled to make these consistent with the imperative to maintain communal land tenure systems. Other than Samoa and Vanuatu, investor protection is also an area where the PIC8 fare relatively less well. In the PIC8, a further constraint to business in the outer islands is that for most bureaucratic procedures like starting a business,



Source: Samoa Business Confidence Survey 2013

the businessperson must travel to the capital city, adding to costs. As a result of this and other costs, the majority of activity in outer islands is generally informal.

225. Another dimension of weak administrative infrastructure are delays in tax refunds to the private sector, and delayed government payments. Given the small size of the PIC8, national governments are usually one of the biggest clients for many businesses. Yet a number of these businesses have “experienced long delays in payments from governments and this time delay has discouraged businesses from dealing with governments” according to the Pacific Islands Public Sector Organization (PIPSO). Delays in overdue payments affect business cash flow, and in extreme cases, large unpaid government debt can force closure of businesses.

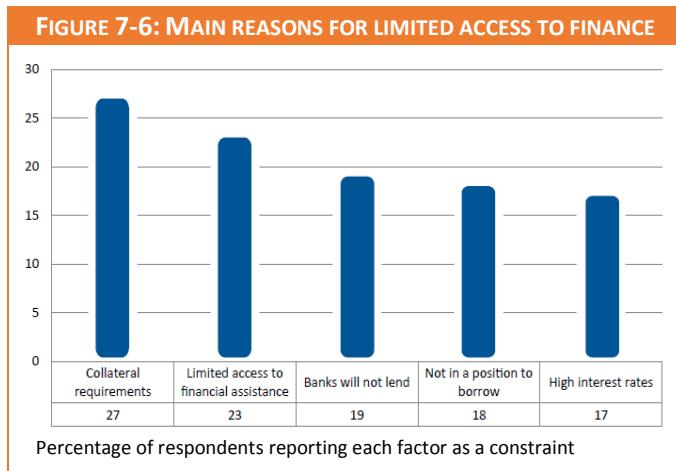
226. Creating opportunities for private sector participation in markets currently dominated by state-owned enterprises (SOEs) and government departments by promoting public private partnerships (PPPs) is also important. Successful PPPs require a clear legal and regulatory framework to be in place that supports the drafting and implementation of these agreements as well as competent and accountable public authorities to manage the state commitment to such contracts. There is a need to strengthen the overall financial performance of SOEs by improving governance, introducing hard budget constraints and promoting competition, thereby reducing their drain on public funds.

Access to finance

227. The range of banking services in the PIC8 is limited, particularly for smaller firms, and there is little competition in the financial sector. The provision of domestic credit to the private sector in the PIC8 is low, and there is a limited range of financial products. Access to finance is particularly constrained for SMEs, rural businesses and entrepreneurs. Rural-dwellers and women often cannot access even the most basic financial services. The World Bank’s Country Policy and Institutional Assessment (CPIA) Financial Sector rating, that assesses the structure of the financial sector and the policies and regulations that affect it, shows that the majority of the PIC8s are below the regional average. Moreover, commercial banks, primarily the foreign-owned Australia and New Zealand Bank (ANZ) and Westpac, mainly lend to larger, more well-established firms (often foreign companies or SOEs) with strong balance sheets. As a result, small firms that wish to expand cannot, stifling their growth and the opportunity for job creation.

228. Low levels of credit to the private sector reflect constraints on both the supply and demand side. On

the demand side, the structural constraints faced by the PIC8 clearly limit the viability of many potential investments. The high cost and/or unavailability of finance is also likely to be the binding constraint for some firms, causing otherwise viable investment opportunities to be foregone. High lending rates are in part attributable to the high operating costs and difficulties of achieving scale faced by the banking sector in the PIC8, as well as the credit risk associated with many potential loans.



Source: Pacific Islands Trade and Invest and Australian Department of Foreign Affairs and Trade, 2014

property rights over collateral and loans is not sufficiently well defined.

230. The lack of credit information exacerbates the risk of lending, as often there is no credit history of potential borrowers, and some countries are facing high levels of non-performing loans. For a financial institution there are high fixed costs attached to lending, including gathering information on creditworthiness, monitoring repayments and enforcement of payments. Moreover, even where collateral registries and credit bureaus exist, the data they provide are often questionable, so that banks cannot determine whether they are lending against genuine collateral or access sound information on credit histories. The absence of adequate credit information and in some cases poor lending decisions have left some countries faced with high levels of non-performing loans, with banks undergoing a slow process of balance sheet repair.

Policy Priorities

Sound macroeconomic management

231. Many policies supportive of a stable macroeconomic environment are already in place in at least some of the PIC8, but could be strengthened further. Structural fiscal sustainability challenges and frequent natural disasters and economic shocks impose a double burden on fiscal policy. Given the volatile external environment, PIC8 countries need to maintain fiscal and balance of payments buffers to adequately support macroeconomic stability. With limited scope for discretionary monetary policy, a stabilization role for fiscal policy is all the more important. To the extent possible, fiscal buffers should be built up when external conditions are favorable so that resources are available to support the most vulnerable during shocks. Fiscal rules (including restrictions on trust fund drawdowns) may help in this regard, and if well calibrated should ensure a more efficient allocation of public resources over time, including by improving the resilience of health and education expenditures to economic downturns. This has particular implications for the poor and the B40, who tend to be relatively more exposed to the adverse effects of shocks to economic activity and prices.

232. Given the structural nature of their fiscal and external deficits, even with optimal domestic policies the PICs are likely to continue to depend on external support in the form of aid and remittances to stabilize their economies and manage the effects of frequent and large external shocks. The scale of natural disasters affecting the PIC8 can far outweigh the possible domestic capacity to respond, and as elsewhere in the world, support from the international community will continue to be a critical resource. In many of the PIC8, aid will also continue to balance the books between limited domestic potential revenues and a minimally essential level of public services.

But these forms of external support are a very imperfect substitute for more traditional macroeconomic management tools. As such, external flows at best only partially dampen the high levels of macroeconomic volatility observed in the PIC8 and at times may constitute a source of volatility themselves, thereby exacerbating domestic problems of macroeconomic management and service delivery. Development partners therefore also have a role in ensuring that aid flows are as predictable as possible and have a stabilizing rather than a procyclical impact on PIC8 economies.

Improved management of public expenditure

233. With public expenditure comprising an unusually large share of the economy in the PIC8, allocation decisions have important economy-wide efficiency and equity implications. The poorest and the bottom 40 percent of the PIC8 populations tend to face significant spending constraints, and as a result tend to be highly dependent on publicly-funded health and education services. Promoting the quality and accessibility of these services is therefore critical in ensuring the welfare of the most vulnerable. Moreover, structural fiscal pressures emphasize the need to ensure that value for money across all areas of public spending is maximized.

234. Strengthened public financial management systems are key to improving the management and efficiency of public expenditure. There are important weaknesses in accountability and efficiency in the management of public resources across the PIC8. Establishing systems that build accountability, improve technical and allocative efficiency, and ensure a dependable flow of resources to service delivery units is vital. But this must be done in a way that takes adequate account of structural and long-term capacity constraints, the general absence of a performance culture, and formidable geographical and infrastructural constraints to typical large-country PFM systems. PFM systems also need to increasingly reflect complex and imperfectly understood political economy contexts, which are heavily influenced by aid flows and donor incentives.

235. There is also scope for evidence-based improvements in public expenditure planning, allocations and wage-bill management. Recent expenditure reviews in PIC8 countries have highlighted opportunities for improved expenditure quality. Alongside strengthened PFM systems, there is substantial scope for improving the alignment of expenditure allocations and policy priorities, both across and within line ministries, including for instance, addressing essential maintenance requirements which, if adequately addressed, will bring down the overall long-run costs of replacing and maintaining public infrastructure. Because of the absence of economies of scale and problems of geographical dispersal, the wage bill in PIC8 countries exceeds global norms as a proportion of total expenditure and GDP, and public sector jobs comprise a very large proportion of formal employment. However, there is broad concern regarding the performance of public sector workers and the sustainability of current wage bill expenditure growth. Improved wage bill management is vital to maximizing the poverty-reducing impact of public expenditures. Various attempts at wage bill reform are currently being made across several countries. But with elites concentrated in public sector employment and a large proportion of the population indirectly benefiting from the employment opportunities provided by large public sectors, political economy factors have frequently undermined previous ‘standard’ public sector reform efforts. Again, context-specific solutions are needed to improve public sector productivity while taking adequate account of the broader economic and political-economy context.

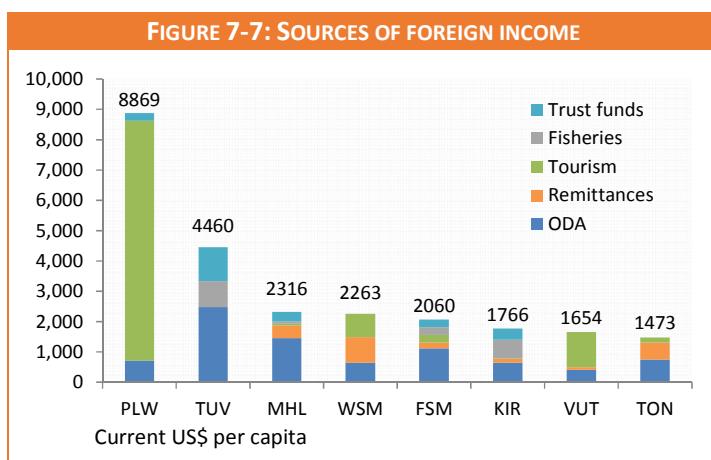
236. Long-term external support (technical and financial) plays an important role in helping the PIC8 design and implement innovative solutions to achieve the twin goals. Rather than seeing this as ‘dependence’ as some critics have in the past, it should be viewed as a long-term development partnership that benefits all stakeholders. The severe weak capacity and state legitimacy issues in the Pacific raise the question of whether the model of recipient-execution and deployment of project management units to accelerate implementation is an appropriate model for the small PICs. Country systems in many of the PIC8 are weak and rely on significant capacity substitution. Additional analytical work could be carried out to examine the prospect of an alternative aid model in the Pacific, rather than the standard model of program and project aid.

Maximizing potential from natural resources and other sources sustainably

237. This SCD has shown the critical importance of the natural wealth of the PICs to sustain growth and revenue, for which effective and sustainable management of natural resources is essential. Throughout the SCD, the importance of natural resources has been illustrated as the underlying basis of livelihoods and income for the population, especially the poor. Three of the identified pathways to enhancing economic opportunities directly capitalize on PIC natural wealth—agriculture, fisheries and tourism. Agriculture and coastal fisheries have also been shown to be the mainstay of the majority of the population, including the poor and nonpoor. Maintaining rather than depleting these assets is a prerequisite not just to maintain current livelihoods in the region but to further spread shared prosperity. This will require mainstreaming environmental management in the development of economic sectors, especially agriculture and tourism, to avoid environmental and natural degradation. Significant limitations in institutional capacity pose a constraint which has to be taken into account.

