



MAPPING FRAGILE AND CONFLICT-AFFECTED SITUATIONS IN ASIA AND THE PACIFIC

THE ADB EXPERIENCE

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FOREWORD

This study—*Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific*—is an effort to capture and quantify the Asian Development Bank’s experience in fragile and conflict-affected situations (FCAS) countries across our membership. Through the analysis of our annual country performance assessments (CPA), the study shows that there have been frustratingly few gains across the four CPA clusters of economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions in FCAS countries from 2006 to 2015. This contrasts against a general trend of improved CPA scores in non-FCAS countries.

While investments in transport, energy, education, health, private sector development, and other areas remain necessary, much more must be done to ensure that these investments are sustainable. Rethinking our engagement in these countries is critically important. And this must be backed by a comprehensive understanding of the governance, institutional, political, and social issues that are behind each country’s exposure to conflict or fragility. Policies and institutions always matter, and this study shows us that their absence contributes to unsustainable development.

In a region increasingly defined by middle- and upper-middle-income countries, a failure to address FCAS countries puts the notion of an “*Asian Century*” at risk. As regional trade and economic linkages deepen, it is absolutely critical that we address the particular challenges of these countries by addressing their specific weakest links. If we don’t, fragility, conflict, and poverty will continue to plague the region.



Stephen P. Groff

Vice-President - East Asia, Southeast Asia, and the Pacific
Asian Development Bank

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The CPA exercise—administered by the Strategy and Policy Department—was conducted by working groups from Central and West Asia Department (CWRD), East Asia Department (EARD), Pacific Department (PARAD), South Asia Department (SARD), and Southeast Asia Department (SERD), with technical inputs from Economic Research and Regional Cooperation Department, Sustainable Development and Climate Change Department, Office of Anticorruption and Integrity, and Operations Services and Financial Management Department. Respective governments were consulted before finalizing the CPA results.

The working groups for the CPA exercise were composed of Rehman Gui, Gulkayr Tentieva, Farzana Noshab, Muhammadi Boboev, and Iskandar Gulamov from CWRD; Mark Bezemer and Amar Lkhagvasuren from EARD; Malie Lototele, Norio Usui, Roland Rajah, Andrew Parker, Yurendra Basnett, Maria Melei, Shiu Singh, Hayden Everett, Shane Rosenthal, Laisiasa Tora, and Sivou Beatrice Olsson from PARAD; Md. Golam Mortaza, Shamsur Rahman, Barun Kumer Dey, Faiza Ahad, Sharad Bhandari, Arun Rana, Shreejana Rajbhandari, Tadateru Hayashi, Nimali Hasitha Wickremasinghe, Masato Nakane, Soon Chan Hong, and Lani Garnace from SARD; and Jan Hansen, Irene Sokha, Rattanatay Luanglatbandith, Phantouleth Louangraj, Peter Brimble, Yan Oo, Aung Tun, Aaron Batten, and Nguyen Luu Thuc Phuong from SERD.

ABBREVIATIONS

ADB	Asian Development Bank
ARMM	Autonomous Region of Muslim Mindanao
CPA	country performance assessment
CPS	country partnership strategy
COBP	country operations business plan
DMC	developing member country
FCAS	fragile and conflict-affected situations
FSM	Federated States of Micronesia
PNG	Papua New Guinea
SIDS	small island developing states

EXECUTIVE SUMMARY

Fragile and conflict-affected situations (FCAS) are generally characterized by political instability, weak governance and institutional capacity, economic and social insecurity, and greater vulnerability to the effects of climate change. The Asian Development Bank (ADB) is dealing with FCAS in line with the international agenda on aid effectiveness, peacebuilding and statebuilding, the principle of “do-no-harm,” and achieving the Sustainable Development Goals. To guide its operations in FCAS, ADB has adopted a strategic approach since 2007 and has followed an operational plan since 2013 for its developing member countries (DMCs) identified as fragile and conflict-affected.

ADB identifies DMCs that are in fragile and conflict-affected situations (FCAS countries) based on its country performance assessments (CPAs) harmonized with the World Bank’s country policy and institutional assessments. For its 2016 operations, ADB’s FCAS countries include conflict-affected Afghanistan and Myanmar and the fragile Pacific countries—Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Solomon Islands, Timor-Leste, and Tuvalu. Other DMCs also reviewed here, such as Nepal, Papua New Guinea, and Vanuatu, are not currently identified as FCAS countries; however, ADB recognizes that fragility remains in these countries that still need special attention. This study also includes a case of a middle-income country—the Philippines (which was never considered an FCAS country)—with a subnational conflict situation in its southern region, Mindanao.

This study maps out the major weaknesses of each country—based on the latest CPA exercise (2015)—and identifies the overall common issues, which necessitate some prioritization or special attention when crafting strategies and implementing projects and programs. The study is limited to the analysis of the recent CPA results and focuses on four CPA clusters: (i) economic management, (ii) structural policies, (iii) policies for social inclusion/equity, and (iv) public sector management and institutions.

Findings show that the weakest areas in FCAS countries are policies for social inclusion/equity, followed by structural policies, and public sector management and institutions. Economic management has generally the highest ranking or is the strongest area in many FCAS countries. Evaluation of social inclusion/equity looks at gender equality, equity of public resource use, building human resources (i.e., education and health), social protection and labor, and policies and institutions for environmental sustainability. Assessment of structural policies focuses on how the country performs in the areas of trade, financial sector, and business regulatory environment. Examination of public sector management and institutions involves property rights and rules-based governance; quality of budgetary and financial management; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption in the public sector. Evaluation of economic management focuses on monetary and exchange rate policies, fiscal policy, and debt policy and management. A comparison of FCAS with (selected) non-FCAS countries shows that CPA scores of non-FCAS countries under all the clusters are always higher than those of the FCAS.

This study highlights that equal attention and resources should be channeled to both FCAS (the specifics vary according to the particular context). Most fragile Pacific countries are generally peaceful, but they also face the same risks and vulnerabilities as conflict-affected Afghanistan and Myanmar. FCAS countries confront complex and multifaceted issues, and prioritization for development interventions can be difficult. Based on the common issues among FCAS countries found in this mapping exercise, the study recommends development partners and governments include the following in their priority list for assistance: (i) mainstreaming gender equality at the local level; (ii) strengthening accountability mechanisms for public resource use; (iii) increasing investment on health and education; (iv) capacity building for environmental institutions; (v) developing an innovative policy framework on land use; and (vi) improving regulatory frameworks for trade, finance, and business. These recommendations—geared toward a problem-solving, human-centered design approach, which ultimately focuses on improving service delivery outcomes for citizens—are aimed at strengthening policies for social inclusion/equity and structural policies, which are the weakest areas of FCAS countries. Sound structural policies can lead to more effective and efficient governance systems while social inclusion and equity are the foundation of political stability and socioeconomic growth.

The almost flat graphs—with CPA scores always below the 3.2 cutoff score—showing the low performance of FCAS countries from 2006 to 2015 suggest a single story. Little or no change occurs despite massive international aid to these countries. FCAS countries keep relying on external assistance as unsustainable infrastructure and capacities are being rebuilt over and over again. Interventions for the transport, energy, education, health, and private sectors may have reaped some fruitful benefits but only for a short time, and for only a few of the population. This study suggests that the lack of effective policies and institutions as well as exclusion have contributed to unsustainable development. Further, a comparison between Afghanistan (FCAS) and Cambodia (non-FCAS) validates that there is very little change in CPA scores for FCAS compared with the improved CPA scores of a non-FCAS in a span of 10 years.

Therefore, development partners need to rethink their approaches, or be even more innovative for fragile countries to leverage into sustainable development because “business as usual” does not work in fragility. Rethinking may entail knowledge and understanding of the political economy context of each sector in designing development projects and programs. Developing innovative approaches may necessitate looking into governance, institutional, political, and social issues, before intervening on infrastructure and technology constraints. The right policies—customized to the local context—should be in place and core institutions should be strengthened with the appropriate capacity and resources; otherwise, fragility, conflict, and poverty will continue their vicious cycle. Every fragile situation calls for a unique response, and addressing issues needs consideration of the local context.

BACKGROUND AND RATIONALE

Addressing the challenges of fragility has been one of the priorities of the international agenda since 2005. The international community, including development partners, governments, and international civil society organizations, has agreed to adhere to statements, declarations, and principles related to aid effectiveness, to peacebuilding and statebuilding efforts, and to “do-no-harm” in development activities, among other initiatives in fragile countries.¹ Recent studies² emphasize that addressing fragility is central to realizing the post-2015 Sustainable Development Goals (SDGs), in particular SDG 16, which aims to “promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.”³

The role of multilateral development banks, such as the Asian Development Bank (ADB), is deemed particularly important by the international community to provide effective and necessary aid to fragile and conflict-affected countries. Moving forward from its international commitment, ADB adopted its 2007 Approach to Weakly Performing Countries (now called fragile and conflict-affected situations or FCAS) to guide its policies, strategies, and operations in member countries that are fragile and conflict-affected.⁴ In 2012, based on its experience and the tacit knowledge of its staff, ADB prepared a staff handbook on Working Differently in Fragile and Conflict-Affected Situations.⁵ ADB began implementing an operational plan to enhance its FCAS engagement in 2013.⁶

ADB works with developing member countries (DMCs) that have FCAS. Such situations are usually characterized by political instability, weak governance and institutions, economic and social insecurity, and greater vulnerability to the effects of climate change. ADB identifies DMCs that are in fragile and conflict-affected situations (FCAS countries) based on the World Bank’s harmonized list of fragile situations and ADB’s country performance assessment (CPA) that takes into account a country’s

¹ International consensus since 2005 includes the Paris Declaration on Aid Effectiveness (2005), the Organisation for Economic Co-operation and Development (OECD) Principles for Good International Engagement in Fragile States and Situations (2007), the Accra Agenda for Action (2008), the g7+ Dili Declaration (2010), the New Deal for Engagement in Fragile States (endorsed by more than 40 countries and organizations during the 4th High Level Forum on Aid Effectiveness in 2011 in Busan, Republic of Korea), the Dili Consensus (2012), the Washington Communiqué (2013), and the Kabul Communiqué (2016). The 2011 World Development Report also addresses the needs of conflict, security, and development.

² OECD. 2015. *States of Fragility*. Paris. <http://www.oecd.org/dac/states-of-fragility-2015-9789264227699-en.htm>; S. Hearn. 2016. *Independent Review of the New Deal for Engagement in Fragile States for the International Dialogue on Peacebuilding and Statebuilding*. New York: Center on International Cooperation, New York University. <http://www.pbsdialogue.org/en/independent-review/>

³ United Nations. Sustainable Development Knowledge Platform. <https://sustainabledevelopment.un.org/sdgsproposal.html> (accessed 4 May 2016).

⁴ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank’s Approach to Engaging with Weakly Performing Countries*. Manila. www.adb.org/documents/achieving-development-effectiveness-weakly-performing-countries-asian-development-bank-s-a

⁵ ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations: The ADB Experience*. Manila. www.adb.org/documents/working-differently-fragile-and-conflict-affected-situations-adb-experience

⁶ ADB. 2013. *Operational Plan for Enhancing ADB’s Effectiveness in Fragile and Conflict-Affected Situations*. Manila. www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations

economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.⁷

The FCAS countries identified for ADB operations in 2016 are Afghanistan, Kiribati, the Marshall Islands, the Federated States of Micronesia, Myanmar, Nauru, Solomon Islands, Timor-Leste, and Tuvalu. The seven Pacific DMCs are considered fragile; Afghanistan and Myanmar are identified as conflict-affected. ADB also gives special attention to subnational situations of fragility such as in Mindanao, Philippines; and to countries that have recently exited the FCAS list and still exhibit characteristics of fragility, such as Nepal which is in a transitional or post-conflict situation, and Papua New Guinea and Vanuatu whose CPA scores are slightly above the cutoff score of 3.2 for FCAS identification.

Most of ADB's fragile countries are in the Pacific. They are small and geographically isolated, aid dependent, and very vulnerable to the effects of climate change. They also have underdeveloped markets, limited infrastructure, and weak governance and institutions. Conflict-affected Afghanistan and Myanmar, and the subnational conflict-affected Mindanao in the Philippines are characterized by continued civil unrest and some sociopolitical instability that lead to weak governance, damaged infrastructures, displacement of communities, and disruption of service provision. It should also be noted that Nepal, which was in a conflict-affected situation, is now gradually exiting fragility and conflict; however, transition may take decades, and fragility risks may remain due to weak capacity and poor governance, exacerbated by the detrimental impact of the 2015 earthquake.

