Introduction
Pacific Island Countries face unique development challenges shaped by their economic geography. Past analytical work (like “Pacific Futures”) rightly pointed to structural barriers to growth (remoteness from major markets, fragmentation, small population size etc.) and to the reality of long-term aid dependency. Other pieces of analytical work (on climate/DRM vulnerability, quality of education issues, the challenges of NCDs, labor mobility etc.) have all developed a series of recommendations in relative isolation from one another and typically focusing on the near term. The purpose of the “Pacific Possible” AAA (PP) is to take a long term view of the development challenges and opportunities faced by Pacific Island Countries (PICs), focusing on those challenges and opportunities that could have a transformational impact on the region.

The focus would be on the smaller Pacific Island Countries (PICs) – Palau, Federated States of Micronesia, Marshall Islands, Kiribati, Solomon Islands, Vanuatu, Fiji, Tonga, Samoa, and Tuvalu. Papua New Guinea and Timor Leste have very different paths to prosperity which mostly involve translating largely known natural resource endowments into income in a transparent manner and converting that income into assets and services for the population.

This issues note provides background on key pieces of analysis on which PP would build, discusses the objectives of this activity as well as what it will not do and how it relates to other work, proposes a set of themes that would be the focus of the analysis, and concludes with a discussion of the process, partnerships, budget and team to carry out this task.

The purpose of this note is to solicit feedback and inputs on these issues towards the preparation of a concept note for PP.

Background Pacific Futures and the Framework for Pacific Regionalism
There have been a number of attempts to identify feasible development paths and opportunities in the PICs, including through increased regional integration. Ausaid supported the ANU-led studies Pacific 2010 (published in 1993) and Pacific 2020 – Challenges and Opportunities for Economic Growth (published in 2006). Pacific 2020 focused on the long-term growth prospects of Pacific Island Countries and how these could be improved. It analyzed four crosscutting ‘growth factors’ – investment (of capital), labor, land, and political governance – and five important ‘productive sectors’ – agriculture, fisheries, forestry, mining and petroleum, and tourism. Its country coverage included Timor Leste and Papua New Guinea in addition to the smaller Pacific Islands. It concluded that for most countries in the region – with the exception of perhaps the tiniest – higher growth could be achieved. It concluded that a two pronged approach to reform was needed: structural policy reforms and sensible public investment
where a relatively quick growth impact can be expected, combined with more attention to the tough,
long-term growth constraints (such as political governance and land tenure). The lead autor of Pacific 2020 – Stephen Howes – indicates in a blog \(^1\) published in 2011 that most of the conclusions of the Pacific 2020 report remain relevant. ‘Poor institutions were holding growth back, but would only be improved by Pacific leaders themselves nurturing good governance “in a Pacific context rather than treating it as a foreign impost”. Poor infrastructure was a fundamental constraint. Integration and regional cooperation were not options but necessities. And the “single clearest message”: poor implementation was the most serious constraint to successful reform and thus rapid growth.” However, Howes also indicates that Pacific 2020 may have been overoptimistic with regards to Pacific island countries ability to sustain growth, did not differentiate sufficiently across countries (especially by lumping PNG with the other Pacific island countries), did not say much about Australia’s role in delivering a good 2020 for the Pacific, and may have put to much emphasis on the importance of integration and regionalism at the expense of a more pragmatic and bilateral approach to regionalism and economic integration.’

Between 2009 and 2013, the World Bank organized a series of workshops, seminars, and meetings
under the title ‘Pacific Futures’ aimed at sparking renewed discussion by analyzing the prospects for
economic development in the PICs in light of the unique constraints posed by their geography. In
particular, the PICs’ small size, remoteness from major trading partners, and internally dispersed
populations make it difficult to achieve economies of scale, increasing the costs of private sector
production and trade as well as the costs of providing public services and infrastructure. As a result,
exports as a proportion of GDP are low in the PICs, even compared with other small countries, and the
manufacturing sector has generally remained insignificant, in contrast to the experience of other
developing countries in the region. Instead, PIC exports tend to be dominated by natural endowments
(e.g. fish, minerals, forestry, and tourism), for which economic rents can be extracted even when the
costs of production are relatively high. Understandably, remittances and international development
assistance have also historically been very important in financing imports and consumption in the PICs.