238. In the context of structural fiscal pressures, it is critical that revenues from the natural resource endowments of the PIC8 are maximized in a sustainable fashion. The recent history of the broader region and

other regions demonstrates the negative impacts of natural resource mismanagement on economic development and social cohesion. In the region, there have been some successes that can be built on further: for instance, revenues from regional fisheries have increased rapidly due to a new regional agreement imposing sustainable quotas, and are an important revenue source for many North Pacific PICs. In general, for fisheries, tourism, and prospective offshore mining activities, the preemptive establishment of regulatory, benefit-sharing, and fiscal management arrangements will be vital to ensure that investment is possible, that the value of these industries is maximized for the PIC8



Source: World Bank staff estimates

countries, and that proceeds contribute to sustainable and equitable improvements in living standards.

239. Unconventional revenue sources, together with revenue flows from aid and trust funds, have also proved critical to maintaining minimally adequate government capacity in the PICs. Aid from development partners is a sizeable chunk of total budget resources in most PICs and, largely due to their small populations, aid per capita in the PIC8 is amongst the highest in the world (Figure 7-7). PIC8 countries have also been innovative in identifying other external revenue sources, such as Tuvalu’s sale of its .tv internet domain and Tonga’s leasing of unused satellite bandwidth. Five of the eight PICs (Palau, FSM, Marshall Islands, Kiribati, and Tuvalu) have sizeable trust funds that have, in some cases, also played an important role in financing public expenditures, given a shortfall of revenues from other sources. Of these five PICs, the trust funds in FSM, Marshall Islands, and Palau were established as part of the Compact of Free Association with the United States, and their main purpose is to fully replace compact grants upon their expiration at the end of the compact period. Kiribati has a trust fund that was built with phosphate tax revenues, while Tuvalu has a donor-funded trust fund. If managed correctly, investment income from these funds—which are invested in foreign financial assets—should eventually help the PICs achieve a measure of budgetary self-reliance.

Regional solutions to service delivery and governance challenges

240. Regionalism holds the promise of cutting the costs of governing by sharing fixed costs amongst multiple countries. As discussed above, PICs face tough constraints in maintaining the full complement of government services and services needed to support development, both in terms of shortages of fiscal resources and of skilled

and specialized labor needed in each country. Integration is a potential approach to mitigating these problems. Pooling the provision of services across small Pacific island countries would help address problems of cost and capacity simultaneously. It would allow various institutions or facilities to service a larger number of people, therefore reducing the fixed cost per person served. It also would create opportunities for the pooling and concentration of regional capacity, with specialists from various fields able to come together to achieve critical mass in the delivery of certain functions and creating greater opportunities for the PIC8 to make the best use of locally available skills or technical assistance provided by donors. A specialist regulatory authority that serves only a single country is likely to impose higher costs and have more limited access to necessary skills than a regulatory authority that serves multiple jurisdictions. If that regulatory function is shared, or provided, with ongoing technical assistance from a nearby large country, capacity constraints can be avoided altogether.

241. To date, however, high hopes for regional solutions have translated into only limited success. A survey carried out by the Australian National University (Dornan and Newton Cain 2013) on the experiences of regional pooling initiatives showed that few of these initiatives succeed in delivering against their original objectives. Although there are gains in principle from sharing services, well-known problems with voluntary coordination mean that many ideas have made little progress because of an inability to agree on the parameters and resolve differences between members. There have, however, been some notable and important successes of regional coordination in the Pacific, including the University of the South Pacific, the Pacific Regional Audit Initiative, Pacific Trade and Invest and the PNA agreement on regional fisheries. Donor-supported regional projects (such as the Pacific Islands Oceanscape Program, the Pacific Aviation Investment Program, or the Pacific Connectivity Program) have demonstrated the importance of an approach where there is no attempt to get all Pacific island countries to join in an initiative, but where countries join based on perceived benefits and with flexibility to include countries over time rather than seeking agreement among all from the beginning.

242. Regional successes in the Pacific have shown the model can work, and provide lessons for future regional approaches. The regional solutions that have worked best in the region have supported a very clear need that is recognized by all members, and point toward the importance of a clear, problem-based approach to developing potential new mechanisms. The success of initiatives that bring together subgroups of countries with a shared stake in an issue (such as the PNA) suggests that in some instances, rather than formal institutional set-ups, all that may be needed is an external party (development partner or perhaps the Pacific Islands Forum Secretariat) brokered arrangement that brings together a smaller subset of countries (maybe even two or three) around a specific issue. This could, for example, be for sharing capacity for statistics offices or procurement and other project management functions. Secondly, clear and impartial leadership is important in making new mechanisms succeed. Finally, an incremental approach is likely, over time, to be more effective than overambitious reforms that may never get off the ground. This is consistent with the idea that regional approaches may be designed to address commonly recognized problems at the service delivery level, achieving common sense efficiency savings and improvements in service which, in turn, provide a springboard for further reform.

Business environment

243. PIC8 governments can also do more to improve the operating environment for the private sector, including through improvements to regulation and competition policy. While there are multiple other substantial constraints to business in the PIC8, inadequate or poorly functioning regulatory and legal frameworks may also be constraining private sector growth in some cases. On average, the PIC8 perform slightly less well in the *Doing Business* survey than the EAP average, although there is considerable variation within the group. The indicators suggest that issues around starting a business, enforcing contracts, protecting investors and resolving insolvency issues are generally the biggest problems affecting the ease of doing business in the PIC8. At the same time, many firms that operate in the Pacific—particularly SMEs and rural businesses—lack access to finance. Measures to improve the broader regulatory and legal environment—including for the financial sector—could help

to alleviate these constraints, reducing the transaction costs faced by business and improving their growth prospects.

244. Improving access to finance and financial services for the private sector so that successful businesses and prospective entrepreneurs can access funding to grow and invest is key. In most of the PIC8, there is some scope for further government action to reduce the credit risk taken on by banks and improve financial market depth. To moderate credit risks, governments should take steps to institutionalize secured transactions laws, collateral registries, rapid and reliable contract enforcement through the legal system, credit reporting bureaus, and bankruptcy laws. There may also be ways to increase the depth of financial markets—which affect banks' costs of business and ability to diversify their risk, as well as the level of competition—by lowering barriers to entry and improving the general business environment.

Chapter 8: Priority Areas of Focus and Remaining Knowledge Gaps



245. The analysis of this SCD shows that the poor and B40 are “twice removed from opportunity”. The PIC8 are removed from most economic opportunities due to their economic geography—the combination of extreme remoteness, smallness, and internal dispersion. This regional context effectively rules out a set of pathways for the PIC8—due to a lack of economies of scale and high transport costs, the PIC8 are not able to follow the East-Asian model of manufacturing-based, export-led growth. The first level of prioritization, therefore, aims to focus on the set of pathways that remain feasible in the PIC8 context.

246. The extreme poor and B40 are removed from access to public services and the few economic opportunities available in the PIC8 because they live far from the capital city where opportunity is clustered, cannot make the difficult journey there and lack human capital. As a result, the set of priorities must address not only opportunity in the PIC8, but also how to enable those in need to get access to those opportunities.

247. An elevated risk profile further sets back the scope for progress against all pathways. Not only does vulnerability to shocks lower incentives to start businesses and invest, they constitute poverty traps for households that frequently have their assets and livelihoods wiped out. Climate change and sea-level rise pose additional risks for the PIC8. Managing risks has to be a key element of an agenda for poverty reduction and shared prosperity in the PIC8.

248. The SCD proposes the following criteria for prioritizing solutions for poverty reduction and shared prosperity in the PIC8:

- **Direct and indirect impact on goals:** The expected impact on reducing poverty and promoting shared prosperity, with actions more likely to ensure a sustainable increase in the welfare of the less well-off given a higher weight. We differentiate between direct impacts (i.e., actions that lead directly to improvements in the lives of the poor such as means tested cash transfers) and indirect impacts (i.e., actions that facilitate or are a pre-condition for other actions that will generate a direct impact (i.e., increases in government revenue from fishing to facilitate increases in pro-poor expenditures). Our assessment of the potential overall impact of a specific solution would be guided by the highest rating, be it for direct or for indirect impact. In most of the areas, actions are likely to have both direct and indirect impacts. It is also important to note that we consider primarily the impact of solutions on the twin goals, while impact on other dimensions of poverty and well-being receives a lower weight.
- **Time horizon (immediacy of impact):** The timeframe under which the impact can be expected to be realized, with priority given to solutions having an impact that can be expected more immediately.
- **Evidence base:** Actions considered to have a stronger evidence base receive a higher rating. This covers both knowledge on the impact of a particular constraint or opportunity on advancing the twin goals, but also knowledge on how to overcome a specific constraint or realize an opportunity.
- **Feasibility:** The likelihood that the proposed solutions can be implemented. This criterion considers the strength of possible constraints towards implementing a solution, such as cost, human and institutional capacity, and technical complexity. Our assessment does not include political feasibility, as the main focus of the SCD is to propose to policy makers a set of interventions that would be effective in advancing the twin goals. Policy makers themselves would be best placed to decide on political feasibility.

249. For many priority issues, effective solutions require collaboration among two or more PICs or collaboration with partner countries such as Australia, New Zealand, China, the U.S. or others. For a number of issues, solutions can only be achieved through joint action among countries. For example, increases in revenue from the PIC8's fishing resources have only been possible because countries agreed to joint action under the Parties to the Nauru Agreement. Expanding access to overseas employment opportunities requires collaboration among labor sending and labor receiving countries. Regional collaboration also plays an important role in overcoming the lack of scale for both public and private sector activities. On the public sector side, this entails primarily sharing public functions and services among countries to reduce cost. There are already a number of successful initiatives, such as tertiary education provided to the region at the University of the South Pacific, or various programs sponsored by the Pacific Community. On the private sector side, harmonization and streamlining of regulatory requirements can play an important role in attracting more private sector investment. In our discussion of prioritization we thus also highlight opportunities and priorities for regional collaboration and action.

250. Prioritization is carried out in a two-step process. First, we review the main issues identified in the SCD against the prioritization criteria, as outlined in paragraph 248. In the second step, we apply the information from step one to each of the eight countries to review the country-specific relevance of high priority issues, with the aim to limit the number of priority issues for each country to about five issues. It is important to note that even though the SCD seeks to use the best available evidence to support this prioritization, the exercise certainly does involve a large degree of judgment and remains more art than science. In addition, it is also important to keep in mind that the exercise only seeks to identify priorities with respect to making progress towards the twin goals. Countries' development strategies typically involve a broader set of objectives and policy makers will have to weigh the relative importance of the twin goals versus other policy objectives.

Prioritization Step 1: Applying the Prioritization Criteria to Key Issues Identified in the SCD

251. While all the actions set out in the SCD aim to support the twin goals, the prioritization criteria suggest a number of key solution areas. Table 8-1 sets out the summarized priorities assessed in the diagnostic, and the

prioritization assessment for each of them. Each entry in the table reflects a priority area that has been identified in the SCD. These assessments are made on an approximate basis for two reasons. Firstly, each solution area reflects a key set of actions for the PIC8, but in each cluster, there may be variation between or within countries on specific actions. For instance, in order to expand tourism, Vanuatu may focus more on raising the value added of cruise ship arrivals whereas Samoa would be more focused on air travel. The assessment is made taking this set of actions as a whole, and leaves precise planning for future country engagement and operational work. Secondly, each assessment is made on the best available information, but there are many difficulties inherent in making explicit comparisons between disparate reform areas. Therefore, it is recommended that each individual assessment not be considered independently, and that judgment be used in inferring a set of priorities from this assessment.