The study presented here—limited to the analysis of the recent CPA results—aims to map out the main fragility issues in each of the current ADB FCAS countries and to identify their common weaknesses to help policy and decision makers and development practitioners prioritize actions, formulate strategies, and operationalize development programs. Fragility issues are complex and multilayered. This makes it most difficult to determine which development interventions should be prioritized, most especially when financial, institutional, and human resources available in FCAS countries are so limited. The major issues have been identified based on the 2015 ADB CPA scores, specifically those clusters and indicators falling under the cutoff point of 3.2 or less. The study focuses on the following CPA clusters:

- (i) Economic Management cluster (monetary and exchange rate policies, fiscal policy, debt policy and management);
- (ii) Structural Policies cluster (trade, financial sector, business regulatory environment);

⁷ Under its FCAS operational plan, ADB has adopted a harmonized multilateral development bank score for determining FCAS in its DMCs since 2013 (i.e., the average scores of the World Bank country policy and institutional assessment and the ADB CPA). ADB places a country in the FCAS list if it has a quantitative cutoff score of 3.2 or less (a 1 rating corresponds to a very weak performance, and a 6 rating to a very strong performance), or the presence of a United Nations and/or regional peacekeeping or peacebuilding mission during the past 3 years. It should be noted that weak performance and fragility are a part of a spectrum of country performance, and do not disappear when a country moves marginally above the cutoff point. Under ADB's 2016 FCAS list, both Papua New Guinea and Vanuatu had country performance assessment scores slightly above the 3.2 cutoff for FCAS (both at 3.3), and ADB's operations in these countries continue to pay due attention to issues of fragility. Nauru is not eligible for the World Bank's International Development Association financing; however, it is an ADB FCAS. ADB Country Performance Assessment. www.adb.org/site/adf/country-performance-assessment

- (iii) Policies for Social Inclusion/Equity cluster (gender equality, equity of public resource use, building human resources, social protection and labor, policies and institutions for environmental sustainability); and
- (iv) Public Sector Management and Institutions cluster (property rights and rules-based governance; quality of budgetary and financial management; efficiency of revenue mobilization; quality of public administration; transparency, accountability, and corruption in the public sector).

The study offers a snapshot of the fragility assessed through the results of the recent CPA exercises. It first presents the results in the fragile Pacific countries, followed by a summary of the conflict-affected situations. An overview of a transitional and a subnational situation is then given. Subsequently, common weaknesses and some comparisons between fragility and conflict—showing the same story but different origin—are discussed leading to highlights with some recommendations geared toward problem-solving and human-centered design approach, which ultimately focuses on improving service delivery outcomes for citizens.

FRAGILE SITUATIONS

A fragile situation is a result of a state's failure to perform its core function effectively and provide basic social services, such as health, education, and security; incapacity to uphold the rule of law; and failure to provide sustainable sources of income for the population to get out of poverty.⁸ All fragile Asian Development Bank (ADB) developing member countries (DMCs) are located in the Pacific and most of them are small island developing states (SIDS): Kiribati, the Marshall Islands, the Federated States of Micronesia (FSM), Nauru, Tuvalu, and Vanuatu.⁹ Papua New Guinea (PNG), Solomon Islands, and Timor-Leste are not small islands, but they are also considered fragile (Figure 1).

The fragile Pacific countries are geographically remote and isolated, and they are highly vulnerable to climate change and natural disasters. The Marshall Islands, Nauru, and Tuvalu are among the 10 smallest states in the world; and they have dispersed populations and markets leading to limited economies of scale. Due to weak policies and institutions, international assistance can be volatile and unpredictable. Fragile countries are also aid-dependent and most of them have been suffering debt stress for a long time. More specifically, SIDS are low-lying coastal countries that tend to share similar sustainable development challenges, including small but growing populations, limited resources, remoteness, great susceptibility to natural disasters, vulnerability to external shocks, excessive dependence on international trade, and fragile environments. Their growth and development have also been held back by high communication, energy, and transportation costs; irregular international transport volumes; disproportionately expensive public administration and infrastructure due to their small size; and little opportunity to create economies of scale.

The public sector is the main driver of economic growth in the fragile Pacific countries and most of the funding come from external grants. Land tenure issues, insufficient infrastructure, complex business start-up processes, and high cost of doing business limit private and foreign local investments. Thus, citizens of fragile countries face limited employment and sources of livelihood. The government is usually struggling to provide quality basic services, such as education, health and sanitation, water, and electricity. Social protection systems are also limited; however, the traditional kinship and communal cultures in the Pacific countries help to at least partly fill in the gaps in social safety nets. Climate change, rapid urbanization, uneven patterns of development, and weak governance of regional assets tend to result in peace and security challenges for the Pacific. The “Biketawa” Declaration recognizes “the importance of averting the causes of conflict and of reducing, containing and resolving all conflicts by peaceful means including by customary practices.”¹⁰

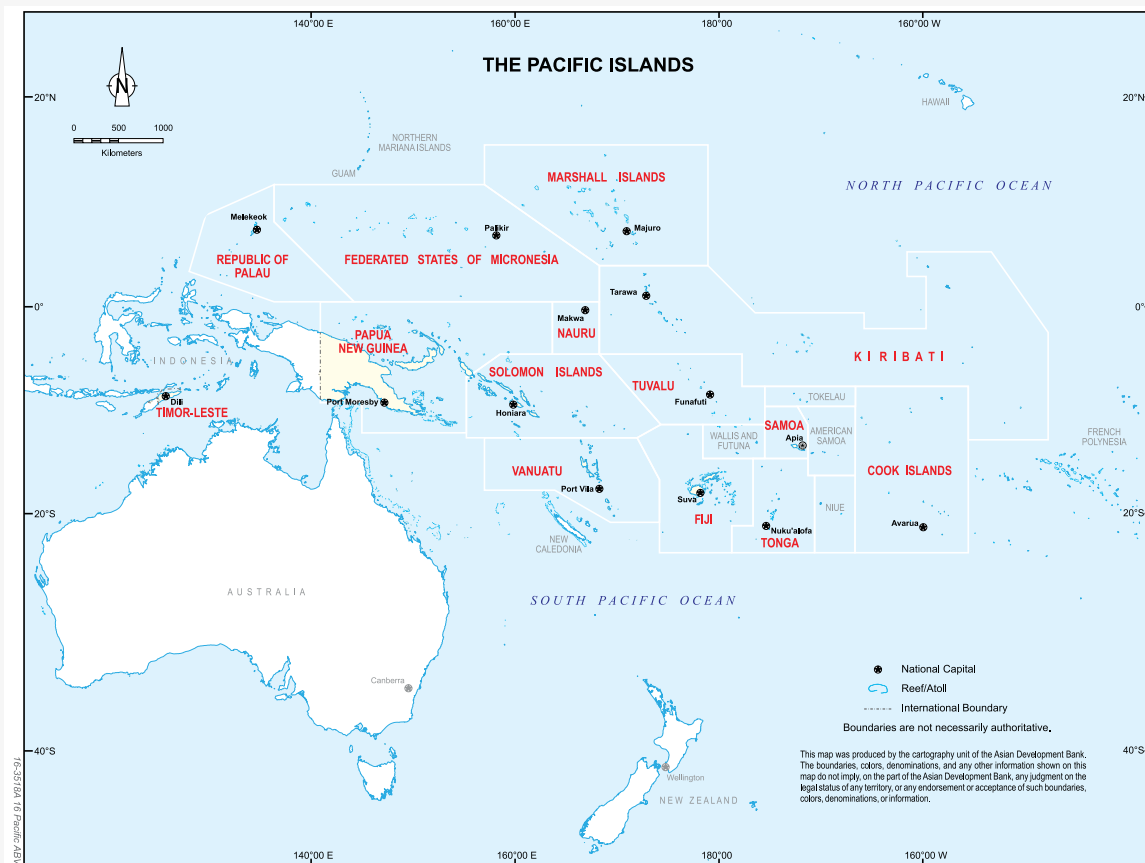
⁸ ADB. 2014. *Engagement in Fragile and Conflict-Affected Situations: Fragility Index for a Differentiated Approach*. Manila. www.adb.org/publications/fragility-index-differentiated-approach

⁹ ADB has 10 Pacific small island DMCs, called the PIC-10: the Cook Islands, Kiribati, the Marshall Islands, FSM, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu. ADB's regional strategy for the Pacific—which includes all 14 Pacific DMCs, the PIC-10 plus Fiji, PNG, Solomon Islands, and Timor-Leste—share a common strategic approach guided by the *Pacific Approach*.

¹⁰ The Biketawa Declaration was agreed to by all 16 Pacific Islands Forum leaders during their 31st summit held on 28 October 2000 in Kiribati. The declaration constitutes a framework for pursuing collective responses to security crises affecting Forum members in the regional context of the 2000 coup d'état in Fiji and ethnic tensions in Solomon Islands. Pacific Islands Forum Secretariat. www.forumsec.org/pages.cfm/political-governance-security/biketawa-declaration/ (accessed 16 July 2016).

While the above definitions provide an overall view of what a fragile situation generally is, each fragile situation is specific. The following section gives a more detailed account of the most challenging issues in fragile countries based on the analysis underlying the ADB 2015 country performance assessments (CPAs).¹¹ Major issues have been identified as those falling under clusters and indicators scoring 3.2 or lower in the CPA as shown in Figures 2–36.

Figure 1: Map of the Pacific Islands



Source: Asian Development Bank.

¹¹ ADB. 2016. *Annual Report on the 2015 Country Performance Assessment Exercise*. Manila. www.adb.org/documents/annual-report-2015-country-performance-assessment-exercise

Kiribati

COUNTRY PROFILE

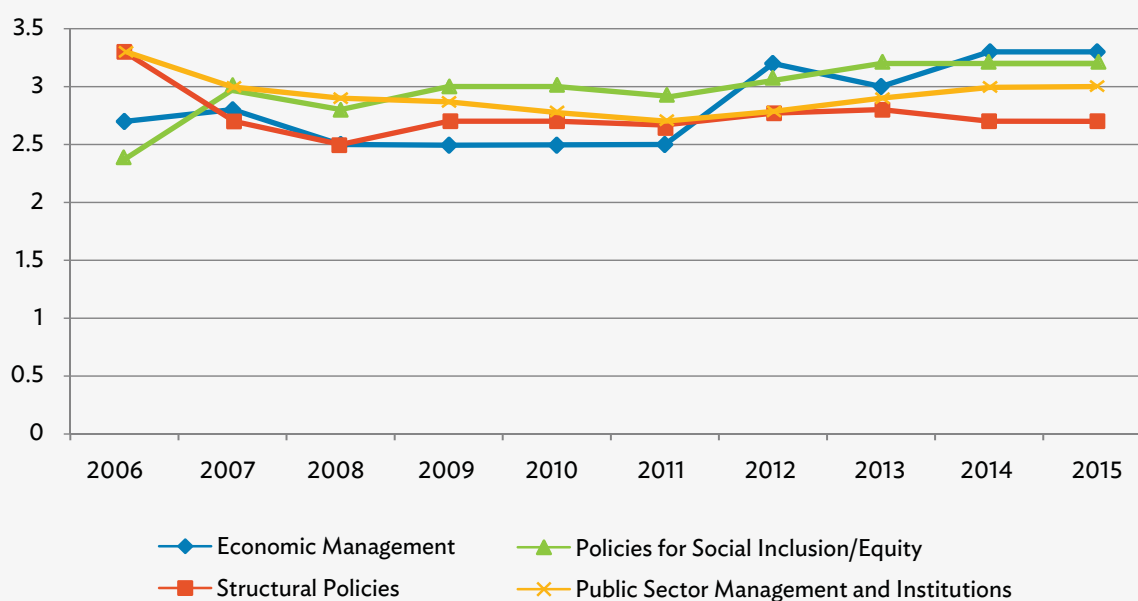
Official name: Republic of Kiribati
Capital: South Tarawa
Total land area: 811 square kilometers
Population: 114,170 (Country Meters 2016)
Life expectancy: 64.4 years (Country Meters 2016)
Literacy rate (15 years +): not reported by UNESCO
Currency unit: Australian dollar (A\$)
Main exports: copra, coconut, seaweed, and fish
Income level: lower middle-income (World Bank)
ADB member since: 1974



Development Challenges

Kiribati is a small, open economy that relies heavily on imports, even for basic commodities such as food and fuel. Most of its revenue comes from external sources, such as license fees from distant fishing nations, remittances from Kiribati citizens employed abroad, and investment income from the Kiribati Revenue Equalization Reserve Fund. Due to its remoteness, it is difficult for Kiribati to access international markets. The country's population is dispersed across numerous islands, and those in the outer islands thrive at a subsistence level, having less opportunity for formal employment and access to basic services. Aside from its limited natural resources, with its degrading land and freshwater resource, Kiribati also faces the risks of climate change.¹² King tides (high tides) and heavy rainfalls present a challenge to ADB-supported infrastructures. Based on ADB's 2015 CPA, the major development challenges of Kiribati are on structural policies, policies for social inclusion/equity, and public sector management and institutions (Figure 2).