*Pacific Futures* is less optimistic about the prospects for sustainable high economic growth of small PICs
than was Pacific 2020. As a result of their unique economic geography, the feasible development paths
for PICs are likely to differ from the typical strategy followed by many other developing countries, which
focuses on progressive increases in the value and sophistication of exports. In particular, in the PICs,
reforms to improve the business environment are unlikely to be sufficient to ensure global
competitiveness given the costs imposed by size and distance from markets. Moreover, implementing a
full suite of policy and institutional reforms to assist exporters is likely to be beyond the reach of most
PICs, given their constrained fiscal resources and limited capacity in many areas.

A key implication is that reforms should be targeted toward reducing the disadvantages imposed by
geography, and on economic opportunities that are less affected by these disadvantages. The analysis in

Pacific Futures suggests that the most likely prospects for development lie in four main areas. First, pursuing integration – with larger economies and also among the PICs – to reduce the economic costs of distance, including through increased labor market integration, better transport and communication links, and the alignment of regulatory frameworks and services. Second, pooling the provision of public services across small PICs (e.g. in telecommunications and competition regulation) to simultaneously reduce costs and mitigate demands on individual country capacity. Third, ensuring that gains from natural resource industries (including tourism) are maximized, and that these benefits are distributed broadly across the population. Fourth, maximizing the benefits from international assistance, recognizing that in many cases financial aid and capacity support is likely to continue to be required over the longer term. By suggesting that reforms should be narrowly focused on a small set of growth opportunities, Pacific Futures addresses the main finding of Pacific 2020 which identified poor implementation as the principal constraint to better growth outcomes.

Especially relevant to the first two of these recommendations was ‘The Pacific Plan’, which was adopted by Pacific Islands Forum Leaders in 2005 as the region’s strategy for strengthening cooperation and integration between Pacific countries. A 2013 Review of the Pacific Plan noted explicitly that rather than being a regional development or funding plan (which would require substantial pooling of sovereignty) the Plan was best viewed as a framework for advancing Pacific regionalism. The Review acknowledged that further regional integration would entail a number of benefits, including: the realization of economies of scale through the regional provision of services, the delivery of regional public goods, the creation of larger markets and improvements in resource allocation, and the overcoming of national capacity constraints.

In light of the findings of the Review, in May 2014 Forum leaders agreed to recast the Pacific Plan as the ‘Framework for Pacific Regionalism’, which would articulate a regional vision and strategic direction for the Pacific, as well as a set of processes that enabled Leaders to identify and implement initiatives to move the regional project forward. The Framework presents four strategic objectives, which closely follow the four pillars of the original Pacific Plan: (i) sustainable development, (ii) equitable and inclusive economic growth, (iii) strengthened governance, and (iv) security. All regional initiatives forwarded for Leaders’ consideration would be expected to support these objectives. It sets out a range of options for pursuing regionalism, including coordination, cooperation (committing to regional policies and strategies), collaboration (which includes service pooling and the delivery of regional public goods), harmonization (e.g. common regulations and standards), economic integration (freer movement of people and goods between the PICs), and institutional integration. Finally, the Framework specifies a process to ensure that proposals for new initiatives meet a set of ‘Tests for Regional Action’, and that only the highest priorities for regional action are selected and implemented.

**Objectives**

Taken together, Pacific 2020, Pacific Futures, and the Framework for Pacific Regionalism cover the key constraints to development in the PICs (geographic and otherwise) and propose a number of broad...
recommendations and institutional processes to alleviate the impact of these constraints. PP would build on that work and seek to quantify what could be achieved if the limited set of opportunities was fully exploited. It will examine what increases in income and living standards could be achieved if Pacific decision makers got a number of key policy decisions right and if metropolitan countries around the Pacific Rim (Australia and NZ but also the US, China, Japan, Korea and others) played their part. The idea that aid will need to be a significant part of the Pacific landscape for some time to come has been firmly established during our earlier “Pacific Futures” AAA. The question now is whether significantly higher standards of living and reduced vulnerability are possible within a constant aid budget.