Prioritization Step 2: Identification of Country and Regional Priorities

252. Based on the assessment of solution areas using the prioritization criteria shown in Table 8-1, this step adds information on the relevance of each solution area for a particular country to arrive at country-specific prioritization. In particular, the aim of this country-by-country review of priority areas is to identify those solution areas that promise to yield the highest impact on the twin goals in a particular country and to limit the overall number of priorities for each country to the top six or so priorities. The country-specific priority solution areas are summarized in Table 8-2, which includes all issues from Table 8-1 that have very high relevance for at least one of the PIC8. It is important to note that regional solutions are a theme that run through many of these solution areas. In some areas common problems call for regional action to identify solutions that can then be rolled out at country level (e.g. to support closing education gaps and gaps in other basic services, addressing NCDs, maintaining infrastructure and improving public expenditure management). In many other areas there are gains to be realized from cooperative solutions, e.g. to bring down costs of shared services like sector regulation, governance functions or financial infrastructure. In a final set of priorities, fully realizing the benefits requires joint solutions or international agreements, most clearly in labor migration and regional fisheries, but also to support tourism marketing in source markets and disaster preparedness solutions. Each of the priority areas is summarized below.

TABLE 8-1: PRIORITIZATION OF SOLUTION AREAS

	Direct impact on twin goals	Indirect impact on twin goals (Source of spillovers)	Time horizon (Immediacy of impact)	Evidence base (Knowledge on impact on twin goals & what to do)	Feasibility
Pathway 1: Fully exploiting the limited set of economic opportunities					
Expand tourism	Relatively labor-intensive, including at low skill levels; poverty impact partly depends on location of tourism activities	Tourism stimulates a broad range of sectors, especially services, and agriculture	Institutional changes and market development could yield results in 3 to 5 years	Regional experience indicates tourism can have a significant impact on livelihoods	Fiscal cost moderate, but regional solutions require successful negotiation
Increase sustainable fisheries revenue	Direct impact limited although some scope for domestic job creation	Via public revenue boost, major enabler for other pathways with fiscal costs	PNA already operational, changes relatively quick to implement	PNA already a successful model in operation in Pacific	While action requires regional agreement, it could build on success of existing scheme
Increase incomes from agriculture and coastal fishing	Majority of poor depend on agriculture	Food systems important for NCD and nutrition outcomes, food security and cost of living	Investments and sector reform will take time, but some reforms within 5 years	Lessons from Pacific & PNG provide evidence of needed reforms and investment	Agriculture reforms can be slow, difficult and can be impacted by land law
Expand labor mobility opportunities	Significant benefit to participating households, relatively well targeted at poor households.	Remitted earnings spent in local economy and support job creation and government revenues.	Various migration routes already open. Improvements could be taken up in short run	Detailed evidence based on labor mobility in Pacific shows positive impact on poor and B40.	Expanded access involves trade-offs for receiving countries.
Pathway 2: Enhancing access to employment opportunities and public services					
Close education and skills gaps between the poor and the non-poor	Educational attainment is an important dimension of human development	Most opportunities for both poor and B40 depend on building human capital.	Increasing educational attainment targeted skills takes at least 5-10 years, skills upgrading can happen quickly	Global and regional evidence that ed. is critical and linked to improved life prospects, necessary investments and reforms well established	Quality and system reforms costly but, demand side constraints may be more difficult to overcome
Close other gaps in public service delivery	Access to services key dimension of poverty	Services support progress in other pathways	Investments in capital, staff and access over 5-10 years	Relatively limited regional evidence in rural services	High fiscal cost and possible land issues
Prevent NCDs	Improvements in quality of life and productivity	Reduced private and public costs free resources for other pathways	Changes to behaviors and food availability will take time	Pacific NCD Roadmap sets out clear measures to take	Could actually have a net positive fiscal impact in medium run. Behavioral change difficult
Stop gender based violence	Direct benefit for large numbers of affected women	Violence reduces women's ability to participate in society or livelihoods	Requires shift in cultural acceptance, achieved over time	Limited evidence of effective interventions in Pacific context	Cultural and private nature of problem make it difficult to successfully address GBV.
Provide equitable access to public sector employment opportunities	Largest source of formal employment in PIC8	Relatively limited	Reform incremental increasing benefits with staff turnover and improved levels of educational attainment of the poor	Household surveys indicate importance of pathway for poor	Expansion risks fiscal sustainability social, geographic, and governance factors that limit access of the poor difficult to overcome
Pathway 3: Protecting incomes and livelihoods					
Strengthen disaster risk preparedness	Very high prevalence of disasters, hit poor hardest	Mainstreaming supports progress on other pathways	Many measures feasible within 5 years	Emerging evidence of what works best in Pacific	Significant fiscal cost, can involve land issues
Develop social protection systems	Significant targeted benefit, especially post-disaster	System can be used for other targeted programs	Establishment of system main task, feasible in 5 years	Good evidence globally, Pacific context quite unique	High fiscal cost in some cases, cultural aversion
Fundamental Enablers: Strengthening governance and the business environment					
Maintain & develop economic infrastructure	Lowers the costs of distance to markets, and connects rural areas	Key facilitator of access to markets and services	Significant investments with limited capacity over medium run	Investments throughout region have illustrated importance	High fiscal cost mitigated by better maintenance, land issues
Improve public expenditure mgmt.	Better alignment of public expenditures and government	Public sector effectiveness undercuts nearly all pathways	Institutional reform can yield substantial results within 5yrs	Experience of reform in PIC8 shows what works in context	With political commitment, reforms are feasible

	policies necessary to support pursuit of twin goals				
Ensure macroeconomic stability and sustainability	Reduce risk of shocks that can have major impact in PIC8	Improved macro-environment supports almost all pathways	Improved governance can yield results over 5 years	Good evidence on context-fit measures for PIC8	Limited capacity a constant challenge
Sustainable natural resource & land mgmt.	Livelihoods of the poor depend to a significant extent on environmental services, including agriculture and coastal fishing	Critical enablers for many pathways	Ecosystem and land is a long-term commitment	Approaches identified for addressing range of risks	Strong PIC8 support, yet changes face opposition
Enhance access to financial services	Boosting shared prosperity by supporting SMEs to grow	Especially support agriculture and labor mobility	New products and systems can be rolled out in short run	Limited evidence on whether products can work in PIC8	Generally low cost but require joint action by banks and land collateralization issues
Manage urbanization effectively	Still relatively small numbers of urban poor	Facilitate service provision in urban areas	Altering existing land use slow process	Limited track record of urban planning in Pacific	Difficult process of altering existing urban infrastructure
Improve the business enabling environment	Support SMEs and job creation to an extent	Stronger private sector can aid progress on pathways	Selected areas can be addressed in short run	Mixed results on impact, given market access challenge	With political commitment, reform is feasible

The rating relates to how conducive the assessment is to an effective solution in each area, so high scores should be viewed positively in all cases.

KEY

VERY HIGH

HIGH

MODERATE

TABLE 8-2: COUNTRY SPECIFICITY OF VERY HIGH PRIORITY SOLUTION AREAS

	FSM	MHL	PLW	KIR	TUV	WSM	TON	VUT
Pathway 1: Fully exploiting the limited set of economic opportunities								
Expand tourism			Need to ensure benefits from large numbers of tourists & environmental impacts managed			High potential destination	High potential destination	High potential destination
Increase fisheries revenue	Large fish stocks	Large fish stocks	Large fish stocks	Large fish stocks	Large fish stocks			
Increase incomes from agriculture and coastal fishing	Agricultural potential					Agricultural potential and scope for increased demand from the tourism sector	Agricultural potential and scope for increased demand from the tourism sector	Agricultural potential and scope for increased demand from the tourism sector
Expand labor mobility opportunities	Already open access to US labor market	Already open access to US labor market	Already open access to US labor market	Currently only very limited labor mobility and domestic opps	Currently only very limited labor mobility and domestic employment opps	Good access to Australia & NZ	Good access to Australia and NZ	Good access to Australia and NZ
Pathway 2: Enhancing access to employment opportunities and public services								
Close education and skill gaps	Issues with quality of education	Limited participation as well as quality issues	Issues with quality of education	Limited participation as well as quality issues	Issues with quality of education	Issues with quality of education	Issues with quality of education	Limited participation as well as quality issues
Close other gaps in public service delivery	Significant gaps in public service delivery	Significant gaps in public service delivery		Significant gaps in public service delivery				Significant gaps in public service delivery
Prevent NCDs	Very high risk factors	Very high risk factors	Very high risk factors	Very high risk factors	Very high risk factors	Very high risk factors	Very high risk factors	
Stop gender-based violence		High incidence of partner violence		High incidence of partner violence		High incidence of non-partner violence	High incidence of non-partner violence	High incidence of partner violence
Pathway 3: Protecting incomes and livelihoods								
Strengthen disaster risk preparedness						Very high incidence of disasters	Very high incidence of disasters	Very high incidence of disasters
Fundamental Enablers: Strengthening governance and the business environment								
Maintain & develop economic infrastructure	Support potential for domestic economic activity	Support potential for domestic economic activity	Support potential for domestic economic activity	Support reduced cost and internal movement		Support potential for domestic economic activity	Support potential for domestic economic activity	Support potential for domestic economic activity
Improve public expenditure management	Significant scope to improve PEM, declining US sector grants require careful adjustments	Significant scope to improve PEM declining US sector grants require careful adjustments		Significant scope to improve PEM	Significant scope to improve PEM			Significant scope to improve PEM
Ensure macroeconomic stability and sustainability	Transition from grants to trust fund income raises concern about fiscal cliff	Transition from sector grants to income from trust fund raises concern about fiscal cliff		High dependence on income from trust fund and fishing	High dependence on income from trust fund and fishing			

Note: Blue shading denotes a solution area is particularly relevant for that country, while green indicates solution areas where regional solutions are most critical.

Priorities to fully exploit the limited set of economic opportunities

Tourism

253. Tourism is an important sector in many PIC8 and holds significant potential to contribute to reduced poverty and shared prosperity. It tends to generate significant employment opportunities for both men and women and can have important backward linkages to other sectors of the economy, such as agriculture. Key elements of the strategy to support tourism growth would be to improve both airport and cruise port infrastructure, in line with industry demands. Regional action will be important to support improved intra-regional connectivity and marketing of Pacific island destinations. Key objectives would be to access new markets, such as Asia, while continuing to service traditional Australian and New Zealand markets. Secondly, successfully targeting high-value market segments will effectively trade on the Pacific's unique value proposition and help mitigate higher travel costs. The potential for further gains from tourism are largest for Samoa, Tonga, and Vanuatu. Palau already receives a large number of tourists and faces the challenge of ensuring that tourists indeed bring benefits to the country without adversely affecting the environment and Palau's social and cultural fabric. For the other countries, their extreme remoteness and very underdeveloped tourism markets mean opportunities in the near term are somewhat more limited although opportunities to develop high yielding niche markets in the long term do exist.