¹² Mr. Anote Tong, former President of Kiribati, pointed out that recent events and the experience of the most vulnerable island communities clearly indicate that climate change is already seriously affecting the low-lying island communities in the Pacific. A. Tong. 2016. Migration is the "brutal reality" of climate change. *PACNEWS*. 21 June. <http://www.pina.com.fj/?p=pacnews&m=read&o=3524810595769b754c8df7d32df73>

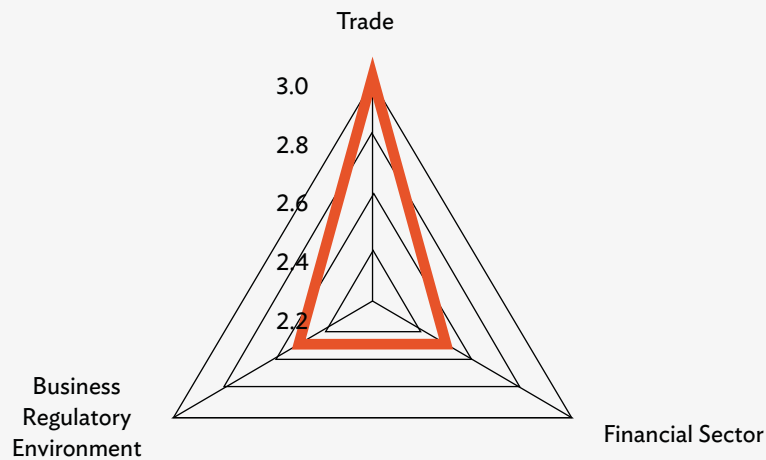
Figure 2: Kiribati Country Performance Assessment Scores, 2006–2015

Source: Asian Development Bank.

Structural Policies

Trade in Kiribati is constrained by a monopoly of state-owned enterprises in services such as telecommunication, wholesale, retail, hotel, and airline (Figure 3). There are no clear legislative and institutional arrangements for financial regulation and supervision in the country. Financial markets in Kiribati are underdeveloped. Due to communal ownership of land, it is difficult for borrowers to establish ownership rights to land that can be used as collateral to secure loans from financial institutions. The scattered islands of Kiribati and the distance between two of its most populated islands, South Tarawa and Christmas Island, make access to banking facilities difficult. As an alternative to banking services, microfinance is available and growing, and church-based organizations provide informal credit systems.

Company registration and business licensing processes are slow, complex, and costly in Kiribati. Small businesses find it difficult to compete with the government in terms of skilled labor due to the government's relatively high wage rates. Foreign investment approval is complex and slow, and could be delayed for 3–6 months. Use and inheritance rights of land are not well-defined. Land can be bought and sold by I-Kiribati (indigenous peoples), but not by foreigners or corporations. Land can be leased for foreign direct investment, but access can be difficult.

Figure 3: Kiribati Country Performance Assessment Score on Structural Policies' Indicators, 2015

Source: Asian Development Bank.

Policies for Social Inclusion/Equity

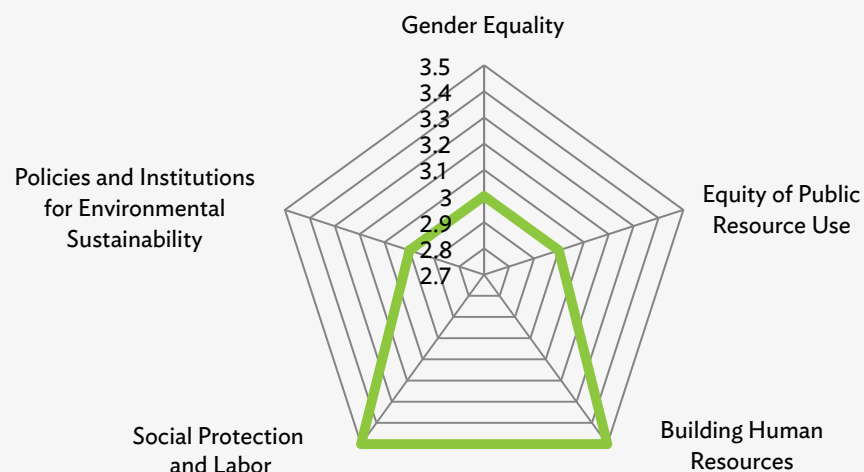
Women in Kiribati have less access to economic resources than men and are poorly represented in political decision making (Figure 4). The role of women is largely confined to duties at home and in churches and community groups. Gender-based violence is a pressing issue in the country, wherein 73% of women reported having experienced some form of physical or sexual violence.¹³

The lack of financial resources, weak staff capacity, lack of public awareness, and inadequate monitoring and implementation measures constrain environmental management. There is also weakness in cross-sector coordination and in the enforcement of environmental policies, such as environmental impact assessments. Kiribati also lacks significant environmental policies and standards, such as on curbing black smoke emissions, water quality monitoring, and deep-sea mining. Mechanisms are also needed to address waste and pollution. Safe disposal options for solid and hazardous waste are very limited or non-existent on atolls.

As an atoll nation, the people of Kiribati depend on environment and biodiversity for their livelihood. This calls for the government to promote protected area conservation and management, engaging people without damaging either their customary rights or biodiversity, and taking into account local community livelihood practices.

¹³ UN Women. *Asia and the Pacific: Kiribati*. <http://asiapacific.unwomen.org/en/countries/fiji/co/kiribati> (accessed 5 May 2016).

Figure 4: Kiribati Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

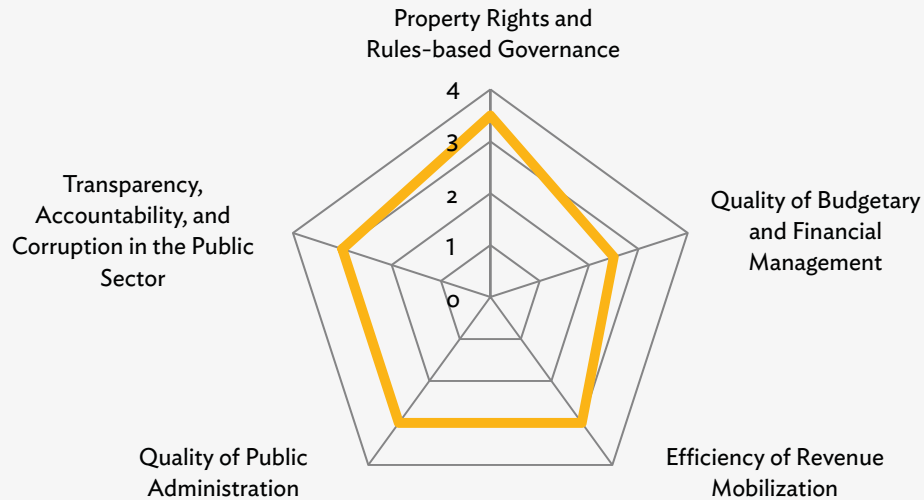
Public Sector Management and Institutions

Around 45% of the government's total spending is from the country's development fund that is largely financed by donors—a situation wherein the Parliament has limited oversight (Figure 5). Delays in budget reporting by many public enterprises have prevented the Parliament from monitoring the government's management of public finances and taking effective action on audit results.

Kiribati has a narrow income tax base due to a very small proportion of labor force in the formal sector. Tax administration capacity is weak and computerization is limited to basic functions. Tax avoidance is a significant problem and opportunities for corruption remain. A shortage of accounting capacity also impedes corporate tax compliance.

There is lack of policy and planning capacity within the public service and dysfunction in communication across and between government agencies and the government's executive branch. Formal processes are weak and procurement regulations are not in place. External accountability mechanisms exist, but have inadequate resources and authority. The Audit Office is generally considered to function well, but has limited capacity and its recommendations are not consistently implemented. Laws providing criminal penalties for official corruption exist, but have not yet been implemented effectively.

Figure 5: Kiribati Country Performance Assessment Score on Indicators for Public Institutions and Management, 2015



Source: Asian Development Bank.

A Way Forward

Under its country operations business plan (COBP), 2016–2018 for Kiribati, ADB will continue to support the government’s program of structural reforms as well as ongoing and new infrastructure programs.¹⁴ The COBP is in line with the Kiribati Development Plan, ADB’s Pacific Approach, and ADB’s Strategy 2020.

The structural reforms include restructuring of underperforming state-owned enterprises and improvement of their financial, operating, and governance capacities. ADB will support policy and strategy formulation, privatization of state-owned enterprises, public expenditure and fiscal management, and macroeconomic management. The infrastructure programs include the rehabilitation of road networks and the improvement of drinking water and sanitation in South Tarawa.

¹⁴ ADB. 2015. *Kiribati: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/kiribati-country-operations-business-plan-2016-2018

Marshall Islands

COUNTRY PROFILE

Official name: Republic of the Marshall Islands

Capital: Majuro

Total land area: 181 square kilometers

Population: 54,337 (Country Meters 2016)

Life expectancy: 71.8 years (Country Meters 2016)

Literacy rate (15 years +): not reported by UNESCO

Currency unit: US dollar (US\$)

Main exports: copra cake, and oil

Income level: upper middle-income (World Bank)

ADB member since: 1990



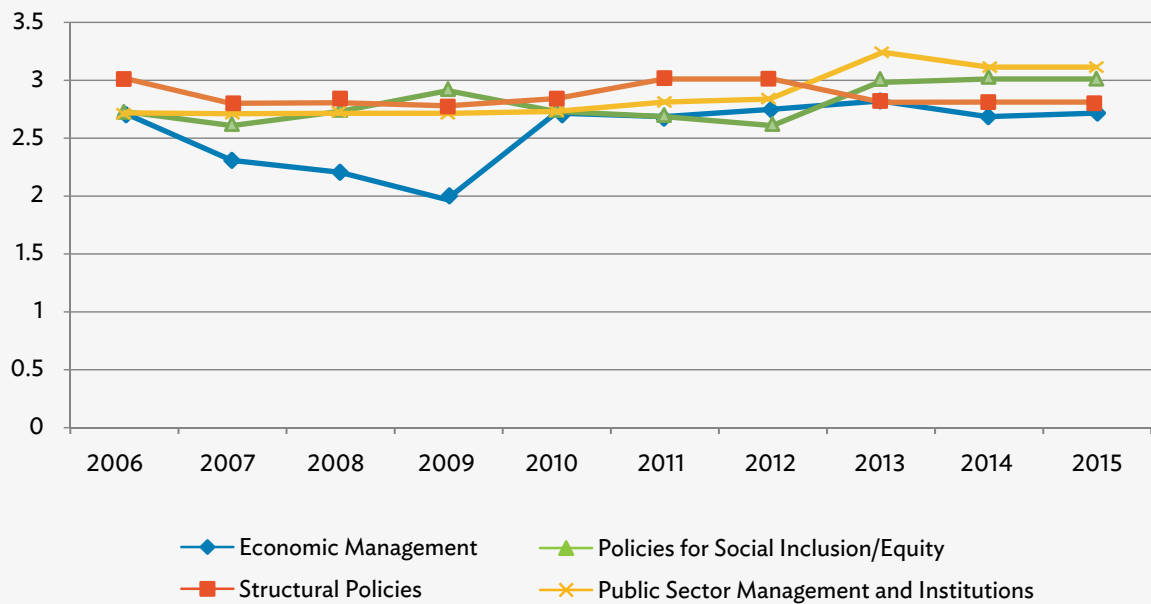
Development Challenges

The biggest challenge for the Marshall Islands is achieving long-term fiscal sustainability given the gradual reduction of the United States (US) Compact grants,¹⁵ which will eventually be phased out by 2023. This puts pressure on the government's capacity to provide basic services. Aside from a heavy reliance on Compact grants, the country also needs to deal with other fragility issues, such as physical isolation, high exposure to the risk of climate change, weak governance and limited capacity of institutions, and narrow base for economic activities. Based on ADB's 2015 CPA, the Marshall Islands is weak (or received a score below 3.2) in all the four clusters: economic management, structural policies, social inclusion/equity, and public sector management and institutions (Figure 6).

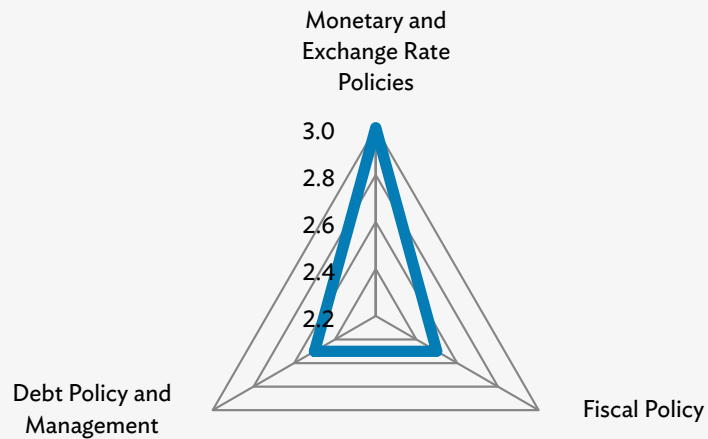
Economic Management

The government's fiscal system is largely dependent on grants, which account for about 70% of revenue in fiscal year (FY) 2015 (Figure 7). This implies that the country needs a long-term sustainable fiscal policy to absorb external shocks. The annual decline of the US Compact grants, in particular, impacts both the fiscal system and the economy. Some important economic management policies and processes

¹⁵ Under the US Compact, as amended, the US provides the Marshall Islands with approximately \$70 million annually through FY 2023, including contributions to a jointly managed trust fund and financial assistance from other US Federal Grants. US Department of State. US Relations with Marshall Island (sic) Fact Sheet. www.state.gov/r/pa/ei/bgn/26551.htm (accessed 26 July 2016).

Figure 6: Marshall Islands Country Performance Assessment Scores, 2006–2015

Source: Asian Development Bank.