It is hoped that the study will help to inform the development debate in the PICs by providing solid analysis of technical feasibility and economic impact of development opportunities and thus help to identify which opportunities are most promising and can be expected to have the highest impact in fostering shared prosperity in the Pacific. At the same time, PP would also be an important piece of analysis to help inform the design of World Bank support and help guide the formulation of SCDs and CPFs as well as the Banks policy dialogue, which includes annual DPOs in six Pacific Island Countries (PICs).

With this ambition, it is also important to be clear about what the proposed work will not seek to achieve and how it relates to other work by the World Bank and other stakeholders in the region.

- First, PP does not aim to generate a comprehensive assessment of long term development issues for PICs. It is selective by focusing on transformative rather than incremental development opportunities.
- Second, PP will also not purport to develop a development vision for the Pacific region or for individual PICs. It hopes to provide valuable information and analysis to inform such processes which, however, will need to be led by national and regional leaders and be typically more encompassing than what will be covered by PP.
- Third, PP will also not attempt to offer operational actions plans for the realization of development opportunities covered. However, it is hoped that PP would help to prioritize areas of focus for the development of more concrete national or regional action plans.

With regard to the Bank’s work on Systematic Country Diagnostics (SCDs), PP will adopt a long term perspective as compared to the five year horizon of the SCD. The PP focus on long term development opportunities is expected to help identify critical elements of the shared prosperity agenda. However, it will neither provide a comprehensive assessment of opportunities an constraints to poverty reduction and shared prosperity, nor will it not attempt to directly assess the impact of transformative development opportunities on poverty and shared prosperity, as this is best done in the context of the

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2 The two pieces reflect a wide range of analytic work undertaken on the Pacific over the past two decades. However, we do not claim that they represent a universal consensus on the development outlook of the PICs. Indeed, there is still a lively debate in the academic literature and also among development practitioners as to how binding the constraints imposed by the economic geography of the Pacific are.

3 Such as strengthening education and health services, improving governance and the business environment, etc.
SCD and related poverty work. However, it is clearly expected that the PP analysis will help to expand the knowledge base that can subsequently be used in the preparation of SCDs.

**Approach**

PP would examine major development opportunities and challenges faced by the PICs in the long term. It would focus on a limited number of issues that have been identified through previous work and ongoing policy dialogue. The selection of issues will be firmed up through consultations within the Bank as well as with regional stakeholders such as academic institutions in the regions, regional organizations, development partners, and stakeholders in the PICs.

The long-term perspective adopted by PP would consider major changes in the economic environment for PICs and their impact on the PICs development opportunities. Such changes include:

- Continued shift of the economic center of gravity towards East Asia, which could open new opportunities for PICs;
- Climate Change, with projected severe impacts on PICs, especially atoll nations;
- Demographic transition, urbanization, and migration in the PICs and the impact of these factors on economic growth, employment, and demand for public services;
- Aging of the population in more developed countries, creating potentially new labor market opportunities as well as increased demand for grey tourism;
- Increasing move towards a multipolar and potentially less stable and secure world, which could enhance the PICs strategic position in bilateral relationships and international fora as well as their value as peaceful locations for business, living, and tourism; and
- Continued progress in ICT technology, which could open new opportunities that are less constrained by the tyranny of distance.

On most of the issues to be covered by PP, a significant amount of analytic work already exists. However, this work often has a rather short term focus and issues are rarely connected. PP would build on this work and seek to add value by

- Quantifying the potential contributions of economic opportunities to GDP and fiscal revenue;
- Adopting a long-term perspective, which would consideration of the projected long term changes in the economic environment of PICs, address issues for which there is not a political consensus at the present time or which will have a long gestation period to show results;
- Focusing on issues that are controversial (such as migration) or poorly understood (such as seabed mining);
- Connecting issues across themes, for example the present discussion of labor mobility focuses primarily on the generation of income earning opportunities for low-skilled workers in the PICs. However, with a longer term perspective, it will also be important to explore linkages between climate change and migration or within the theme of a Pacific knowledge economy linking labor mobility to the issue of diaspora networks which could create new opportunities for PICs.
While the main focus of the work will be on economic impact, the study will nonetheless also seek to assess carefully the social and environmental impacts of transformative developments in the Pacific.