Increase sustainable fisheries revenue

254. Fisheries represent a very significant source of revenue for five of the PIC8 and provide the basis for public funding of services for the poor. The vessel day scheme (VDS) that was introduced under the Parties to the Nauru Agreement set a cap on the volume of fishing days (to ensure the fishing stocks were managed in a sustainable manner) along with a minimum price for fishing days in the exclusive economic zone (EEZ) of the PNA member countries (except Samoa, Tonga and Vanuatu which only have limited tuna resources). Since the introduction of the VDS for purse seine tuna fishing, fishing revenue has increased four-fold from about US\$70 million in 2010 to about US\$280 million in 2014, providing much needed fiscal resources for these countries. Fishing revenues can constitute game-changers for the smallest PICs, although managing the resource requires regional cooperation and constant vigilance to ensure the health of the marine environment and the maintenance of fishing stocks. Expanding the VDS to long-line tuna fishing and to albacore tuna promises further increases in revenue for the PIC8.

Increase incomes from agriculture and coastal fishing

255. Subsistence agriculture and fishing are the main sources of food and livelihoods for many of the poor in the PIC8. While opportunities for export of agricultural products are likely to remain limited, opportunities for small scale local trade, import substitution to supply the tourism sector and selected niche and cash crop exports offer possible gains, especially for FSM, Tonga, Samoa, and Vanuatu. However, the task of revitalizing often neglected agriculture sectors will require sustained and substantial investment over reasonably long time horizons. Key elements of a strategy would be to make affordable risk management tools available, invest in rural infrastructure, and ensure functioning sector support systems.

Expand labor mobility opportunities

256. Labor mobility opportunities provide an important source of employment and income for the PIC8. The three North Pacific countries are in the privileged position of having open access to the US labor market. The other five countries have access to seasonal labor schemes in Australia and New Zealand. Samoa, Tonga, and Vanuatu already have strong participation in these schemes, while Kiribati and Tuvalu are only able to claim a few spots. Going forward, increasing the number of places available under existing schemes, better targeting opportunities towards the poor and towards countries that have only limited participation, and creating demand-led new opportunities for higher skilled workers are priorities that will require joint action by labor sending and labor receiving countries.

Priorities to support enhanced access to economic opportunities and public services

Close education and skills gaps between the poor and non-poor

257. Low educational attainment is a distinguishing characteristic of most poor households and severely limits their capacity to effectively compete for employment opportunities in the tourism and public sectors. While there has been progress in most of the PIC8 in increasing secondary school enrollment, most children from poor households do not attend secondary school or even primary school. In the PIC8, education is a critical enabler for accessing domestic opportunities (e.g. tourism, public sector) as well as jobs overseas. Equally important as making participation universal is a focus on the quality of education, as the poor who often live on the outer islands tend to attend schools where quality is lower. We highlight this as a particularly important priority for Marshall Islands, Kiribati, and Vanuatu, where the levels of educational attainment of people living in hardship are particularly low.

Close other gaps in public service delivery

258. In most of the PIC8, the poor tend to have inadequate access to public services, including education, health, energy and other infrastructure services. This is either due to geographic inequalities in the availability of services, especially in the outer islands where many of the poor can be found, or due to the inability of the poor to bear the cost of such services. Measures that would aim at ensuring adequate access of the poor to public services, including targeted investments in areas where the poor are located, and reducing the cost to the poor, either through efficiency gains in the production of services or subsidized prices for the poor, would be important measures to consider.

259. In many cases, in the outer islands the incidence of hardship tends to be high and access to public services and economic opportunities low. As the cost of service delivery can be very high in remote islands with small populations, bringing public services to these locations is often not economically feasible. As a consequence, there is already significant internal migration from the outer to the central islands in many of the PIC8. In many cases, facilitating internal migration by the poor may be an important strategy to enhance access to public services. However, to avoid negative social and poverty impacts of internal migration, managing internal migration and urban management needs to be a priority.

Prevent non-communicable diseases

260. The high incidence of NCDs threatens to reverse progress in human development and to overwhelm public finances. The prevalence of obesity in adults is over 40 percent in all of the PIC8 except Vanuatu and around 80 percent of adults are overweight. The transition away from traditional foods and towards foods high in sugar/fat/salt and processed imported foodstuffs is a major factor contributing to the increase of NCDs. As a consequence, the PIC8 rank among the countries with the highest incidence of diabetes and obesity in the world. This impacts not only on the quality of life, but also carries huge costs for expensive, late-stage treatments that must be carried out overseas, which crowd out other public expenditure that could support poverty reduction and shared prosperity. Adoption of measures that would prevent NCDs is thus critical. A roadmap for NCDs adopted by a joint meeting of Ministers of Finance and Health at the 2014 FEMM meeting in Honiara provides relevant priorities that need to be translated into national action plans and implemented. This includes increased taxation of tobacco and sugary drinks to support a switch towards healthier diets.

Stop gender based violence

261. Gender-based violence is extremely high in a number of countries in the region and must be addressed as a priority. Based on the best available statistics, women in more than half of the PIC8 countries suffer from either partner or non-partner violence to a far greater extent than elsewhere in the world. Violence against women has major traumatic and disempowering effects and, for those women affected, is often associated with poverty, poor health, lack of housing and places stresses on children's development, education, and nutrition levels. It is

also self-perpetuating and women who have experienced intimate partner violence are seven times more likely to have children who are also abused than those who have not experienced partner violence. The overwhelming majority of abused women in the Pacific report that they have not sought help from formal services or from people in positions of authority such as police, non-government organizations, religious or local leaders. We highlight this as a particular priority for Marshall Islands, Kiribati, Samoa, Tonga, and Vanuatu, which show the highest levels of gender based violence among the PIC8. Programmatic and policy approaches to address this key development issue range from legislative reform and enforcement of protective laws to media campaigns, community- and school-based programming, and services for survivors. Interventions can be broadly grouped under social norm change, legal reform and responses, social support and services, economic empowerment, and integrated approaches.

Priorities to protect incomes and livelihoods

Strengthen disaster risk preparedness

262. The PIC8 are highly exposed to natural disasters such as cyclones, floods, and earthquakes, and the very existence of some countries is threatened by climate change. Their level of exposure, new and increasing risks, and the need to protect assets and people, calls for a mainstreaming of DRM policy into many areas of policy-making and development efforts in the PIC8. One significant reform would be for countries to establish social protection systems that are capable of delivering resources quickly and efficiently to those who need them in the event of a disaster or shock. At present, no PIC8 country has a nationwide system capable of responding in this way. Other priorities include: (i) strengthening policy, institutional and evidence-based decision making capacity including via easy-to-access and relevant data and inclusive, participatory approaches; (ii) strengthening disaster early warning, preparedness, and response; (iii) mainstreaming disaster risk and climate change considerations into development planning and investments (including infrastructure plans, land use plans, building codes and environmental impact assessments, as well as sectors such as agriculture, health, education, fisheries, etc.); and (iv) strengthening the financial resilience of countries to climate and disaster shocks. A long-term engagement with PICs is required to address transformational adaptation policies and investments. Many of the measures are relevant to most of the PIC8, and would benefit from a regional approach to bring down costs and drive high-level policy focus. A long-term strategy should also be developed for atoll islands, as they have their own unique resilience needs. We highlight this as a particular priority for Samoa, Tonga, and Vanuatu, which have the highest exposure to natural disasters. While the Compact States in the North Pacific also have high exposure to natural disasters, they do have access to U.S. supported services in this area.

Priorities for strengthening the fundamental enablers

Maintain and develop economic infrastructure

263. Good connective infrastructure is a central requirement for the development of most economic opportunities and for the quality of life in the PIC8. Connective infrastructure such as airfields, ports, and telecommunications plays a particularly important role in the PIC8 as it allows the maintenance of key linkages to the outside world. Land transport infrastructure on larger outer islands and outer-island shipping services need to meet a basic standard and infrastructure gaps need to be addressed.

Improve public expenditure management

264. More than in most other economies, the public sector plays a central role in the PIC8 and can be a driver of poverty reduction and shared prosperity. Closing gaps in service delivery among the better and not so well off, and strengthening maintenance and development of infrastructure services are critically dependent on good public expenditure and investment management. Given that the public sector is the largest formal sector employer in most of the PIC8, meritocratic access to the jobs it offers is critical to provide equal opportunity for all, including women. In the PIC8, public sector activities and donor funded projects are an important source of domestic demand

for the private sector. There may thus be scope to look at ways that would offer increased employment opportunities for the domestic private sector and the poor in the execution of public expenditure programs. Finally, public sectors in the PIC8 suffer from thin capacity, especially in areas that provide specialized technical expertise. This implies on the one hand the need to very clearly prioritize which activities and reforms to undertake so as to not overwhelm existing capacities. On the other hand, it also underlines the importance of considering regional approaches and the sharing of human resources among the PIC8 or even of outsourcing functions to larger countries that have the required expertise and capacity (for example, in various areas of regulation).

Ensure macroeconomic stability and sustainability

265. Given the volatile external environment faced by the PIC8, macroeconomic management aimed at promoting stability will always remain a priority. Shocks in the PIC8 countries are the norm, and policy should be geared towards supporting macroeconomic resilience as far as possible. Given the small size of countries as well as of fiscal and monetary resources, a critical component of this is the ability to draw on external resources including development aid and remittances. FSM, Marshall Islands, Kiribati, and Tuvalu face particular challenges with respect to macroeconomic management. For FSM and Marshall Islands, the scheduled transition from U.S. sector grants to income from a trust fund in 2023 requires careful adjustments to revenue and expenditure in order to avoid a fiscal cliff in 2023. Tuvalu and Kiribati derive much of their public revenue from fishing licenses, which have shown significant fluctuations in recent years. Their large trust funds can potentially play a stabilizing role with strong macroeconomic management.

Knowledge Gaps

266. Analysis and policy making with respect to poverty reduction and shared prosperity in the PIC8 are severely constrained by the paucity and low quality of data. In particular, none of the PIC8 is fielding regular HIESes that would allow policy choices to be informed by a good understanding of who the poor are and the key drivers of poverty. The lack of high quality data also precludes an evaluation of which policies have the most impact on poverty reduction. Investment in improved information on the situation of the vulnerable and poor would also be essential to consider the role and cost of social protection programs in the PIC8. An important constraint to carrying out HIESes more frequently is their high cost as typically the same large questionnaires as used in larger countries (with much stronger survey and statistical capacities) with diaries kept for 7-14 days have been used. These are complicated to implement and data quality has not always been reliable. Designing much simpler surveys that can be implemented more easily in the Pacific would enable countries to carry them out more frequently (and would reduce the costs of surveys).

267. The particular and specific drivers of fragility in the PIC8 would warrant further attention. While this SCD has used available evidence, the factors that drive half of the countries to be classified as fragile are substantially different from those typically encountered elsewhere. A more comprehensive assessment of these drivers would support development policy and programs in the region.