Figure 7: Marshall Islands Country Performance Assessment Score on Economic Management Indicators, 2015

Source: Asian Development Bank.

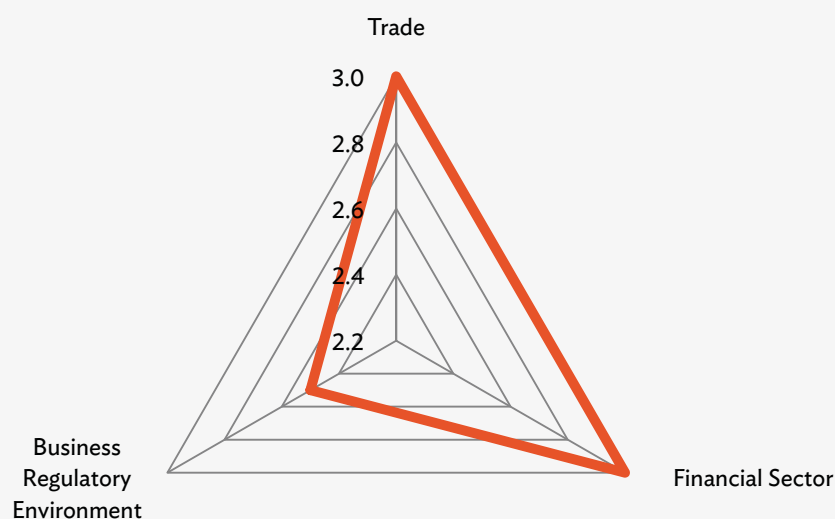
need to be in place, such as active management of money supply, integration of budget planning and execution, formulation of long-term planning framework, and updating and expansion of medium-term budget and investment framework.

The government's debt is categorized by the International Monetary Fund (IMF) Debt Sustainability Analysis as "high risk of debt distress."¹⁶ Vulnerabilities, according to IMF, are exacerbated by the lack of fiscal buffers, uncertainty about prospective state-owned enterprises' losses and their plans to borrow further with government guarantees, future contingent liabilities from the social security system even after the approval of the pending pension reform, and uncertainty on prospective income returns from the Compact Trust Fund.¹⁷

Structural Policies

Lengthy clearance processes due to manual and paper-based documentation and procedures for importing and exporting goods constrain trade in the Marshall Islands (Figure 8). The country's financial sector is small, with credit mainly in the form of small consumer loans and with limited competition on commercial credit. The communal land tenure system, which prevents banks from using lands as collateral, and the lack of viable projects hinder longer-term lending. Access to financial services in remote areas is very limited; however, informal credit is widespread.

Figure 8: Marshall Islands Country Performance Assessment Score on Structural Policies' Indicators, 2015



Source: Asian Development Bank.

¹⁶ IMF. 2013. *Debt Sustainability Analysis: Republic of the Marshall Islands*. Washington, DC. <https://www.imf.org/external/pubs/ft/dsa/pdf/2014/dsacr1426.pdf>

¹⁷ IMF. 2014. *Republic of the Marshall Islands. Staff Report for the 2013 Article IV Consultation*. Washington, DC.

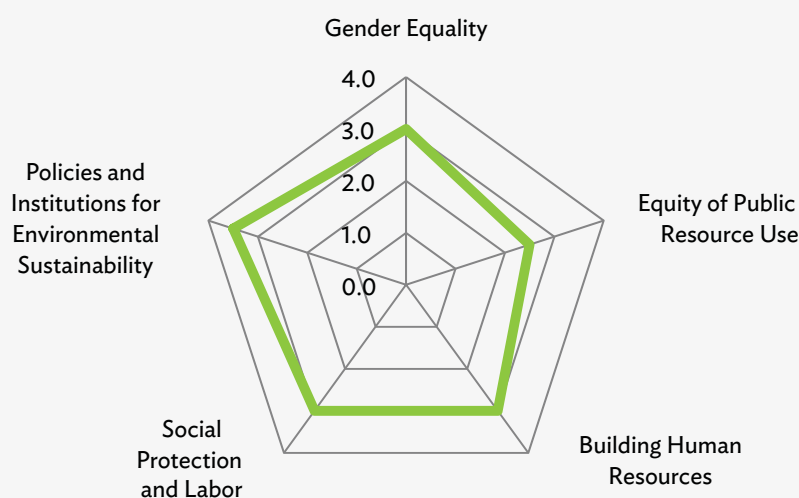
A number of factors impede private sector development, including cumbersome processes, high cost of doing business, land issues, poor transportation and communication, policies that are not conducive to foreign investment, and monopoly of state-owned enterprises.

Traditional landownership still prevails in the Marshall Islands, and this could hinder access to land for development. It is possible to lease land, but the process is often difficult and risky because of multiple land titleholders. The Land Registration Authority was established in 2004, and was an attempt to improve access to land and to help clarify ownership. However, progress on the land registration process has been slow as many landowners still continue to avoid registration out of skepticism and distrust.

Policies for Social Inclusion/Equity

The government places the majority of its financial and human resources into primary and secondary education; however, the provision of quality education continues to be a challenge, particularly at the primary level (Figure 9). Vocational training programs in the Marshall Islands are highly skewed toward males, with very few training opportunities for females. Female representation in political leadership remains extremely low. With the absence of gender-based legislation, about 36% of women suffer either physical or sexual violence with their spouses being the common perpetrator.¹⁸

Figure 9: Marshall Islands Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

¹⁸ UN Women. *Asia and the Pacific: Republic of the Marshall Islands*. <http://asiapacific.unwomen.org/en/countries/fiji/co/republic-of-the-marshall-islands> (accessed 6 May 2016).

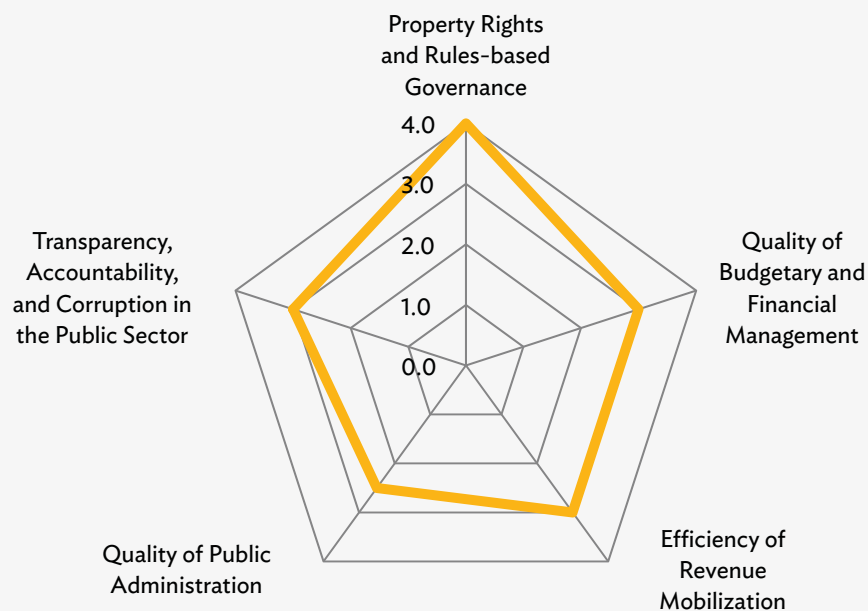
The Marshall Islands also continues to face severe challenges in reducing the incidence of sexually transmitted infections, diabetes, tuberculosis, and other major diseases. With the increasing evidence of poverty symptoms, such as hunger, child neglect, and prostitution, a social protection system becomes more critical due to diminishing traditional support systems.

The lack of government oversight on labor protection encourages worker exploitation, violation of the minimum wage, avoidance of labor taxes, and unsafe working conditions. Motivation to work and basic skills remain a major issue. Due to weak public education and training system, employers relies upon imported labor, even for semiskilled positions. “Brain drain,” due to ease of migration of Marshall Islands citizens to the US and its territories as part of the US Compact, further exacerbates low productivity.

Public Sector Management and Institutions

Weak expenditure control, planning, and revenue administration are some of the challenges facing the Marshall Islands’ fiscal management and governance (Figure 10). The tax base is narrow due to limited economic activities, and is open to evasion because of poor tax administration. Administrative structures are fragmented, and some overlapping staff responsibilities exist. Internal government processes, such as procurement, involve multiple decision layers and signatures; and this hampers delivery of basic services such as education, health, and transportation.

Figure 10: Marshall Islands Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

There is a lack of clear and coherent policy frameworks within most government organizations and across the public sector. Checks and balances on executive power remain weak because of concentrated power and a weak culture of accountability. There is little demand from the civil society for stronger accountability by the government due to lack of awareness among the citizens about their rights to demand for better governance.

A Way Forward

Under its COBP 2016–2018, ADB will support the Marshall Islands' medium-term development by focusing on sustainable infrastructure, quality of basic education, public sector management, and implementation of structural reform.¹⁹ Support to the implementation of the National Strategic Plan will continue so that activities on public financial management, infrastructure, and education could be monitored.

Infrastructure projects include the ongoing improvement of water and sanitation in Ebeye and a pipeline project on improvement of the outer islands transportation. The proposed outer islands transportation is subject to the completion of the National Infrastructure Plan, prefeasibility assessment, and progress in the proposed reforms of Air Marshall Islands and other relevant state-owned enterprises. Improving the quality of basic education entails institutionalizing early grade learning assessment, comprehensive teacher's training, and developing quality bilingual teaching and learning resources. ADB will also support strategic planning for renewable energy investments and institutional strengthening of the Ministry of Finance. Regional technical assistance programs will focus on economic management, private sector development, and public sector management.

¹⁹ ADB. 2015. *Marshall Islands: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/marshall-islands-country-operations-business-plan-2016-2018

Federated States of Micronesia

COUNTRY PROFILE

Official name: Federated States of Micronesia

Capital: Palikir

Total land area: 702 square kilometers

Population: 104,479 (Country Meters 2016)

Life expectancy: 71.5 years (Country Meters 2016)

Literacy rate (15 years +): not reported by UNESCO

Currency unit: US dollar (US\$)

Main exports: fish, garments, banana, and black pepper

Income level: lower middle-income (World Bank)

ADB member since: 1990



Development Challenges

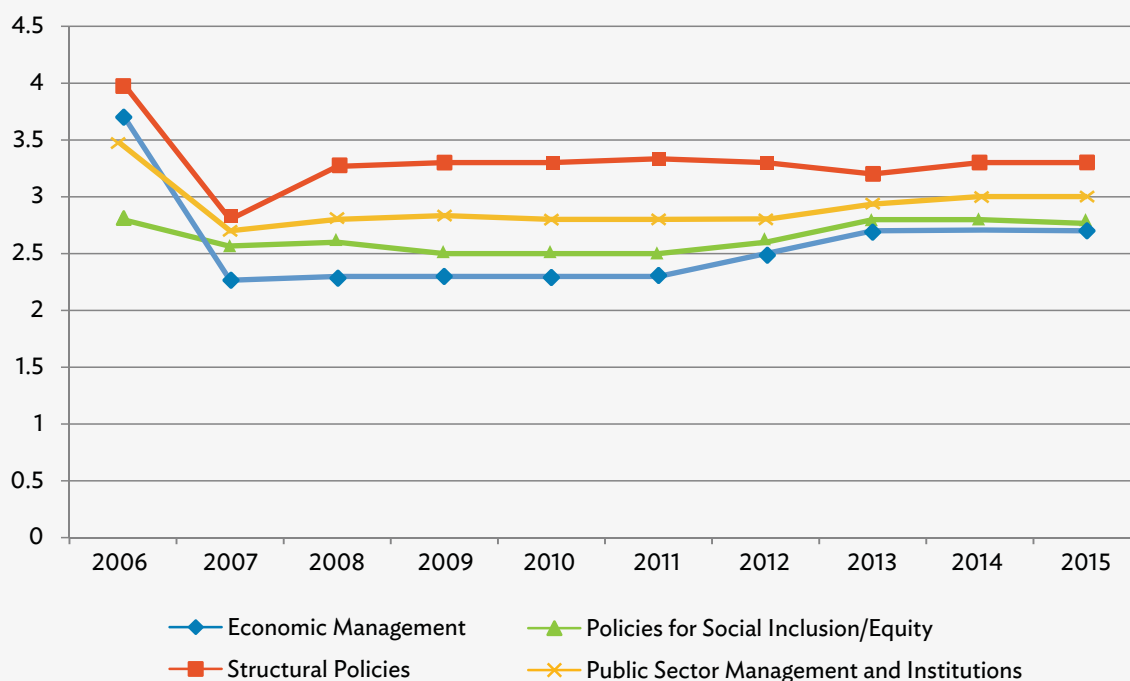
The Federated States of Micronesia (FSM) consists of four autonomous island states—Chuuk, Kosrae, Pohnpei, and Yap—spread across the Western Pacific Ocean. Each state has its own government and identity. The physical distance between the four states, combined with limited transport infrastructure, makes coordination between the central and state governments difficult. This situation impedes reform efforts and constrains effective use of funding from development partners. Like the Marshall Islands, FSM is also highly dependent on US Compact grants,²⁰ and faces fiscal pressures due to the gradual phase-out of these grants. Long-term macroeconomic and fiscal sustainability can be achieved through reforms in taxation and public administration. Based on ADB's 2015 CPA, the major development challenges of FSM are on economic management, policies for social inclusion/equity, and public sector management and institutions (Figure 11).