Once the main issues to be covered by PP have been confirmed, we would commission background papers on these issues where the Bank’s relevant Global Practices (GPs) would be requested to take the lead and work, whenever useful and feasible, with local experts.

Once the background papers have been prepared, the team would prepare a concise summary document which would seek to arrive of an aggregate assessment of what the realization of potential development opportunities could imply for economic growth and living standards in the Pacific and to draw up an agenda of needed actions to exploit these opportunities.

**Proposed thematic focus areas**
The preliminarily set of key themes for the PP work includes the following:

1. **Harnessing the Riches of the Pacific** (quantifying the opportunity to capture increased royalties from high-seas fisheries and the magnitude of the opportunity represented by sea-bed mining). Better management of resource rents through better sovereign wealth fund/trust fund management;
2. **Islands in a Sea of Knowledge** (benefitting from the broad band revolution to improve public services and develop a Pacific knowledge economy);
3. **Host to the World** (expanding sustainable tourism to the Pacific by tapping into the Asian market – improved air access, marketing, tourism product placement)
4. **Labor Mobility** (growing seasonal labor market schemes but also going beyond them, e.g. by proposing fully liberalized labor market access for “climate refugees” from atoll countries to a range of Pacific rim countries (Aus, NZ, US, Japan, Korea)). We would like to debunk the idea that fully liberalized labor market access for the 200,000 inhabitants of Kiribati, Tuvalu, Marshall Islands (i.e. the atolls nations in the Pacific) would lead to large scale migration in the short and medium term.
5. **Managing increasing stress on Pacific livelihoods** (strengthening PICs resilience to a range of threats from natural disasters/climate change to NCDs). Acting now to manage future threats.
6. **Working Together** (enhanced regional and sub-regional cooperation in a number of well-defined areas rather than grand political schemes);

**Harnessing the Riches of the Pacific Ocean**
Fish is an important asset for many PICs and the introduction of the Vessel Day Scheme under the Nauru agreement is helping countries to command higher revenue from their tuna resources. Sustainable management of these resources is a major challenge to ensure that PICs are able to draw sustainable benefits from this resource.

Seabed mining is a relatively new activity in the Pacific. On the deep sea floor, along chains of volcanic mountains lie thousands of hydrothermal vent formations. The foci of sea bed mining are the deposits laid down over thousands of years around the hydrothermal vents. The metal sulphide particles settling around the vents develop into huge mounds, which can grow to millions of tons in mass. They are rich in zinc, copper, silver, gold, rare earths and other minerals. At present, several countries are developing legal and regulatory frameworks for seabed mining.
Several Pacific countries (Tuvalu, Kiribati, Palau, FSM, and RMI) have trust funds in which they accumulate natural resource rents and donor funds as a means for dealing with volatility and to ensure intertemporal smoothing of revenue and expenditures. Sound fiscal policies and management of these trust-funds are thus a central element of resource management in many PICs.

This paper would identify the potential of fishing and seabed mining to provide economic benefits to PICs over the long term and identify key issues for the sustainable management of these resources. The paper would also review the fiscal management of natural resource and aid income.

*Knowledge base:* The World Bank has undertaken significant work on fishing in the Pacific which could be drawn upon for this analysis. There has been relatively less engagement on seabed mining, but other institutions such as the Secretariat of the Pacific Community (SPC), the EU, and the IMF have generated information and materials that could be drawn upon.

*Possible Lead GP:* Energy and Extractives, Environment and Natural Resources

*Possible external partners:* Forum Fisheries Agency (FFA), Parties to the Nauru Agreement (PNA), SOPAC – Deep Sea Mining Project

**Islands in the Sea of Knowledge**

PICs are at present investing heavily in enhancing their ICT infrastructure. In order to harness the benefits of such investments, it would be critical to develop a vision of PICs as knowledge economies, where knowledge becomes a key driver of development. Given the remoteness of the PICs, the vision of a knowledge economy would also entail a better integration and participation of PICs in the global knowledge economy, which is of particular importance as the cost of physical transportation of goods and people is unlikely to decline.