268. As the SCD analysis has highlighted, the economic geography of the PIC8 requires a heterodox set of policies. Experience from other countries is thus only of limited value and can lead to inappropriate policy recommendations, which leave policy makers and stakeholders deeply frustrated if expected results do not materialize. Efforts to strengthen the frequency and quality of data collection needs to be complemented by adequate policy analysis that makes full use of the data. For this, increased efforts towards an open data environment in the Pacific is critical. At present, access to data is often difficult, thus limiting research and analysis of the PIC8.

269. The SCD also highlighted that economic opportunities available to the Pacific island countries are limited. While these opportunities have been known for a long time, the experience of most of these countries in realizing these opportunities has been disappointing, reflected in the poor growth performance of the PIC8. A realistic assessment of these opportunities as well as of the measures needed to realize them is essential and is being

undertaken in parallel with the SCD8 under the *Pacific Possible* research program. Pacific Possible will take a 25-year view of a narrow set of economic development opportunities as well as key risks that threaten to undermine development gains in PICs.

270. A further area of focus should be on emerging new opportunities for the PIC8. At present, deep sea mining is seen by some of the PIC8 as the next big opportunity, while at the same time many raise concerns about its environmental impacts. This is thus an area that would benefit from an objective assessment of risks and opportunities that could inform policy choices in the PIC8. With the liberalization of telecoms markets and investments in fiber-optic cables that connect many of the PIC8, new opportunities to overcome the tyranny of distance through a focus on “knowledge products” may also become available and deserve a critical assessment.

Bibliography

- 'Ata'ata, A.F., 1987. *Incentives for Private Investment in Tonga*, Pacific Economic Bulletin 2(1):26-28.
- Abbott, D., & Pollard, S. 2004. *Hardship and Poverty in the Pacific*. Manila: ADB.
- Australian Bureau of Statistics, 2011. *National Census 2011*. Canberra: Australian Bureau of Statistics.
- ADB, 1997. *Vanuatu: Economic performance, policy and reform issues*, Manila: ADB.
- ADB, 2000. *Samoa 2000: Building on recent reforms*, Manila: ADB.
- ADB, 2001. *Republic of the Marshall Islands Meto2000: Economic report and statement of development strategies*, Manila: ADB.
- ADB, 2002. *Tonga: Natural resource use and sustainable socioeconomic development*, Manila: ADB.
- ADB, 2003. *Tuvalu 2002: Economic and public sector review*, Manila: ADB.
- ADB 2006. *Management Response to the Project Performance Evaluation Report for the Outer Islands Agriculture Development Project in the Kingdom of Tonga*. Manila: ADB.
- ADB, 2007. *Samoa: Private Sector Assessment—Consolidating reform for faster growth*, Manila: ADB.
- ADB, 2007. *Tuvalu 2006 Economic Report: from plan to action, Pacific Studies Series*, Manila: ADB.
- ADB, 2008. *Fiji: Alternative Livelihoods Project Completion Report*. Manila: ADB.
- ADB, 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005-2009)*. Manila: ADB.
- ADB, 2013. *Engagement in Fragile and Conflict-Affected Situations: Pilot Fragility Assessment of an Informal Urban Settlement in Kiribati*. Manila: ADB.
- ADB and SPC, 2007. *The Tuvalu 2007 Demographic and Health Survey Report and Fact Sheets*. Available at: <http://www.spc.int/en/component/content/article/271-the-tuvalu-2007-dhs-report-and-fact-sheets>
- Anderson, I., Ivatts, S., Somanathan, A. and Rolfe, B., 2014. *The challenges of health financing in five South Pacific countries*. Asian-Pacific Economic Literature, 28: 29–46.
- Australian Government Department of Immigration and Citizenship, 2011. *Submission by the Department of Immigration and Citizenship to the Joint Standing Committee on Migration 'Inquiry into the contribution of migration to Australian society'*. Submission no. 450.
- Baker, R., 1992. *Scale and Administrative Performance: The Governance of Small States and Microstates*. In: R. Baker, ed. *Public Administration in Small and Island States*. West Hartford: Kumarian Press, pp. 5–25.
- Barker, J. 1996. *Winds of Change (Review)*. Contemporary Pacific 8 (1): 234–36.
- Bedford, R. 2012. *Population Movement in the Pacific: A perspective on Future Prospects*. Wellington: Department of Labour.
- Bell, S., Cole, R., Dorrance, G. and Juchniewicz C., 1986. *Pacific Economic Bulletin*, 1(2):12-7.
- Beschorner, N., 2008. *Pacific Telecommunications 2008 and Beyond: Changes and challenges*, Pacific Economic Bulletin, 23(3):112-34.
- Beyer, R. 2010. *Agro-based processing opportunities for Tonga*. Apia: FAO.
- Bray, M., 1991. *The organization and management of ministries of education in small states*. Public Administration and Development, 11(1), pp. 67–78.
- Brown, D. R., 2010. *Institutional Development in Small States: Evidence from the Commonwealth Caribbean*. Halduskultuur - Administrative Culture, 11(1), pp. 44–65.
- Browne, C. (with D.A. Scott), 1989. *Economic Development in Seven Pacific Island Countries*, Washington, DC: IMF.
- Browne, C., 2006. *Pacific Island Economies*, Washington D.C.: IMF.
- Clemens, M., and S. Chand. 2008, *Skilled Emigration and Skill Creation: A quasi-experiment*. Working Paper 152, Washington D.C.: Center for Global Development.
- Cloin, J., 2005. *Coconut oil as a Biofuel in Pacific Islands*. Suva: SOPAC.
- Cororaton, C. and D. Knight, 2014. *The impact of exogenous shocks on households in the Pacific*. World Bank Policy Research Paper 7046. Washington D.C.: World Bank.

- Cruise Lines International Association Australasia, 2014. *Cruise industry source market report, Australia 2014*. Available at: <http://www.cruising.org.au/downloads/CLIA-Report-2014.pdf>.
- Dornan, M., and T. Newton Cain, 2013, *Regional Service Delivery Among Small Island Developing States of the Pacific: An Assessment*, Asia and the Pacific Policy Studies Working Paper.
- Duncan, R. (ed.), 2011. *The Political Economy of Economic Reform in the Pacific*, Manila: ADB.
- Duncan, R., 2004. *Information and Communications Technology in the Pacific Islands: Marginalisation by monopolisation*, Pacific Economic Bulletin, 19(2):129-31.
- Duncan, R., 2014. *Kiribati: A political economy analysis of constraints to economic growth*, Ch. 6 in Ron Duncan and Hilarian Codippily (with Emele Duituturaga and Raijeli Bulatale), *Identifying Binding Constraints in Pacific Island Economies*, Pacific Islands Development Series No. 18, Hawai'i: East-West Center.
- Duvvury, N., A. Callan, P. Carney and S. Raghavendra, 2013. *Intimate Partner Violence: Economic Costs and Implications for Growth and Development*. Women's Voice, Agency, and Participation Research Series 2013 No.3. Washington D.C.: World Bank.
- Englberger, L. & Johnson, E. 2014. *Traditional foods of the Pacific: Go Local, a case study in Pohnpei, FSM*. Bioversity International.
- Englberger, L., 2011. *Let's Go Local: guidelines promoting Pacific Island foods*. FAO, Apia
- Farrugia, C., 1993. *The Special Working Environment of Senior Administrators in Small States*. World Development, 21(2), pp. 221–226.
- FAO, 2009. *Pacific Multi-Country National Medium-Term Priority Framework Document 2009–2012 for the Cooperation and Partnership between FAO and 13 Pacific Island Countries*. Bangkok: FAO.
- FAO, 2010. *Pacific Food Security Toolkit. Building Resilience to Climate Change: Root Crop and Fishery Production, Module 4: Pacific Root Crops*. Rome: FAO.
- FAO, 2012. *Selected Indicators for Food and agricultural development in the Asia-Pacific region 2001-2011*. Bangkok: FAO.
- FAO, 2013. *Climate-Smart Agriculture (CSA) Sourcebook*. Rome: FAO.
- Flemming, E. & Hardaker, J.B. 1988. *Current Economic Trends in Selected South Pacific Countries*, Pacific Economic Bulletin, 3(1):1-12.
- Fukuyama, F., 2008. *State Building in Solomon Islands*. Pacific Economic Bulletin 23 (3): 18–34.
- Gibson, J., 2006. *Are There Holes in the Safety Net? Remittances and Inter-household Transfers in Pacific Island Economies*. Working Paper 1. Pasifika Interactions Project, Wellington, New Zealand.
- Gibson, J., and D. Mckenzie, 2010a. *The Economic Consequence of Brain Drain of the Best and Brightest*. Policy Research Working Paper 5394, Washington D.C.: World Bank.
- Gibson, J., and D. Mckenzie, 2010b. *The Development Impacts of a best practice seasonal worker policy: New Zealand's RSE Scheme*. University of Waikato, Waikato.
- Gibson, J., and D. Mckenzie, 2011. *Australia's Pacific Seasonal Worker Pilot Scheme (PSWPS): Development Impacts in the First Two Years*. Working Paper in Economics, University of Waikato, Waikato.
- Government of Kiribati and UNDP, 2010. *Analysis of the 2006 Household Income and Expenditure Survey: A Report on the Estimation of Basic Needs Poverty Lines, and the Incidence and Characteristics of Poverty in Kiribati*. Suva: Kiribati National Statistics Office and UNDP Pacific Centre.
- Government of Samoa and UNDP Pacific Centre, 2010. *A Report on the Estimation of Basic Needs Poverty Lines, and the Incidence and Characteristics of Hardship & Poverty: Analysis of the 2008 Household Income and Expenditure Survey*. Suva: Samoa Bureau of Statistics and UNDP Pacific Centre.
- Government of Samoa and UNDP Pacific Centre, 2010. *A report on the estimation of Basic Needs Poverty Lines and the Incidence and Characteristics of Hardship and Poverty*.
- Government of Samoa, 2008. *Household Income and Expenditure Survey: Tabulation Report*. Samoa Bureau of Statistics