Economic Management

FSM's economy is dominated by the public sector, with a dependent private sector producing non-traded goods and services mainly for government consumption (Figure 12). The economy has continued

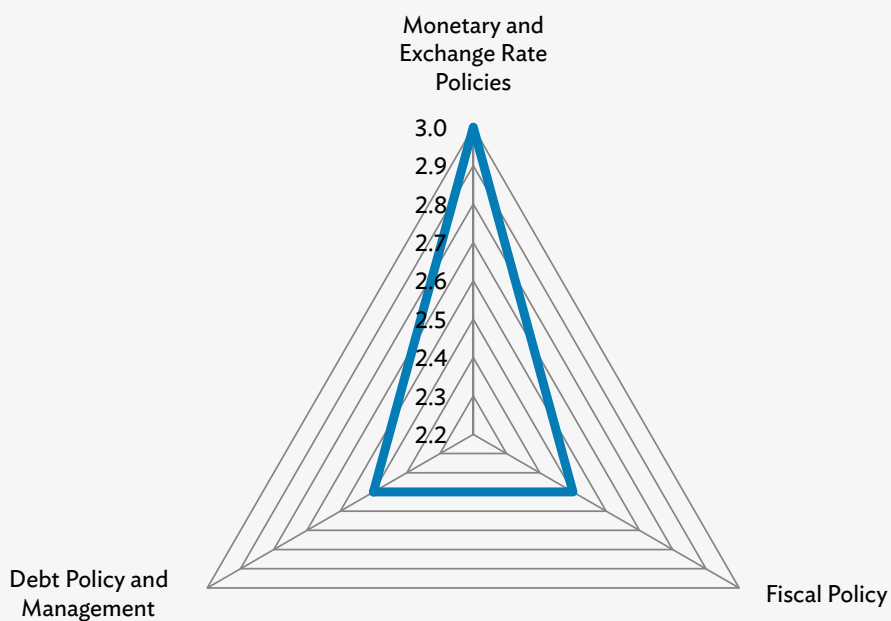
²⁰ Under the Compact of Free Association between the United States and the Federated States of Micronesia, the Government of the United States provides over \$130 million in direct assistance every year, along with a variety of federal grants and services, until 2023. US Department of State: Diplomacy in Action. www.state.gov/r/pa/ei/bgn/1839.htm (accessed 27 July 2016).

Figure 11: Federated States of Micronesia Country Performance Assessment Scores, 2006–2015



Source: Asian Development Bank.

Figure 12: Federated States of Micronesia Country Performance Assessment Score on Economic Management Indicators, 2015



Source: Asian Development Bank.

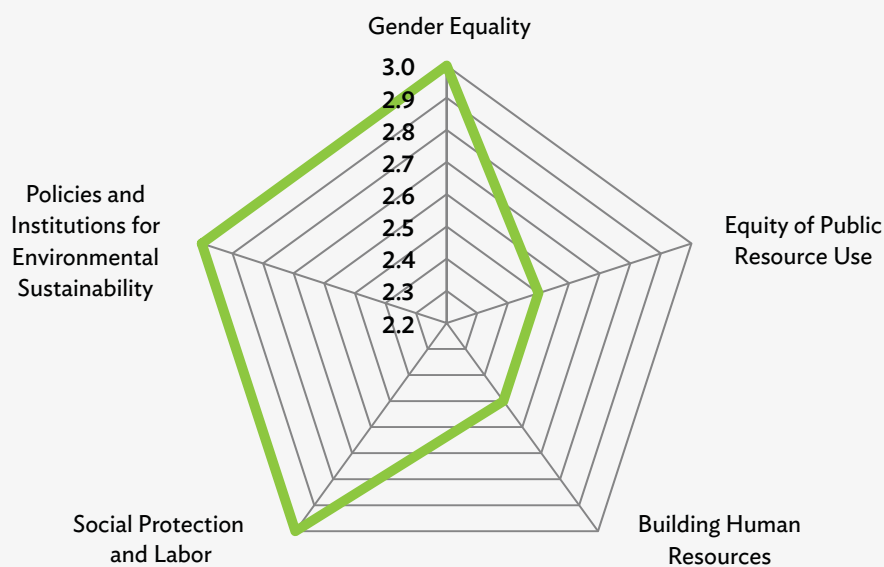
to stagnate due to the gradual reduction of the US Compact grants and very few economic activities and business investments. The private sector needs to offset the decline in public sector investments; however, there are very limited economic activities in FSM despite the country's huge potential in agriculture, fisheries, and tourism. There is an urgency to achieve long-term fiscal sustainability as the annual Compact grants are set to expire in 2023.

Structural impediments such as high transportation cost, small domestic market, and shortage of skilled labor constrain private sector investment. The government is working to improve public infrastructure, but reforms in land tenure and registration are needed to ease access of lands that should be used for development.

Policies for Social Inclusion/Equity

The FSM Constitution (1978) cites that women have equal rights under the law, including the right to own property, as well as education and employment; however significant gender disparities exist in the labor force, land tenure, property ownership, and inheritance practices (Figure 13). Although there are matrilineal societies in FSM wherein women can inherit customary lands and contribute to decision-making over land management, there are also patrilineal societies wherein the decisions over land are made by men and can be transferred to whomever they wish to give the land.

Figure 13: Federated States of Micronesia Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

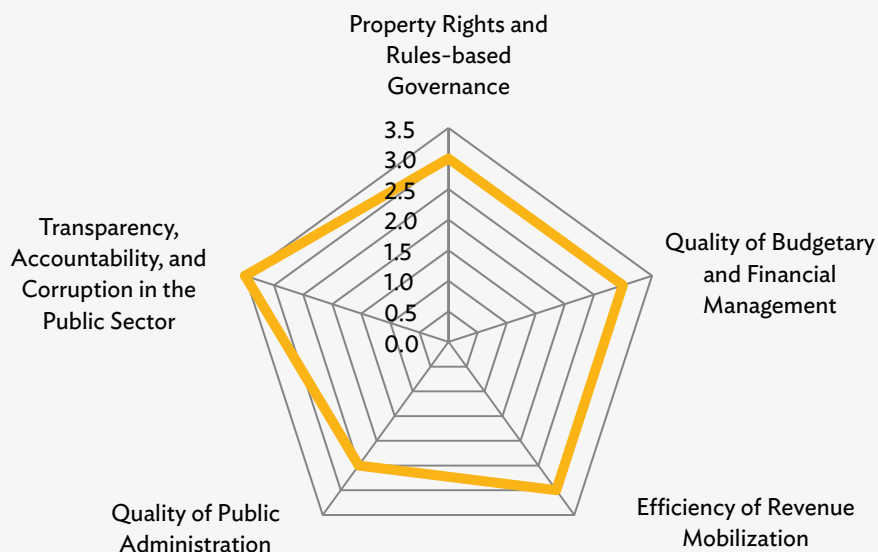
Malnutrition is still a problem due to high consumption of imported processed foods. The outer islands have poor access to health services, clean water, and adequate sanitation. There are no formal social safety net programs in FSM. Subsistence production and migration to the US and its territories, resulting in a flow of remittances, provide an alternative safety net. Formal labor protection mechanisms are absent in FSM, and there are no basic labor standards or legislation prohibiting child labor. However, traditional systems exist to ensure that the elderly and the sick are cared for and the jobless have food and shelter; hence, there are no homeless in FSM. Community dispute resolution mechanisms are used in private sector employment disputes, if both parties are part of the community.

Aside from the risks of climate change, some of the environmental concerns in FSM include inadequate waste management services, dynamite fishing, dredging of reefs and accelerating coastal erosion, and dumping of chemicals and oils. There are institutional structures on environmental sustainability; however, they have poor capacity, particularly on environmental impact assessment.

Public Sector Management and Institutions

FSM has two systems of law—federal law and state law—which may cause overlap and confusion (Figure 14). Jurisdiction boundaries are unclear, and legal processes at the state level are slow and costly. There is a shortage of properly trained staff, which has a detrimental effect on business activities.

Figure 14: Federated States of Micronesia Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

Landownership in FSM is communal. Lease terms for properties are controlled at the state level and often limited to short periods. Informal settlements, land disputes, and the absence of property records make leasing land difficult, costly, and uncertain. Transfer of title sometimes occurs informally, and this causes a lack of accurate public pricing information.

The long-term national development plan, the Strategic Development Program (2004–2023), is not integrated into the budget preparation. Budget preparation tends to be incremental and input-based, based on the previous year's budget instead of being based on strategic priorities and budget performance data. Revenue from tax collection is typically low; and overlapping jurisdiction of national and state laws as well as collection bodies constrain tax administration.

The formal arrangements for external oversight and checks and balances on the executive are all in place in FSM, but they are not always effectively implemented. The frequency of investigation and prosecution of corruption has increased, partly due to external pressure, and partly because of increased domestic pressure and follow up through an anonymous “Hotline” operated by the FSM Public Auditor.

A Way Forward

ADB's COBP 2016–2018 for FSM includes investments in energy and sustainable tourism, and technical assistance in basic education assessment and public administration reforms.²¹ These are aligned with the three key strategic themes of the government's Action Plan 2023: (i) uphold core government functions and acceptable standards of public service delivery, while safeguarding fiscal sustainability; (ii) pursue a growth strategy that is based on the sustainable management of natural and human resources; and (iii) improve development effectiveness across FSM.

To support FSM's infrastructure sector, ADB aims to develop renewable energy generation, improve thermal-generation efficiencies, and reduce network (physical) and commercial (nonphysical) losses. The Pohnpei port and waterway will also be developed. The tourism industry will be enhanced to become a leading economic activity in the country through institutional strengthening; marketing, promotion, and development of quality standards; value chain support for local products; and involving the community. Support to education aims to improve the quality of teaching and learning in basic education.

²¹ ADB. 2015. *Federated States of Micronesia: Country Operations Business Plan, 2016–2018*. www.adb.org/documents/federated-states-micronesia-country-operations-business-plan-2016-2018

Nauru

COUNTRY PROFILE

Official name: Nauru
Capital: Yaren
Total land area: 21 square kilometers
Population: 10,282 (Country Meters 2016)
Life expectancy: 65.4 years (Country Meters 2016)
Literacy rate (15 years +): not reported by UNESCO
Currency unit: Australian dollar (A\$)
Main export: phosphate
Income level: lower middle-income (United Nations Population Fund)
ADB member since: 1991



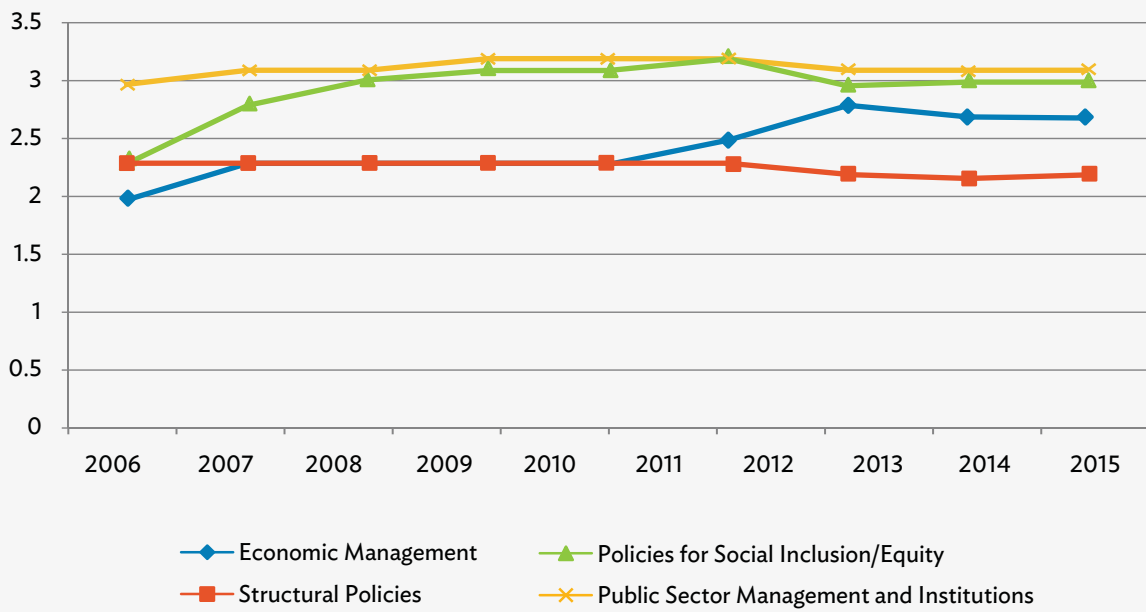
Development Challenges

Nauru is the third-smallest state in the world (by area), next to Vatican City and Monaco. The country's small size and significant distance to international markets impede development activities. There is not enough senior managers and technical staff in government departments, thus expatriate advisors are often needed to fill in such roles—a situation that could undermine local ownership of development programs. Nauru exhibits fragility in many areas, such as limited markets, political instability due to frequent changes in government, debt and economic distress, and high vulnerability to climate change. Based on ADB's 2015 CPA, Nauru is weak (has a CPA score of below 3.2) in all four clusters: economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions (Figure 15).