Such a vision would see a significant deepening of the extent to which knowledge is acquired, created, disseminated, and applied to enhance economic development. A range of potential applications are already on the horizon, including e-government, e-learning and access to massive open online courses, remote diagnostics in health, and a variety of ICT and business applications. The vision could also entail the development of specific “centers of research excellence” in areas such as marine and ocean science. However, it is also well established that ICT investments by themselves do not automatically transform a country into a booming knowledge economy. Complementary investments in education and skills, innovation systems, and an appropriate economic and institutional regime are essential.

This paper would provide a vision of what a Pacific knowledge economy could look like and outline the necessary investments in ICT; education and skills; innovation systems; and economic and institutional reforms that would be needed for such a transformation.

*Knowledge base:* The World Bank is heavily involved in supporting ICT investments in the Pacific and is also carrying out work on potential applications of enhanced ICT availability. Relatively less work has been done on the application of the Knowledge economy concept in the Pacific, after some initial work in the Pacific about 10 years ago.
**Possible Lead GP:** Education, Transport and ICT, Trade and Competitiveness

**Possible external partners:** tbd

**Host to the World**
Most PICs have significant tourism potential. At present, about 70 percent of tourists to PICs originate from Australia and New Zealand. The scope for increasing the number of tourists from these countries may thus be limited, but the rapidly growing Asian market still holds enormous potential. Outward tourism in China and other Asian countries is rapidly increasing, but so far the PICs (with the exception of Palau) have not been able to attract Asian tourists in significant numbers. In addition, diversification of the tourism product from traditional beach tourism into areas such as deep sea fishing, conference tourism, or long term stays during retirement could also help expand tourism in PICs.

This paper would review options for a sustainable expansion of tourism in PICs and identify key measures (such as improved air access, marketing, and tourism product) to make such options reality.

**Knowledge base:** The WB and IFC are currently engaging on analytic work in the Pacific, including innovative work done in collaboration with cruise ship operators and a study on air access to PICs.

**Possible Lead GP:** Finance and Markets (currently leading tourism work in the Pacific)/IFC

**Possible external partners:** tbd

**Labor Mobility**
Given the limited carrying capacity of PICs and their vulnerability to natural disasters, migration has always been an important coping strategy in PICs. However, colonization and the creation of nation states in the Pacific have limited the scope for migration for many countries. Nonetheless, it is broadly recognized that access to labor markets in more developed regional economies, including the U.S., Australia, and New Zealand can generate benefits for both labor sending and receiving countries. For labor sending countries, benefits include remittances, easing of social and labor market pressures, and potential investment and knowledge transfers through diaspora linkages. In addition, migration is a potential response to climate change and rises in the sea level which could result in a significant deterioration of some PICs to sustain current or increasing level of population.

Both permanent and temporary migration play important roles. New Zealand alone is home to about 296,000 “Pacific peoples,” a number that equals the combined population of Samoa and Tonga, from where most Pacific people in New Zealand originate. The North Pacific island countries benefit from open access to the US with steady flows of migrants taking advantage of this opportunity. Seasonal employment schemes have also been established in recent years, with about 7,000 Pacific islanders working under such schemes in New Zealand and about 2,000 Pacific islanders in Australia.

This paper would examine the economic, demographic and social implications of scenarios where opportunities for temporary and/or permanent migration are significantly enhanced. Elements of enhanced labor mobility would include increased access to a wider range of opportunities; expanding the range of target countries for Pacific migration; higher skilled labor mobility options (which in turn
would require investments in education and skills development), etc. One possible scenario could be the widening of opportunities for migration from atoll countries such as Kiribati and Tuvalu as a response to the risk of sea level rises. Drawing on the experience of countries that already have open labor market access to metropolitan countries (such as the North Pacific countries) or locations where environmental/political changes led to sharply increased interest in migration (such as Hong Kong), or where labor mobility was established between areas with significant differences in income (as in the case of German unification) could be instructive. The analysis of economic benefits to labor receiving countries would help to build the case for increasing access for Pacific islanders. At the same time, concerns about the social impact of permanent and seasonal migration on the labor sending countries would also need to be addressed.

*Knowledge base:* The WB has a deep and longstanding engagement on labor mobility issues through its Pacific program on labor mobility which could provide the main inputs on this topic.