- Government of the Federated States of Micronesia, 2007. *Household Income and Expenditure Survey (2005) Analysis Report*. Office of Statistics, budget and Economic Management, Overseas Development Assistance, and Compact Management, Palikir.
- Government of the Federated States of Micronesia, n.d. *FSM Agriculture Policy 2012-2016*. Department of Resources and Development.
- Government of the Republic of the Marshall Islands, 2002. *Republic of the Marshall Islands: Household Income & Expenditure Survey 2002*. Majuro: RMI Economic Policy, Planning and Statistics Office.
- Government of Tonga, 2010. *2nd National Millennium Development Goals Report*. Ministry of Finance and National Planning.
- Government of Tonga, 2010. *Household Income and Expenditure Survey 2009*. Statistics Department.
- Government of Tuvalu, 2010. *Household Income and Expenditure Survey*. Tuvalu Government Central Statistics Division.
- Government of Tuvalu, 2011. *Tuvalu Millennium Development Goals: Progress Report 2010/2011*. Funafuti: Department of Planning and Budget.
- Government of Vanuatu, 2006. Household expenditure survey.
- Greer, R., 2008. *Review of Vanuatu's Agriculture Extension Services*. NZ Ministry of Foreign Affairs and Trade, Wellington.
- Grosh, M., del Ninno, C., Tesliuc, E., and Ouerghi, A., 2008. *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*. Washington, DC: World Bank.
- Gruby, R., Sievanen, L., Leslie, H., Gancos Crawford, T., 2010. *Case Study: Babeldaob Island Ecosystem Initiative*. Duke/ Brown University, USA
- Haque, T. and T. Packard, 2014. *Well-being from work in the Pacific island countries*. World Bank East Asia and Pacific regional report. Washington DC : World Bank Group.
- Hausmann, R., Pritchett, L. and D. Rodrik, 2004. *Growth Accelerators*. NBER Working Paper, No. 10566. Washington: National Bureau for Economic Research.
- Hezel S.J, Francis, X. 2006. *Is that the Best You Can Do? A tale of two Micronesian economies*. Pacific Islands Policy 1, East-West Center, Honolulu.
- Hezel, F. and M. Levin, 2012. *Survey of Federated States of Micronesia Migrants in the United States including Guam and the Commonwealth of Northern Mariana Islands (CNMI)*. Pohnpei: Federated States of Micronesia (FSM) National Government.
- Hodgson, R. J. Poot, 2001. *New Zealand Research on the Economic Impacts of Immigration 2005-2010: Synthesis and Research Agenda*. CReAM Discussion Paper Series CDP No. 04/11. Centre for Research and Analysis of Migration, London.
- IFC, 2014. *Assessment of the Economic Impact of Cruise Ships to Vanuatu*. IFC: Sydney.
- IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland.
- Jansen, H.A.F.M., S. Johansson-Fua, B. Hafoka-Blake and G.R. 'Ilolahia, 2012. *National Study on Domestic Violence against Women in Tonga 2009*. Nuku'alofa: Ma'a Ma'a Fafine mo e Famili.
- Kiribati Development Plan 2012 -2015
- Kiribati National Statistics Office and SPC, 2010. *Kiribati Household Expenditure and Income Survey 2006*.
- Kiribati National Statistics Office and SPC, 2014. *Kiribati Demographic and Health Survey, 2009*
- Knapman B. and Saldanha C., 1999. *Reforms in the Pacific: An assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*. Manila: ADB
- Landon-Lane, C., 2015. *Systematic Country Diagnostic for eight small Pacific Island Countries: PIC8 Agricultural Sector Study*. SCD Background Paper.

- Leon, C., 2015. *Republic of the Marshall Islands National Study on Family Health and Safety*. Majuro: Republic of Marshall Islands Ministry of Internal Affairs.
- Leon, C. and U.A. Imetengel, 2014. *Belau Family Health and Safety Study: National Research Project on Violence Against Women in Palau*. Suva: UNFPA and Palau Ministry of Health.
- Leon, C. and L. Pretrick, 2014. *Federated States of Micronesia Family Health and Safety Study: A prevalence study on violence against women*. Palikir: FSM Department of Health and Social Affairs.
- Maclellan, N., 2008. *Seasonal Workers for Australia – Lessons from New Zealand*. Farm Policy Journal 5 (3), 43-52.
- McGregor, A., Watas, P., and Tora, L., 2009. *The Vanuatu Organic Cocoa Growers Association: A case study of agriculture for growth in the Pacific*. FAO, Apia, Samoa.
- McKenzie, D., Martinez, P. and L. Winters, 2008. *Who is coming from Vanuatu to New Zealand under the New Recognized Seasonal Employer Program?* Policy Research Working Paper 4699, World Bank, Washington DC.
- Medina Cas, S. and R. Ota, 2008. *Big Government, High Debt, and Fiscal Adjustment in Small States*. Washington, D.C.: International Monetary Fund, Working Paper WP/08/39.
- Mohanty, M., 2006. *Squatters, vulnerability and adaptability of urban poor in a Small Island Developing State: The context of Fiji Islands*, Paper presented at International Geographical Union Commission (IGU) Conference on Population and Vulnerability, 3-7 July, 2006, Brisbane, Australia.
- Morduch, J., 1994. *Poverty and Vulnerability*. American Economic Review 84 (2): 221–25.
- Nanau, G.L., 2011. *The Wantok System as a Socioeconomic and Political Network in Melanesia*. OMNES 2 (1): 31–55.
- Overseas Development Institute, 2009. *Targeting of Social Transfers: A Review for DFID*. London: ODI.
- OXFAM, 2010. Forum States non-state actors meeting, October 2010.
http://www.forumsec.org/resources/uploads/attachments/documents/Oxfam_Australia_Presentation.pdf
- Pacific Islands Forum Secretariat, 2012. *Pacific Regional MDGs Tracking Report (2012)*.
- Pacific Islands Forum Secretariat, 2014. *Pacific Regional MDGs Tracking Report (2014)*.
- Pacific Islands Trade and Invest and Australian Department of Foreign Affairs and Trade, 2014. *Pacific Export Survey*.
- Government of the Republic of Palau, 2013. *Palau Household Income and Expenditure Survey 2006*. Republic of Palau.
- Pacific Power Association, 2012. *Pacific Power Utilities Benchmarking Report 2012 Fiscal Year*. Available online: <http://www.theprif.org/attachments/article/81/PPA%20Power%20Benchmarking%20Final%20Report%2017th%20June%202015.pdf>
- Parry, J., 2010. *Pacific islanders pay heavy price for abandoning traditional diet*. Bulletin of the World Health Organization, 2010, Vol. 88, Issue 7, p. 481-560.
- Pritchett, L., 1998. *Patterns of Economic Growth: hills, plateaus, mountains, and plains*, Policy Research Working Paper 1947, Washington, D.C.: World Bank.
- Ratha, D., S. Mohapatra, and E. Scheja, 2011. *Impact of migration on economic and social development*. International Organization for Migration.
- Republic of Kiribati Ministry of Education, 2011. *Digest of Education Statistics 2011*. South Tarawa: RMI Ministry of Education.
- Ribier, V., J.P. Labouisse, A. Rouzière and G. Vaitilingom, 2003. *Feasibility study for a coconut oil biofuel project: Case of the LORY cooperative, North Santo*. Ministry of Agriculture, Livestock, Forestry and Fisheries, Vanuatu; CIRAD, France.
- Rodrik, D., 2004. *Rethinking Growth Policies in the Developed World*, The Luca d'Agliano Lecture in Development Economics, delivered on October 8, 2004, in Torino, Italy.
- Rogers, S., 2008. *Food Security and Sustainable Livelihoods in the Pacific Island Countries: development partners mapping study*. Apia: FAO.

- Rogers, D.P., and V.V. Tsirkunov, 2013. *Weather and Climate Resilience: Effective Preparedness through National Meteorological and Hydrological Services*. Directions in Development. Washington, D.C.: World Bank.
- Sarapuu, K., 2010. *Comparative Analysis of State Administrations: The Size of State as an Independent Variable*. Halduskultuur - Administrative Culture, 11(1), pp. 30–43.
- Scanlon Foundation, 2013. *Mapping Social Cohesion 2013 Annual Report*. Melbourne: Scanlon Foundation.
- Schwartz, S., 2015. *Local Perspectives on Poverty and Shared Prosperity in the Pacific: Inputs for the PIC8 Systematic Country Diagnostic*, SCD background paper.
- Sengebau, F., 2012. *Development of Value Adding for Improved Food Security*. Terminal Report, GTFS/RAS/198/ITA, Ministry of Resources and Development, Republic of Palau.
- Sialaoa, A., 2003. *The Samoa economy 2003*, Pacific Economic Bulletin, 18(2):1-19.
- Sialaoa, A., 2005. *The Samoa economy 2005*, Pacific Economic Bulletin, 20(3).
- Sixth PACER Plus Trade Officials and Ministers Meeting, Port Vila, April 2014. Pacific Islands Forum Secretariat.
- SPC, 2010. *Kiribati Family Health and Support Study: A study on violence against women and children*. Noumea: SPC.
- SPC, 2010. *Towards a food secure Pacific: Framework for action on food security in the Pacific*. Suva: Food Secure Working Group, SPC.
- SPC, 2011. *Food security in the Pacific and East Timor and its vulnerability to climate change*. Suva: SPC.
- SPC, 2014. *Pacific Fuel Price Monitor April-June 2014 (Q2 2014)*. Suva: SPC
- SPC and FFA, 2010. *The future of Pacific Island fisheries*. Noumea: SPC.
- SPC and UNDP, 2004. *Pacific Islands Regional MDG Report 2004*. Noumea: SPC.
- SPC and UNFPA, 2006. *The Samoa Family Health and Safety Study*. Noumea: SPC.
- Statistics New Zealand, 2013. *National Census 2013*. Wellington: Statistics New Zealand.
- Stewart, R., 2007. *An economic survey of developing countries in the Pacific region*. Canberra: Department of Treasury, Government of Australia.
- Street, D., 2015. *The PIC8 SCD: Private Sector Perspective*. SCD Background paper.
- Streeten, P., 1993. *The Special Problems of Small Countries*. World Development, 21(2), pp. 197–202.
- Sviridova, T., 2013. *Review of Traditional Safety Nets in Pacific Island Countries*. Background paper for this report.
- Te Ara, 2014. *Story: Tongans*. The Encyclopedia of New Zealand (online edition).
<http://www.teara.govt.nz/en/tongans/page-1>
- Thomas, P., 1987. *The Economic of Dependency in the Marshall Islands*, Pacific Economic Bulletin, 2(2):25-30.
- Udry, C., 1994. *Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria*. Review of Economic Studies 61 (3): 495–526.
- UN Women, 2010. *Ending Violence Against Women and Girls. Evidence, Data and Knowledge in Pacific Island Countries. Literature Review and Annotated Bibliography*. Suva: UNIFEM Pacific Sub-Regional Office.
- UNDP, 2008. *Palau - Analysis of the 2006 household income and expenditure survey: final report on the estimation of basic needs poverty lines, and the incidence and characteristics of poverty in Palau*. Suva: United Nations Development Programme, Pacific Centre.
- UNDP, 2012. *Vanuatu Hardship & Poverty Report: Analysis of the 2010 Household Income and Expenditure Survey*. Suva: Vanuatu National Statistics Office and UNDP Pacific Centre.
- United Nations Conference on Trade and Development, 2014. *Review of Maritime Transport 2014*, New York and Geneva: UNCTAD.
- United Nations Economic and Social Commission for Asia and the Pacific, 2013. *Statistical Yearbook for Asia and the Pacific 2013*. Bangkok: UNESCAP.
- United Nations, 2015. *My World Survey*. <http://data.myworld2015.org/>
- United Nations University, 2014. *World Risk Report*. <http://i.unu.edu/media/ehs.unu.edu/news/4070/11895.pdf>