Economic Management

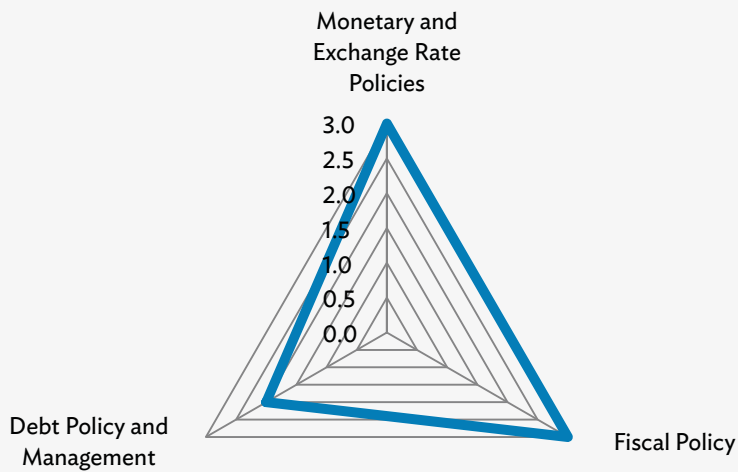
The reopening of the Australian Regional Processing Centre for Asylum Seekers is contributing to Nauru's economy by providing more jobs; however, this places stress on service delivery and distorts the local labor market given the shortage of human resources (Figure 16). The government's budget remains fragile due to the limited and volatile nature of revenues from nondonor sources, such as fisheries licenses, visa fees, and phosphate-related payments. The government has no income tax and no value added goods and services tax. The country is heavily reliant on development partner funding to meet budgetary requirements.

Figure 15: Nauru Country Performance Assessment Scores, 2006–2015



Source: Asian Development Bank.

Figure 16: Nauru Country Performance Assessment Score on Economic Management Indicators, 2015



Source: Asian Development Bank.

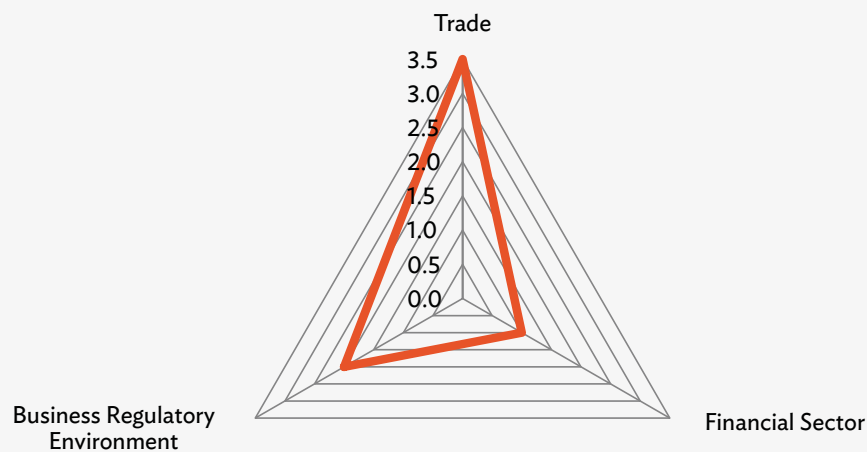
Nauru’s extremely high debt level is attributed to the debt of the insolvent Bank of Nauru, large payment arrears to salaries, and amounts that the government still owes to creditors. Nauru is not eligible for debt relief facilities that are available from multilateral institutions, such as the IMF and the World Bank, since it is not a member of both institutions. Since 2006, the government has approached creditors

seeking debt relief, either through total or partial forgiveness, or debt restructuring. There has been some success in this approach, as the government has been repaying the remaining creditors.²² The government has also finalized the Bank of Nauru liquidation, which has reduced government debt by over \$200 million.

Structural Policies

Nauru does not have a functioning financial system (Figure 17). There is still very limited on-island access to financial services, which discourages the establishment of new businesses. Small and medium-sized enterprises have very limited access to finance. The private sector is extremely small and the regulatory framework for business is underdeveloped. The majority of Nauru citizens are employed in the public sector and/or state-owned enterprises and, recently, in the Australian Regional Processing Centre for Asylum Seekers, which has dominated the country's economic activity. Private sector activity consists primarily of wholesale and retail trading and limited subsistence agricultural farming and fishing.

Figure 17: Nauru Country Performance Assessment Score on Structural Policies' Indicators, 2015



Source: Asian Development Bank.

A noncitizen cannot fully own a business in Nauru and can only hold a trading license. This acts as a disincentive to investment. Foreign investment and bankruptcy legislations are not in place. Although the process for obtaining a business license is relatively simple, business licenses are only available to Nauru citizens.

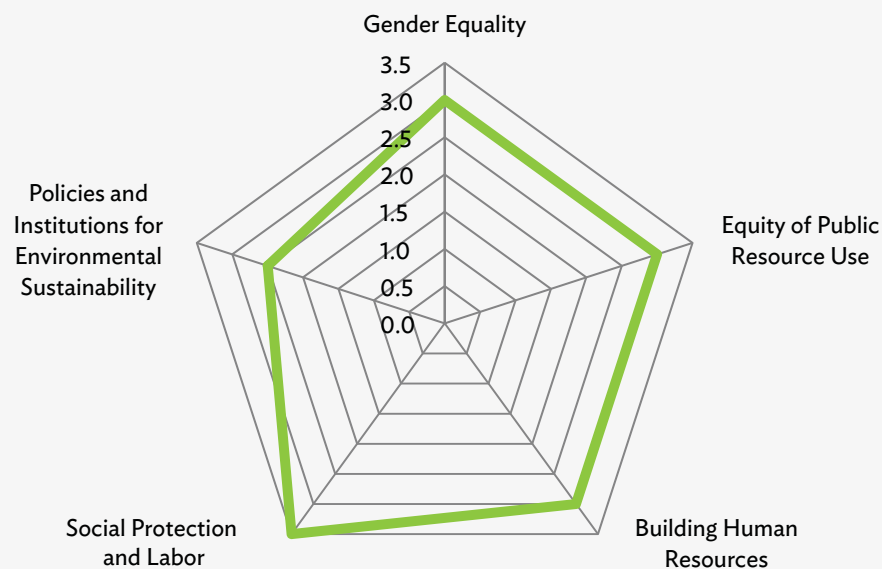
²² ADB. 2012. *Nauru: Public Financial Management Reform Program*. Manila.

The land tenure system can be complex and may make negotiations for any proposal involving the use of land difficult. The Nauru Lands Act requires the consent of at least three quarters of landowners involved in a certain land portion to gain access to the land. Nauru citizens cannot sell land among themselves, and can only pass on or transfer land to each other without selling according to the procedures stipulated in the Act.

Policies for Social Inclusion/Equity

The government officially provides equal opportunities in education and employment, and women may own property and pursue private interests. There is no discrimination between men and women in land inheritances (Figure 18). However, men are more privileged than women in terms of workforce involvement. The government has not kept statistics on the incidence of physical and domestic abuse against women. However, credible reports indicate that incidents of sporadic abuse occur, which are often aggravated by alcohol use.

Figure 18: Nauru Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

Rates of noncommunicable diseases in Nauru are among the highest in the world. Childhood malnutrition also remains a problem due to the shortage of fresh fruits and vegetables on the island. While education outcomes are improving, they are still considered poor by international standards.

In terms of environmental sustainability, land degradation remains the greatest concern in Nauru. The major cause has been phosphate mining, rendering approximately 70% of land currently unusable. This

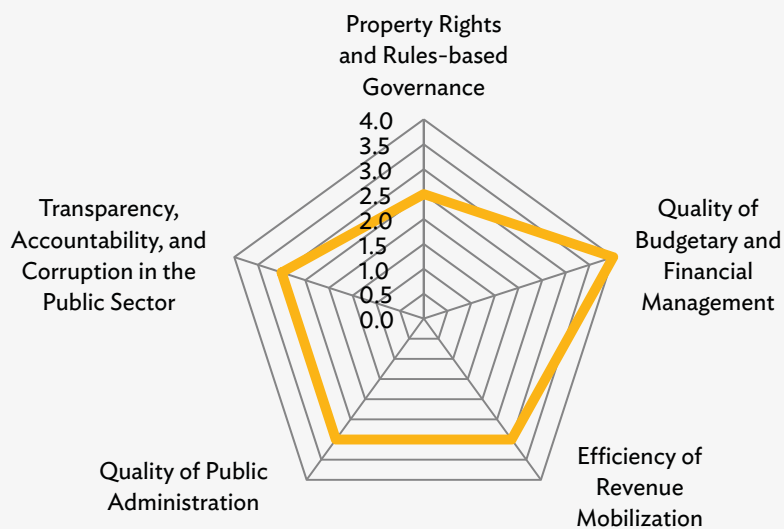
has resulted in almost total degradation of “topside” (the central plateau of Nauru from which phosphate has been mined for fertilizer for more than 100 years); localized inland and coastal erosion; the removal of natural vegetation, topsoil, and phosphate rock; and almost total modification of the landscape. Rehabilitation of the land by filling in mined areas and covering them with topsoil has recently begun.

The current mining laws that the government has in place are based on the Nauru Phosphate Corporation Mining Act, which was approved in July 2006, but still lacks the accompanying regulation for its implementation.

Public Sector Management and Institutions

The National Sustainable Development Strategy (NSDS) acknowledges that Nauru faces very clear problems in governance and public administration (Figure 19). Greater partnership between the executive and heads of departments in policy formulation is necessary. Presently, policy formation is top-down and little policy flows up from the public service. There is also a need for capacity building in many areas of government, and more have to be done in terms of independent media, freedom of information, leadership code, updating outdated legislation, reducing the court backlog, and dealing with gender and child-based violence.²³ There is also limited opportunity for private sector and nongovernment participation in policy implementation and development.

Figure 19: Nauru Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

²³ Republic of Nauru. 2009. *National Sustainable Development Strategy: 2005–2025*. Yaren. www.adb.org/sites/default/files/linked-documents/cobp-nau-2016-2018-nsds.pdf

At present, there is a limited number of persons who may provide legal representation in Nauru. Nauru's crime rate is low and not regarded as an impediment to economic activity. In the past, there have been concerns regarding money laundering and terrorism financing, which have affected other countries' willingness to engage in economic activity in Nauru. These concerns have been addressed comprehensively with the enactment of the Anti-Money Laundering Act 2008. Nauru has also abolished a number of shell banks. The international community has welcomed these reforms and resulted in Nauru being removed from the Financial Action Task Force's noncooperative list. Moreover, Nauru enacted the Counter Terrorism and Transnational Organized Crime Act 2004 to further strengthen its deterrence initiatives, such as preventing terrorists from operating in Nauru, and preventing persons in Nauru from taking part in or supporting terrorist-related activities.

A Way Forward

ADB is supporting the implementation of Nauru's NSDS 2005–2025. NSDS priorities include improvement of public sector management and the use of the country's remaining scarce natural resources; development of better utility services, including energy; and the provision of enhanced infrastructure services (footnote 22). Under ADB's COBP 2016–2018, the areas for intervention in public sector management include private sector development, public finance and expenditure management, and reform of state-owned enterprises. For the infrastructure sector, ADB has provided additional financing to increase the reliability of energy supply and funding to improve Nauru's port facility.²⁴

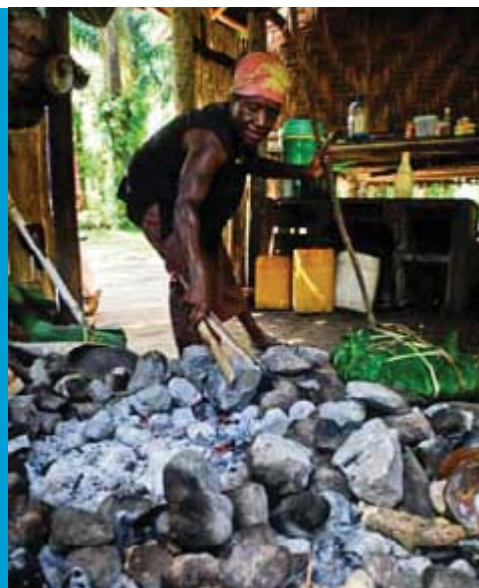
ADB has provided a policy-based grant for the establishment of the new intergenerational trust fund to help Nauru save unexpected gains or windfalls in public revenue for the future. ADB's approach to engaging with Nauru emphasizes a flexible response, a longer-term engagement, and the need for capacity development. Given the country's frequent changes in government and high dependence on expatriate advisors, ADB highlights the importance of consultative and participatory arrangements for its operations to ensure ownership by stakeholders. ADB operations in Nauru will require close monitoring due to the country's weak performance and history of debt and economic distress.