**Possible Lead GP:** SP&L

**Possible external partners:** Australian National University (ANU)

**Managing increasing stress on Pacific livelihoods**

Pacific livelihoods are under stress from many sources. Natural disasters and the impacts of climate change such as the projected rise in sea levels that threaten the physical existence of Pacific islanders and their assets and, especially for atoll islands, the existence of these islands themselves. Another threat represents the spread of unhealthy eating, drinking, and smoking habits, that have already resulted in an non-communicable disease crisis that impacts not only on the quality of life of Pacific islanders, but also threatens to lead to an explosion in health cost that could overwhelm the fiscal capacity of these countries. Finally, strong social cohesion have been an important mechanism to allow societies to deal with external shocks. However, these mechanisms are under stress as external shocks become more frequent and societal changes such as urbanization, migration, and a weakening of traditional kinship group an village based linkages as improved ICT and transportation system provide access to other lifestyle opportunities.

This paper would describe the likely evolution and impacts of the afore mentioned threats on Pacific livelihoods and identify measures to better manage these risks and their impacts.

*Knowledge base:* The World Bank has a deep engagement on disaster risk management, including through the Pacific Risk Insurance scheme and on Non-communicable diseases. CSIRO studies provide good information on climate change impacts. There is also significant work on urbanization by UN Habitat and ADB. Relatively less work has been done on issues related to social cohesion and development.

**Possible Lead GP:** SUR, Climate Change

**Possible external partners:** tbd
Working together

Pacific Island Countries are characterized by small size, remoteness, and dispersion over the vastness of the Pacific Ocean. Recent work has highlighted that these country characteristics result in governments that are relatively large in relation to the size of the economy of these countries, but are still too small in absolute terms to be able to fully cover core government functions. In order to overcome the constraints of thin capacity, Pacific governments are working together in a number of areas such as tertiary education (through the University of the South Pacific). TA is also frequently used to overcome the limitations of thin capacity. Regional approaches to TA are already being used or developed by the Bank as a more cost effective approach for delivering TA than doing it country by country. Examples include support for aviation safety; fisheries management; or telecoms regulation. It is likely that there are many more areas where cross-country collaboration would allow improved service delivery.

At present, the region is of limited interest to foreign businesses and investors who have to incur high transaction cost in dealing with different trade and investment procedures and regulations in very small markets. Harmonizing procedures and regulations would help reduce transaction cost for trade and investors and thus generate more investor interest and competition.

Regional metropolitan countries (primarily Australia, New Zealand, Japan, the US, and increasingly China) also play a critical in this area. Firstly, as they are often the main trading partners and source of tourist and investment for many of the PICs, their policy framework and regulations have an important impact on PICS. For example, their regulations (phyto-sanitary, for example) often constrain trade. An important question is also whether it might make more sense for Pacific countries to adopt their regulations and regulators rather than develop their own. Second, with the significant role of development assistance in the Pacific, the question of how to best to deliver aid and the appropriate design of the relationship between providers and recipients of development assistance is critical, when the expectation is that it will entail long term budget support and capacity supplementation.

Fiji’s recent return to democracy and the economic strengthening of PNG are likely to change the dynamics or Pacific regionalism. Being the largest and most centrally country in the South Pacific, a stable Fiji could play an important leadership role in the region and exercise a positive impact on the economic development of the entire region. PNG has recently also expressed and to some extent demonstrated its desire to use its resources to play a positive leadership role in the region.

As highlighted in the 2013 Review of the Pacific Plan, regional integration has made little progress as a result of poorly performing regional institutions and countries’ unwillingness to cede sovereignty to regional bodies.\(^4\) Progress in regionalism will thus need to be grounded in a clear demonstration of the benefits of regional action as well as new approaches drawing on past experience. This paper would focus on two interrelated issues that are critical for greater regionalism:

\(^4\) For a recent review of experience see also Matthew Dornan and Tess Newton Cain. *Regional Service Delivery among Pacific Island Countries: An Assessment.* Asia & the Pacific Policy Studies, vol. ••, no. ••, pp. ••–••
• **Reviewing the focus of regional collaboration.** To date most efforts for enhanced regional collaboration have focused on collaboration among PICs. However, PICs typically have very limited economic ties among themselves. Most of these ties, trade, aid, migration, technical assistance and collaboration, security, etc. are either with metropolitan countries such as Australia, New Zealand, Japan, China, and the U.S. as well as with Fiji due to its central location in the South Pacific. The paper would review more pragmatic approaches to working together, both among PICs, but also between PICs and the metropolitan countries in the Pacific. Such interest based regionalism is likely to involve typically sub-groups of countries rather than all PICs. Given the strength of economic ties between the PICs and metropolitan economies, the paper would explore whether there is scope to exploit these relationships to help overcome some of the constraints imposes by the remoteness and small size of the PICs, while ensuring that such relationships are balance and consistent with participating countries souvrenty and unique development paths. The analysis would explore these questions from the persepective of a few selective service delivery objectives and identify economic efficiency associated with various approaches.

• **An evolving aid architecture.** Aid represents an important aspect of public service provision in most of the Pacific Island countries. While there is an increasing acceptance that aid will need to continue to play an important role in most PICs to support living standards and public service delivery, aid objectives and delivery mechanisms are still mostly designed with a medium term horizon rather than as long term partnerships. In addition, the landscape of providers of financing and technical assistance to PICs is also undergoing significant change, with China and a few other South-East Asian nations scaling up their engagement in the Pacific, while Australia is currently undergoing significant cuts in its aid program. With the PICs vulnerability to climate change, the design of and access to new funding sources to deal with climate change is of critical importance to PICs. Within this context, the note would review options for the design of the PICs aid relationships that would be most supportive of long term improvements of living standards and public service delivery.

**Knowledge base:** The Pacific Island Forum Secretariat and the ADB have done significant work on opportunities for regional approaches. The World Bank has primarily focused on analysis of the public sector in the Pacific as well as regional approaches on specific issues.

**Possible Lead GP:** Governance, MFM

**Possible external partners:** Pacific Islands Forum Secretariat (PIFS), Australian National University
Process, partnerships, deliverables, timetable, and team

Process
Preparation of the PP would combine analytic work with a process of consultations and outreach activities.

Partnerships
The Bank has approached the Pacific Island Forum Secretariat (PIFS) to explore interest in partnering in the work on PP. PIFS is the Pacific Islands Forum, a political grouping of 16 independent and self-governing states. It is supported by a Secretariat and key events include the annual meetings of Pacific Island Forum Leaders and of Forum Economic Ministers (FEMM). Partnership with PIFS would be an important means to embed the PP work in regional dialogue mechanisms and foster regional ownership.

At the level of specific themes and the technical work, PP would seem to partner with regional institutions and experts to make sure that existing knowledge and expertise is effectively tapped but also as a means to foster greater regional ownership of the work.

Australia and New Zealand, who are important bi-lateral partners of the WBG in the Pacific, as well as the ADB and the EU, would be regularly consulted as the work proceeds and requested to provide feedback. However, in order to avoid the possibility that messages of the PP would need to be aligned with government or corporate positions of these important development partners if there was a formal partnership, no such formal partnership will be sought.

Within the Bank, preparation will be done in partnership with the relevant GPs and IFC and also seek to bring in knowledge from work on small island states outside the Pacific. A staff working on the Caribbean has thus been coopted to be part of the PP team.

Deliverables
Key deliverables would include the following:

- 6-8 background papers on identified issues
- A Summary report and presentation
- Engagement and dissemination materials and activities
- 2 regional workshops – one to discuss background papers and one to discuss the draft PP

Timetable
February 2015 – Concept Note review

March 2015 – Commissioning of background papers and TORs

July 2015 – draft background papers to be discussed at regional workshop

September 2015 – background papers finalized

May 2016 – draft PP report presented at regional workshop
September 2016 – draft PP report presented at PIFS and FEMM meetings

**Team**
Preparation of the PP would be led by Robert Utz and Venki Sundararam (Program Leaders, EACNF) supported by Kim Edwards (Economist, MFM), Sona Varma (Senior Economist, MFM), Kym Smithies (Communications Officer), and Sam Evans (Program Assistant, EACNF) with overall guidance and leadership provided by Franz Drees-Gross (Country Director, EACNF). Preparation of background papers would be led by staff from the relevant GPs.