- Université Catholique de Louvain. *EM-DAT: The OFDA/CRED International Disaster Database*. Université Catholique de Louvain, Brussels. <http://www.emdat.be>
- U.S. Census Bureau, 2010. *The Native Hawaiian and Other Pacific Islander Population: 2010*. Washington D.C.: United States Census Bureau.
- U.S. General Accounting Office, 2000. *Testimony before the Subcommittee on Asia and the Pacific, Committee on International Relations, House of Representatives. Foreign Assistance. U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development and Accountability Over Funds Was Limited*, June 28, 2000. Document ID GAO/T-NSIAD/RCED-00-227.
- Vanuatu National Statistics Office, <http://www.vnso.gov.vu/>
- Vanuatu Women's Centre and Vanuatu National Statistics Office, 2011. *Vanuatu National Survey on Women's Lives and Family Relationships*. Port Vila: Vanuatu Women's Centre.
- WHO, 2010. *Pacific islanders pay heavy price for abandoning traditional diet*. WHO Bulletin, Volume 88.
- WHO, 2011. *Noncommunicable Diseases Country Profiles (2011)*. Accessed at www.who.int/nmh/publications/ncd_profiles2011/en/index.html
- WHO, n.d. *Global Health Observatory (database)*. WHO, Geneva, Switzerland. <http://www.who.int/gho/>. Accessed various dates, 2015.
- WHO Western Pacific Regional Office, 2009. *A Pacific Food Summit 2010: Facilitating action for a food secure Pacific*. FAO/SPC/UNICEF/WHO/PIFS concept paper. Manila: WHO.
- WHO, Department of Reproductive Health and Research, London School of Hygiene and Tropical Medicine, South African Medical Research Council, 2013. *Global and regional estimates of violence against women: prevalence and health effects of intimate partner violence and non-partner sexual violence*. Geneva: WHO.
- World Bank, 2000. *Pacific Regional Strategy*. Report No. 20370-EAP, Washington D.C.: World Bank.
- World Bank, 2003. *World Development Report 2004: Making Services Work for Poor People*. Washington D.C.: World Bank.
- World Bank, 2006. *At Home and Away – Expanding Job Opportunities for Pacific Islanders through Labor Mobility*. Sydney: World Bank.
- World Bank, 2007. *World Development Report 2008: Agriculture for Development*. Washington, D.C.: World Bank.
- World Bank, 2008. *Tonga: Trade at a glance*. World trade indicators 2008. Washington, D.C.: World Bank.
- World Bank, 2009. *World Development Report 2009: Reshaping Economic Geography*. Washington, D.C.: World Bank.
- World Bank, 2011. *Pacific Futures*, Discussion Note, Sydney.
- World Bank, 2012a. *Acting Today For Tomorrow: A Policy and Practice Note for Climate and Disaster Resilient Development in the Pacific Islands Region*. Sydney: World Bank.
- World Bank, 2012b. *World Development Report 2012: Gender Equality and Development*. Washington, D.C.: World Bank.
- World Bank, 2013. *Review of Government of Kiribati Copra Subsidy Scheme*. Sydney: World Bank.
- World Bank, 2014a. *Hardship and vulnerability in the Pacific Island Countries*, Sydney: World Bank.
- World Bank, 2014b. *Well-being from work in the Pacific Island Countries*, Report 87894, Washington D.C.
- World Bank, 2014c. *Non-Communicable Disease (NCD) Roadmap Report*. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2014/07/19778739/non-communicable-disease-ncd-roadmap-report>
- World Bank, 2014d. *Voice and Agency: Empowering women and girls for shared prosperity*. Washington D.C.: World Bank.
- World Bank, 2014e. *Vanuatu Socio-Economic Atlas*. Washington, D.C.: World Bank.
- World Bank, 2014. *Tonga Agriculture Sector Plan, Draft Terms of Reference*, Sydney: World Bank.

- World Bank, 2014. *Proposed Approach and Work Program for CSD to Support Pacific CMU in Responding to Fragility, Conflict and Violence Issues in Pacific Island Countries*. CCSD Pacific Approach Note. Sydney: World Bank.
- World Bank, 2015. *Ease of doing business indicators*. Available at: <http://www.doingbusiness.org/rankings>
- World Bank, n.d. *Worldwide Governance Indicators*, www.govindicators.org. Accessed various dates, 2015.
- Yang, Y., H. Chen, S. Singh and B. Singh, 2013. *The Pacific Speed of Growth: How Fast Can It Be and What Determines it?* IMF Working Paper No. 13/104. Paper presented at the High-Level Conference on Pacific Island Countries, Samoa in 2012.
- Yoong, J., L. Rabinovich, and S. Diepeveen, 2012. *The Impact of Economic Resource Transfers to Women versus Men: A Systematic Review*. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.
- Zieroth, G., 2012. *Biofuel Feasibility Study, Kiritimati Island*. Pacific Islands Greenhouse Gas Abatement through Renewable Energy Project. Apia: UNDP.

Appendix 1: Sources of Information, Consultations and Information Gaps

271. Across the Pacific, data that are considered standard in many other parts of the world are often either not produced or produced so irregularly or with quality issues as to limit their usefulness. All statistics offices have inadequate resources and staff to carry out all but the most basic functions, which is considered to be unavoidable given the extremely small size of populations and the limited government resource envelope. Regional institutions, notably the Pacific Community and Pacific Financial Technical Assistance Centre provide substantial ongoing technical assistance to prepare important statistics. Macroeconomic statistics are available for most countries, although in some cases this is based on external estimates where country data is not available. Few countries have information on the expenditure and income national accounts, and most lack reliable data on consumption, investment, remittances or gross national income.

TABLE A1-1: AVAILABILITY OF KEY DATA SOURCES IN THE PACIFIC

Status		Limitations
Macroeconomic data		
National accounts	Available on annual basis in most countries	Long delays (>1 year) in many countries, only production accounts available, data quality highly variable.
Balance of payments	Generally not available in full	Only partial data usually available. Primary source is IMF Article IV reports. Poor quality data for investment and remittances.
Public accounts	Unaudited or preliminary accounts available in most countries	Audited, consolidated public accounts often not available in a timely manner.
Demographic and survey data		
Censuses	Available on 10 or 5 year cycles in all countries, but data access is restricted	WB does not have access to most census datasets, but publicly reported information is generally fairly good. Data quality is variable.
Household income and expenditure surveys (HIES)	Irregularly carried out, with partial availability	See poverty data assessment below
Demographic and health surveys (DHS)	Completed on an irregular basis, data access is restricted	WB does not have access to any DHS datasets. Restricted to public reports
Labor force surveys	Generally not conducted	Almost no availability across the region

272. The main surveys carried out in the Pacific are censuses, demographic and health surveys (DHS), household income and expenditure surveys, and less frequently sectoral surveys such as agricultural censuses. Censuses are carried out either every 10 or every 5 years and provide a good source for basic demographic information. At least one DHS has been carried out in most countries in the past 15 years. At least one Household Income and Expenditure Survey (HIES) has been carried out in 7 of the 8 countries in the last 10 years, and they are prepared on average every 5-6 years. However, for all of these surveys, data access and data quality are a problem. World Bank has no access to DHS surveys, limited access to censuses and improving but still partial access to HIESs. Published poverty analysis is problematic because of differences in methodological approaches both within the region, and compared to other regions. Across the region, WB has sufficient information to carry out distributional analysis and poverty analytics for only a subset of countries. However, even with this data, there remain unaddressed issues with the underlying survey methods that reduce the confidence that the results are robust.

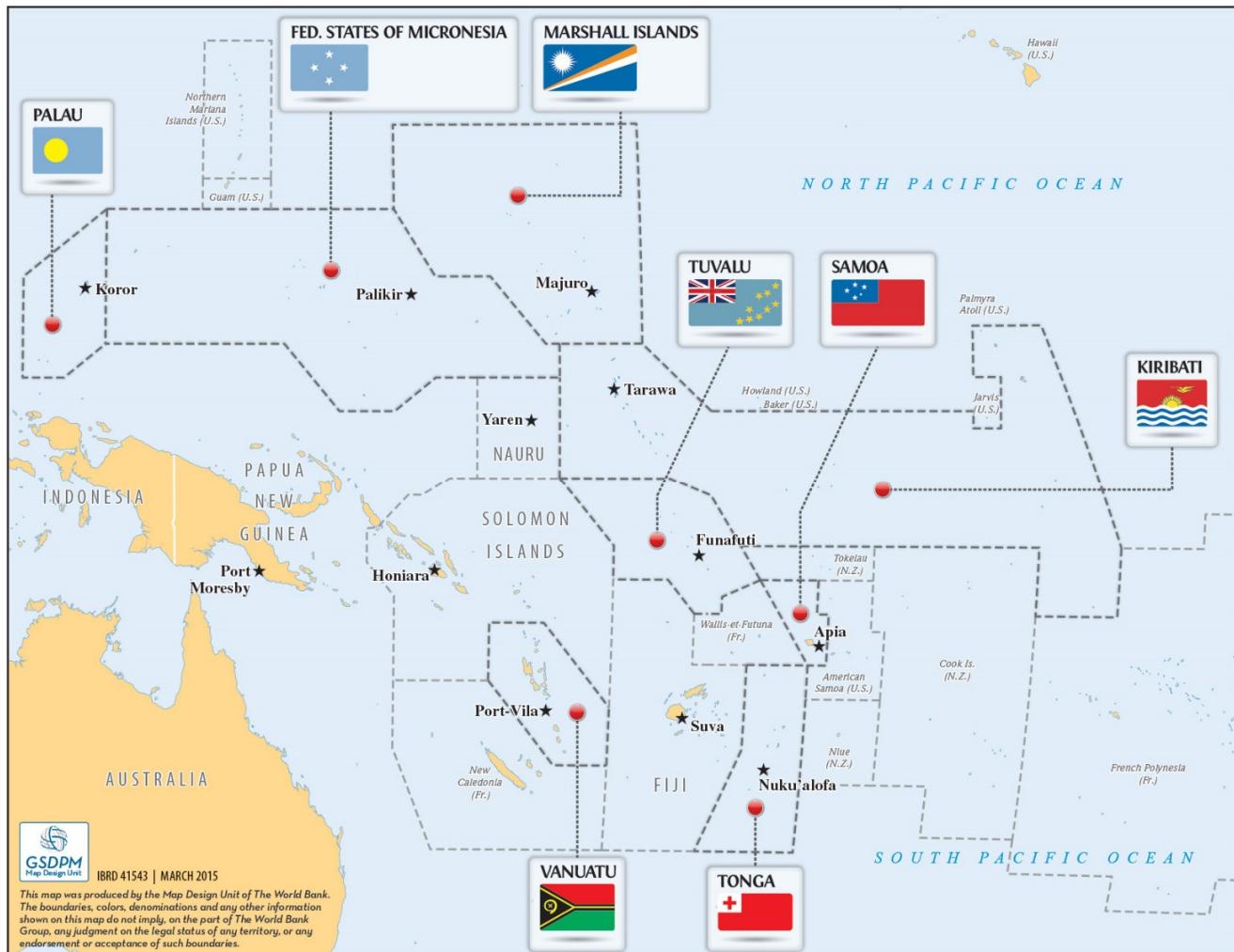
TABLE A1-2: POVERTY DATA AVAILABILITY ASSESSMENT IN THE PACIFIC

Region	Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pacific	FSM				O							
	Kiribati					O						
	Palau						Δ					
	RMI		Δ									
	Samoa	O						O				
	Tonga								O			
	Tuvalu				Δ					O		
	Vanuatu					O				O		
East Asia	Indonesia	O	O	O	O	O	O	O	O	O	O	O
	Lao PDR	O					O			O		O
	Mongolia	O		O			O	O	O	O	O	O
	Myanmar				O			O				
	Philippines	O	O		O			O			O	O
	Thailand	O	O	O	O	O	O	O	O	O	O	O
	Vietnam	O	O	O	O	O		O		O		O

*O: Survey conducted and data available; Δ: Survey conducted but data not accessible

273. As part of the preparation of this SCD, in-country consultations have been held, and the findings of these consultations have informed the diagnostics and built the evidence base. Public consultations have been held in almost every country covered by the SCD (save for Samoa and Tuvalu, where the team has previously carried out consultations). Consultations were also held with relevant regional organizations based in Suva, Fiji. The consultations involved a wide range of stakeholders, including private sector, non-government and charitable organizations, government agencies and the general public. These consultations have been important in incorporating locally-grounded and up-to-date views on development and priorities, and to improve the qualitative evidence base for the diagnostic.