²⁴ ADB. 2015. *Nauru: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/nauru-country-operations-business-plan-2016-2018

Papua New Guinea

COUNTRY PROFILE

Official name: Papua New Guinea
Capital: Port Moresby
Total land area: 462,840 square kilometers
Population: 7,757,800 (Country Meters 2016)
Life expectancy: 66.2 years (Country Meters 2016)
Literacy rate (15 years +): 64.2% (UNESCO 2015)
Currency unit: kina (K)
Main exports: minerals (gold, silver, copper, and crude oil), timber, coffee, palm oil, cocoa, and copra
Income level: lower middle-income (World Bank)
ADB member since: 1971



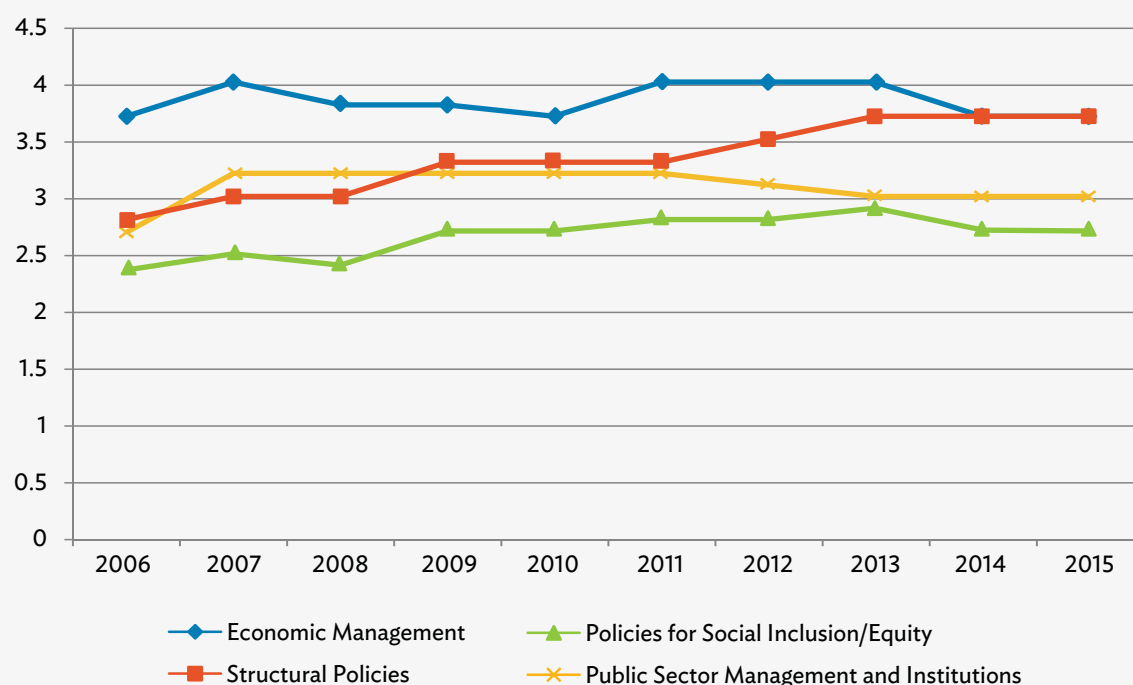
Development Challenges

From 2000 to 2015, Papua New Guinea (PNG) has experienced economic growth driven by high commodity export prices, structural reforms, sound macroeconomic policies, and, recently, the high levels of foreign direct investment on liquefied natural gas. However, ADB has anticipated the slowing down of PNG's economic growth due to lower energy prices, unfavorable weather for agriculture, and reduced mining output from the closure of Ok Tedi gold and copper mine.²⁵

The economic growth that PNG reaped in the past decade has not been inclusive, but skewed toward a few of the population, mostly from the urban areas. PNG's political, security, and service delivery functions are sometimes limited and concentrated in the urban areas, and 87% of the population from the rural areas are being left behind. In addition, critical infrastructures in PNG are prone to damage by natural disasters, such as landslides and floods.

In recent years, ADB's portfolio performance in PNG has improved; however, procurement and safeguards compliance remain as major constraints to further improving development performance. About 97% of lands in PNG are owned by clan-based structures. Developing some of these lands require compensation to affected or displaced people, under ADB's Safeguard Policy Statement (2009); but poor land administration systems hinder land compensation and land access. Based on ADB's 2015 CPA, the major development challenges of PNG are on policies for social inclusion/equity and public sector management and institutions (Figure 20).

²⁵ ADB. 2016. *Asian Development Outlook 2016: Asia's Potential Growth*. Manila. www.adb.org/publications/asian-development-outlook-2016-asia-potential-growth

Figure 20: Papua New Guinea Country Performance Assessment Scores, 2006–2015

Source: Asian Development Bank.

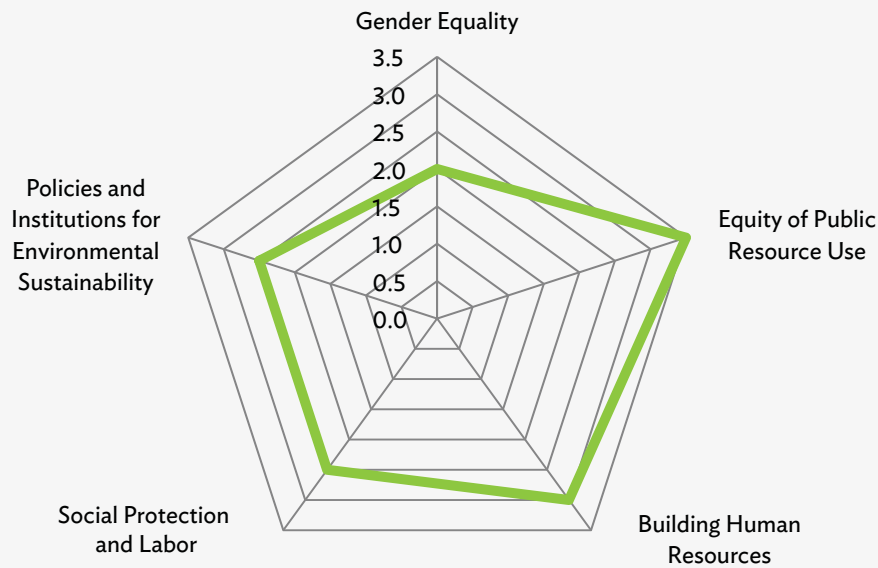
Policies for Social Inclusion/Equity

Gender inequality remains a major barrier to human development in PNG (Figure 21). Rates of violent crimes against women, such as rape and domestic violence, are extremely high. Women and young girls are also subject to sex trafficking and forced labor. The institutional response of the justice system to these crimes is generally weak. Women have little access to education and health services as well as economic opportunities, and are predominantly engaged in subsistence agricultural and other unpaid labor.

According to the PNG National Health Plan 2011–2020, the “health of the people and health services are in crisis” with deteriorating health indicators, particularly for the 87% of the population who live in rural areas.²⁶ Residents of poor urban areas and rural areas have little access to health services due to financial constraints and physical barriers, in addition to deteriorating health facilities. A main challenge in the education sector is the insufficient capacity of education authorities to deliver quality education to rapidly increasing numbers of primary students. PNG’s fast population growth is also putting pressure on the education infrastructure.

²⁶ Government of Papua New Guinea. 2010. *National Health Plan 2011–2020*. Port Moresby. www.wpro.who.int/countries/png/PNGNHP_Part1.pdf

Figure 21: Papua New Guinea Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

PNG currently has no formal social protection system. A large portion of its population depends on the informal sector and subsistence agriculture activities to sustain meager standards of living. Informal or traditional systems of clan-based welfare and redistribution exist to protect the lives of those unable to obtain sufficient livelihoods.

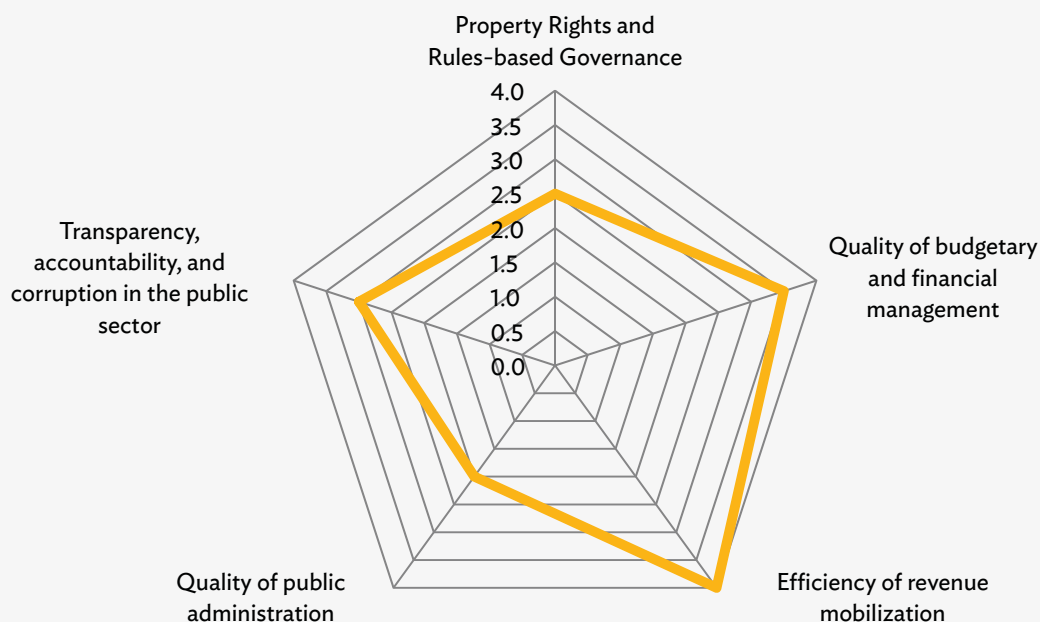
With respect to landowner consultations that are required for all major projects, these are generally undertaken in a relatively inclusive manner—subject to customary leadership practices—but women or children have very little voice in these negotiations.

The government needs to further strengthen its capacity and political resolve to address all aspects related to environmental sustainability raised by the communities. Funding levels and capacity remain inadequate, which contributes to weak environmental governance.

Public Sector Management and Institutions

Only about 3% of lands in PNG has clearly defined boundaries and ownership (which is termed “alienated” or outside the customary landholding system) and held by the state (Figure 22). These lands are available for public use or lease, and a smaller portion of them is held as freehold. Securing property and contract rights on a legal basis is hindered by informal landholdings in most rural areas (under customary arrangements), problematic resolution of land disputes, and weak capacity and corruption of enforcement authorities. Courts tend to be costly and time-consuming to use and outcomes can

Figure 22: Papua New Guinea Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

be inconsistent and unpredictable; nevertheless, judicial decisions are publicly available and widely scrutinized in the media.

PNG's law-and-order situation remains a major issue for the business community. The state is ineffectual in protecting citizens' lives and properties against crimes and violence in a significant part of its territory. In cities and major towns, violence generally involves property crimes, and can be attributed to high unemployment, social displacement, and ineffective policing. Port Moresby has long been ranked as among the most dangerous cities in the world, and the current economic boom is adding to inequalities and increasing opportunities for criminal activities. In the countryside, interclan violence is a perpetual problem, involving conflict over land tenure, royalties from natural resources, and blood feuds.

Public administration remains weak and ineffective despite efforts to improve policy coordination and responsiveness. Central agencies often complain about line agencies pursuing their own agenda without adequate coordination. Despite significant increases in funding in recent years, PNG's administrative structures continue to produce deteriorating or stagnant public service delivery outcomes. Agencies are fragmented and responsibilities are often overlapping or unclear. Management capacity is inadequate and funding is inconsistent for institutions at provincial and district levels that have the primary responsibility for service delivery.

A Way Forward

ADB's approach to PNG is guided by its country partnership strategy (CPS) for 2016-2020, that is aligned with ADB's Strategy 2020 midterm review priorities and the country's own development strategy.²⁷ ADB will support a more inclusive economic growth in PNG by investing in transport and energy, lowering business and trade costs, and increasing job and livelihood opportunities, particularly in agriculture.

Under the CPS, the majority of ADB assistance will focus on the transport and energy sectors. The remaining financing allocation will go to rural primary health delivery, water and other urban infrastructure and services, and public sector management. The transport portfolio will assist the development of land transport and civil aviation, and potentially, maritime transport. ADB will also support the sustainability of these infrastructure through ongoing sector dialogue, support for public-private partnerships, and knowledge management and technical assistance to improve maintenance and operating cost financing. The energy portfolio will support investments in renewable energy generation, and improving transmission and distribution efficiencies on main power grids. ADB will also support improving electricity services to provincial centers through least-cost hydropower projects and improved distribution systems.

To help the government extend basic services to the rural areas, ADB will continue its operations in rural health access and service improvement, and promote improved water, sanitation, and hygiene (WASH) outcomes. ADB's intervention to public sector management will focus on more transparent and accountable budgeting practices, with an emphasis on natural resource revenue management and improved infrastructure budgeting and coordination. ADB will also support government efforts to implement a sovereign wealth fund and Extractive Industries Transparency Initiative requirements.