Appendix 2: Map of the Eight Small Pacific Island Countries

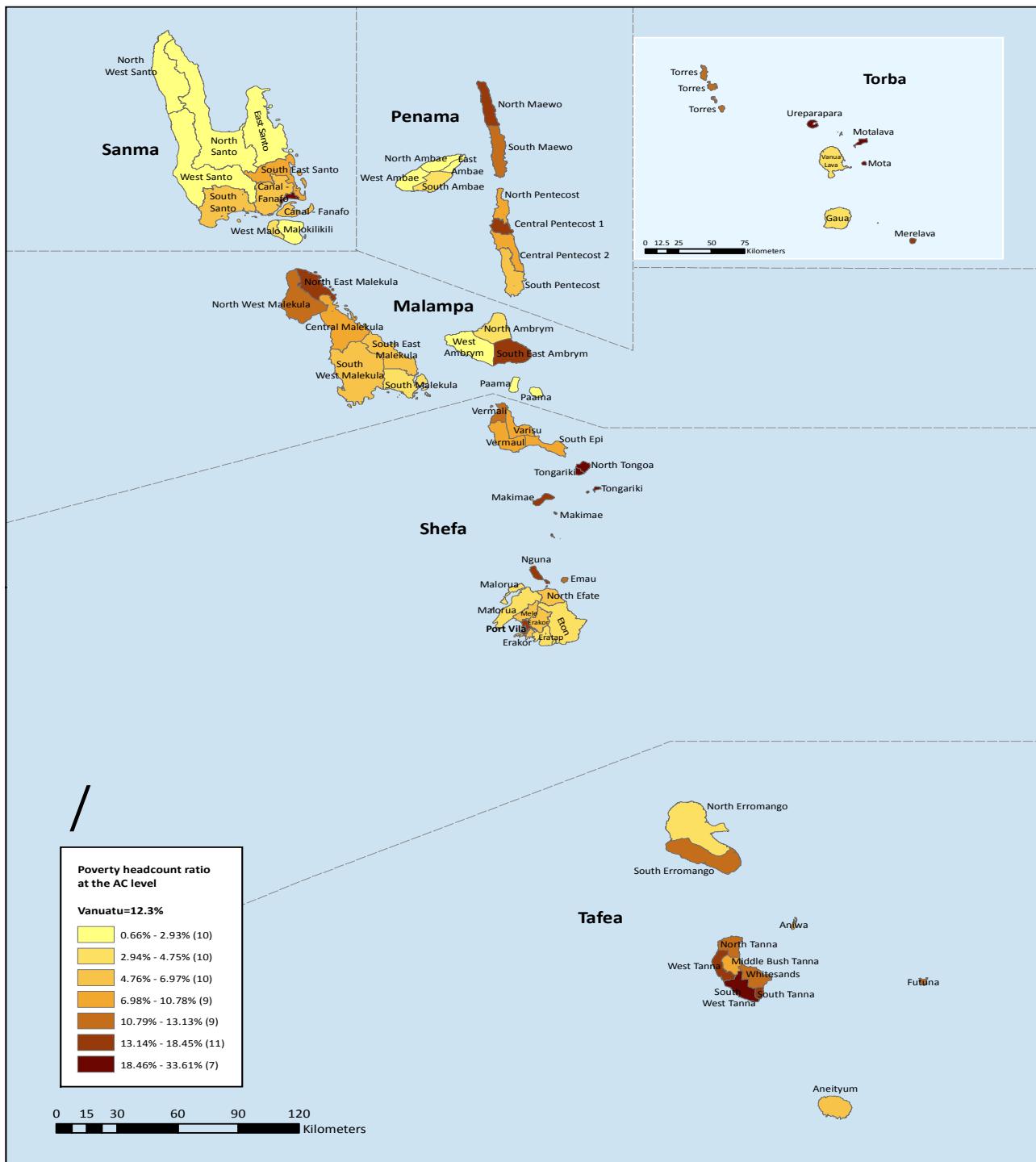


North Pacific: Palau, Federated States of Micronesia, Marshall Islands, Kiribati, Tuvalu.

South Pacific: Samoa, Tonga, Vanuatu.

Appendix 3: Vanuatu Socioeconomic Maps

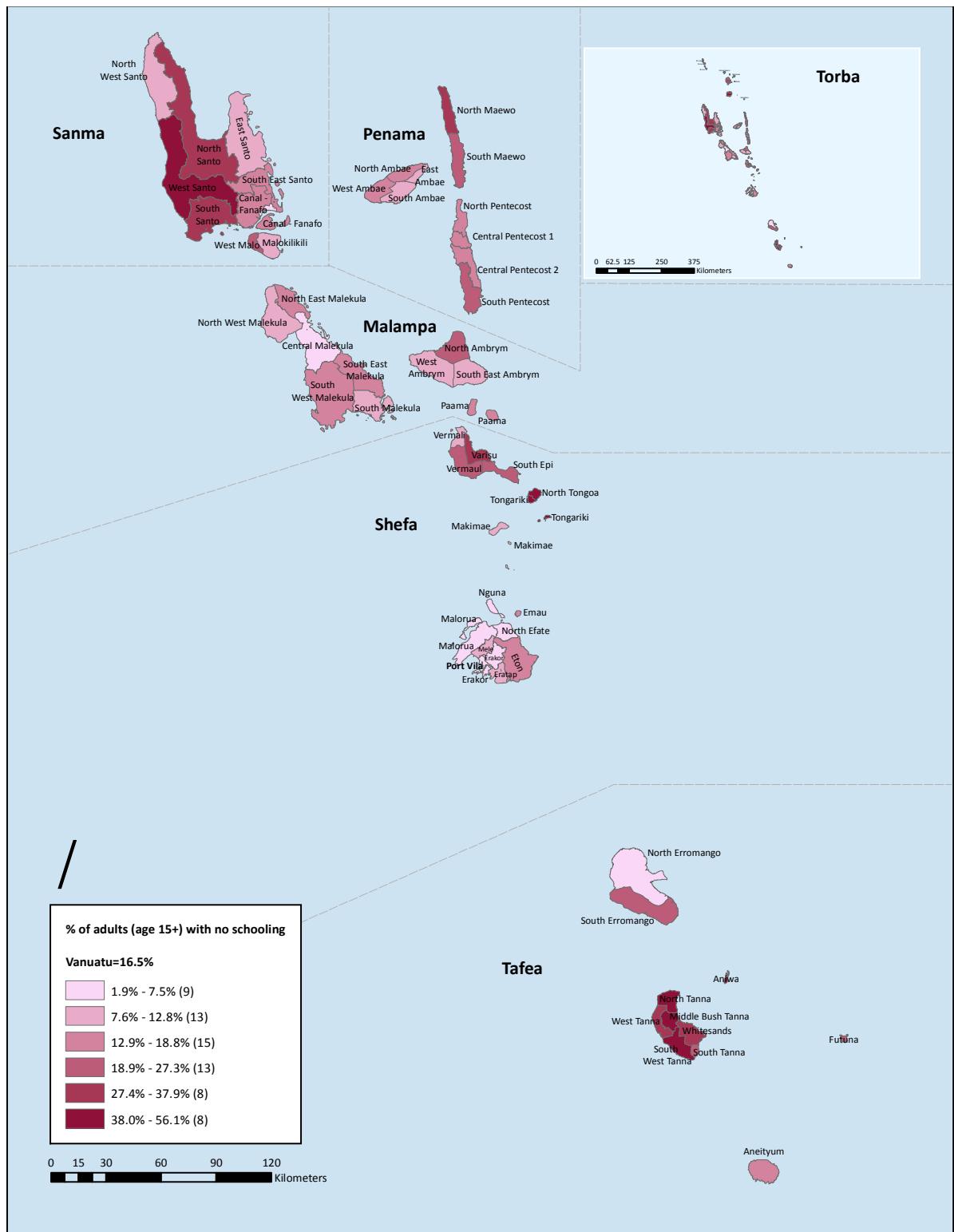
NATIONAL POVERTY HEADCOUNT RATIO



Note: The () in the legend shows the number of area councils (AC) that fall into that category. The median values for each category are 1.5%, 4.3%, 5.8%, 10.2%, 12.0%, 16.0% and 24.9% respectively. For each province, the poverty headcount rate is: Torba (17.8%); Sanma (7.2%); Penama (7.6%); Malampa (9.5%); Shefa (13.0%); Tafea (10.3%); Port Vila (18.4%); and Luganville (23.6%).

Source: World Bank 2014e

PERCENTAGE OF ADULTS (AGE 15+) WITH NO SCHOOLING



Note: For each province, the percentage of adults (age 15+) with no schooling is: Torba (25.6%); Sanma (21.8%); Penama (19.4%); Malampa (13.4%); Shefa (13.1%); Tafea (39.2%); Port Vila (4.7%); and Luganville (4.8%).

Source: World Bank 2014e

Appendix 4: Summary of Consultations

As part of the preparation of this SCD, the Concept Note was shared with the authorities of all eight countries for information and feedback. Dedicated stakeholder consultations were held in six of the eight countries – FSM, Kiribati, Palau, RMI, Tonga and Vanuatu. These consultations included discussions with representatives of government, civil society groups, NGOs and business representatives on key constraints to development and their perspectives on the priorities for action.

Issues central to the SCD were discussed with government representatives in Samoa and Tuvalu, where a high level of prior engagement by the core team helped inform the SCD.

Stakeholder consultations were also held in Fiji with a number of regional organizations which cover the PIC8 countries.

A separate grassroots consultation on drivers of poverty was also held in three countries–Kiribati, RMI and Tonga–with the aim of informing the SCD with direct participatory views on poverty and development.

A comprehensive National Development Plan review was carried out as a background paper to the SCD which assessed all eight countries' own development priorities and actions plans.