²⁷ ADB. 2015. *Papua New Guinea: Country Partnership Strategy, 2016–2020*. Manila. www.adb.org/documents/papua-new-guinea-country-partnership-strategy-2016-2020

Solomon Islands

COUNTRY PROFILE

Official name: Solomon Islands

Capital: Honiara

Total land area: 28,400 square kilometers

Population: 593,957 (Country Meters 2016)

Life expectancy: 74.2 years (Country Meters 2016)

Currency unit: Solomon Islands dollar (SI\$)

Literacy rate (15 years +): not reported by UNESCO

Main exports: copra, palm oil, and timber

Income level: lower middle-income (World Bank)

ADB member since: 1973



Development Challenges

Development partners operating in Solomon Islands deal with both fragility and post-conflict issues. Solomon Islands has a narrow economic base and a small market size. Aside from being far from major markets, the country also has a limited transport infrastructure. Most of its population is dispersed in the rural areas that largely depend on subsistence agriculture. The urban areas have higher poverty and unemployment rates and weaker traditional safety nets. Solomon Islands is starting to experience the catastrophic effects of climate change. Five of its uninhabited islands have disappeared due to the rising sea level and large swathes of land in six inhabited islands have been inundated.²⁸

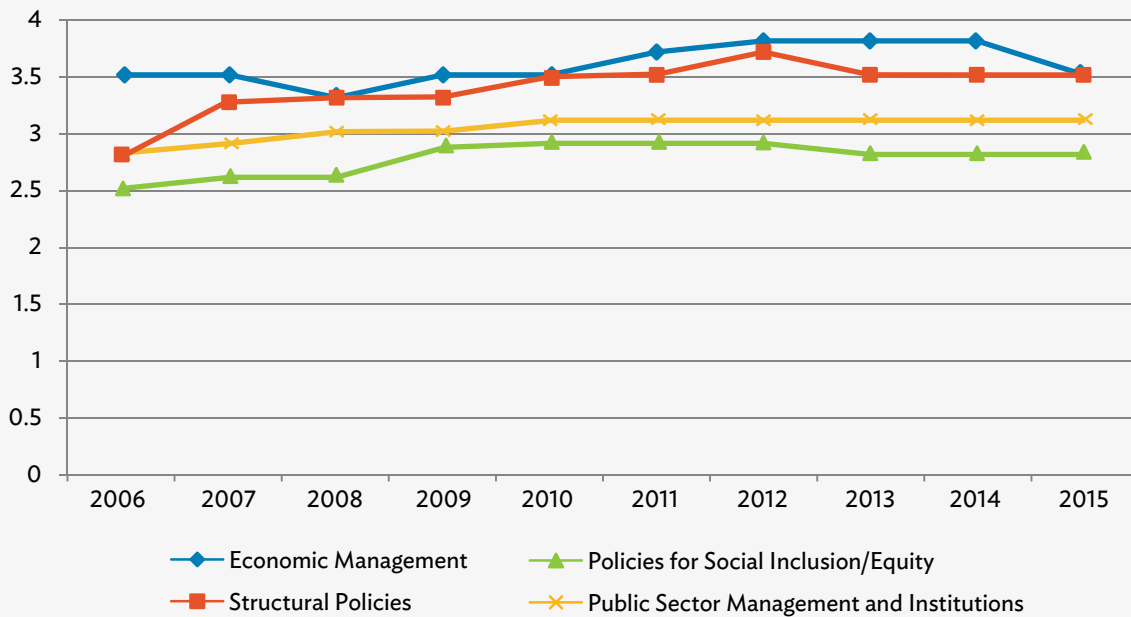
Solomon Islands is recovering from a severe economic downturn as a result of conflict, making it one of the most aid-dependent countries in the world. The Regional Assistance Mission to Solomon Islands has helped restore law and order, rebuild the state, and restore development partnerships.²⁹ However, the country is challenged with government capacity constraints and weak public sector management. Tribal alliances influence decision making, which contributes to fragile political coalitions and periods of political instability.

²⁸ *The Guardian*. 2016. Five Pacific Islands Lost to Rising Seas as Climate Change Hits. 10 May. www.theguardian.com/environment/2016/may/10/five-pacific-islands-lost-rising-seas-climate-change

²⁹ The Regional Assistance Mission to Solomon Islands (RAMSI), or Operation Helpem Fren, is a partnership between the people and government of Solomon Islands and 15 contributing countries of the Pacific region. The mission is majority-funded and led by Australia. See About RAMSI. www.ramsi.org/about-ramsi/

The government's key development challenge is controlling its recurrent expenditure. The economy is based on primary commodities, and alternative opportunities to generate income are scarce. The private sector, mining, agriculture, and fishing have to be tapped to boost economic growth. Based on ADB's 2015 CPA, the major development challenges of Solomon Islands are on policies for social inclusion/equity and public sector management and institutions (Figure 23).

Figure 23: Solomon Islands Country Performance Assessment Scores, 2006–2015



Source: Asian Development Bank.

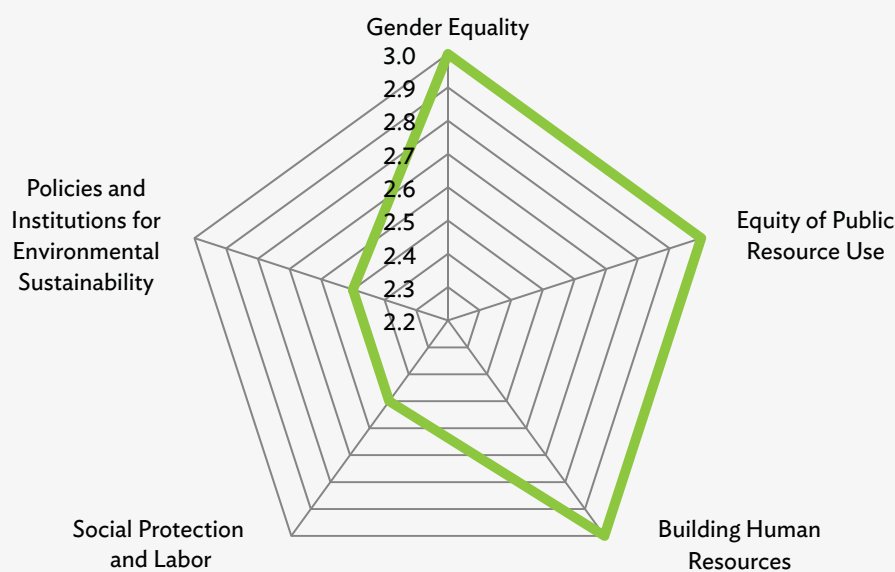
Policies for Social Inclusion/Equity

Women have less access than men to social and economic activities, such as education, literacy, health and family planning services, job markets, and inheritance rights (Figure 24). Recent research also indicates declining matrilineal land rights. Male patriarchs decide how land should be used and, since land is a creditors' collateral requirement, this hinders women's access to credit. This is exacerbated by lack of land registration and women's generally low political decision-making influence in the community. Domestic violence in Solomon Islands also remains high.

A United Nations Development Programme (UNDP) report concludes that poverty in Solomon Islands does not mean hunger or destitution, but rather struggling to meet daily living expenses, particularly those that require cash payments.³⁰ The armed conflict from 1998 to 2003 significantly disrupted the provision of health care, especially in rural and remote areas.

30 UNDP Pacific Centre. 2008. *Solomon Islands: Analysis of the 2005/06 Household Income and Expenditure Survey*. Suva. www.undp.org/content/dam/rbap/docs/Research%20&%20Publications/poverty/PC_solomon_report_hies.pdf

Figure 24: Solomon Islands Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

Women have slightly lower educational attainment levels. Geographic barriers and settlement patterns constrain education access by a significant number of rural students. The number of untrained teachers remains a challenge to lifting learning outcomes. Many teachers in the provinces are absent on payday because they travel via boat and road transport to the nearest bank branch to get their salary.

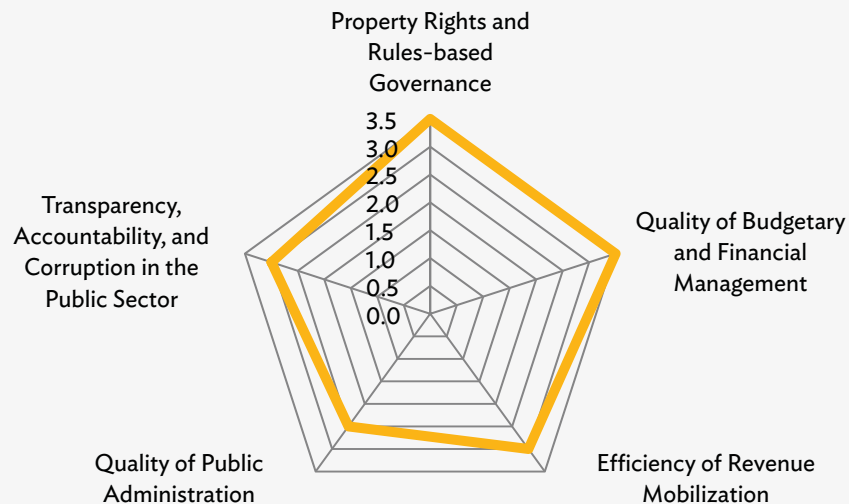
The traditional *wantok* system (those who speak the same language, or “one talk,” look out for each other) fills the gap in the formal social protection system. A land is also collectively owned by the *wantok*. However, this system has been weakening in urban areas due to the influx of rural migrants in search of economic opportunities.

Solomon Islands is extremely vulnerable to the effects of climate change such as rising sea levels, and natural hazards such as cyclones, floods, landslides, storm surges, earthquakes, tsunamis, and droughts. Solomon Island’s capacity for active environmental monitoring is low, with gaps in staff resources, information systems, and effective coordination. Environmental impact assessments are mandated in the Environment Act of 1998; however, their implementation and execution remain weak and need to be strengthened. Sector ministries are supposed to take into account environmental considerations in their own plans and programs, but there is little evidence of this actually occurring. The capacity to address environmental issues in these ministries is very limited.

Public Sector Management and Institutions

The tax base remains narrow, reflecting the dominance of subsistence agriculture within the economy, with a small number of companies providing a large proportion of tax revenue (Figure 25). While progress has been made to reduce statutory and discretionary exemptions, tax incentives continue to include discretionary tax holidays, exerting some drag on the overall revenue performance. Work to clarify and legalize customs and tax exemption processes and criteria is under way. The government is preparing to introduce a value-added tax system to replace the additive goods tax, but administrative and capacity constraints to its implementation are substantial.

Figure 25: Solomon Islands Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

The government recognizes the poor quality of its public administration. Administrative structures are fragmented, business processes are largely ineffective and/or not followed, and responsibilities frequently overlap between and within ministries. This often results in necessary delays and transactions costs for the government and, ultimately, inefficient service delivery. The government is working to improve its planning and management systems and develop its public service workforce.

Progress in the law-and-order situation is evident from (i) the improved community perception of living in a safe and peaceful environment; (ii) the general public's confidence in the Royal Solomon Islands Police Force, and (iii) the Correctional Services upgraded infrastructure to meet the United Nations requirements. The Solomon Islands law and order is now one of the best in the Pacific region. However, despite these achievements, the Ministry of Police and National Security continues to face challenges in effectively and efficiently carrying out its mandate, and development partner assistance is still essential for the sector.

A Way Forward

ADB's CPS 2012–2016 is aligned with the government's National Development Strategy 2011–2020.³¹ Under the current CPS, ADB's support focuses on transport, energy, information and communication technology, private sector development, and public sector management. Improving the domestic transport systems and services aims to reduce economic isolation, help diversify economic activity, generate productive employment, and facilitate access to social services. ADB will support the energy sector reform for renewable energy development in the outer islands and sustainable off-grid power services.

Assistance to information and communication technology connectivity is expected to strengthen human resources by improving access to education and health care services in remote areas, as well as complement ADB's private sector operations in mobile telephony. To help boost private sector development, ADB will provide technical assistance that focuses on microfinance and micro-insurance, modernization of the company registry and the secured transactions registry, state-owned enterprise reform, customs law reform, competition law reform, privatization, and public–private partnerships. Interventions to public sector management will focus on institution-building and regulatory reform support to help the government attract productive private investment.

The CPS also emphasizes that all ADB operations will involve gender mainstreaming and climate proofing. For the upcoming CPS 2017–2021, ADB's continued role as the lead development partner for the transport sector is proposed, recognizing that transport infrastructures are essential to revitalizing the economy and providing access to basic services.

³¹ ADB. 2012. *Solomon Islands: Country Partnership Strategy, 2012–2016*. Manila. www.adb.org/documents/solomon-islands-country-partnership-strategy-2012-2016

Timor-Leste

COUNTRY PROFILE

Official name: Democratic Republic of Timor-Leste

Capital: Dili

Total land area: 15,410 square kilometers

Population: 1,206,921 (Country Meters 2016)

Life expectancy: 68 years (Country Meters 2016)

Literacy rate (15 years +): 67.5% (UNESCO 2015)

Currency unit: US dollar (US\$)

Main exports: coffee, marble, oil, and sandalwood

Income level: lower middle-income (World Bank)

ADB member since: 2002 (ADB has been providing assistance to Timor-Leste since 1999. It became ADB member officially in 2002, following its independence.)



Development Challenges

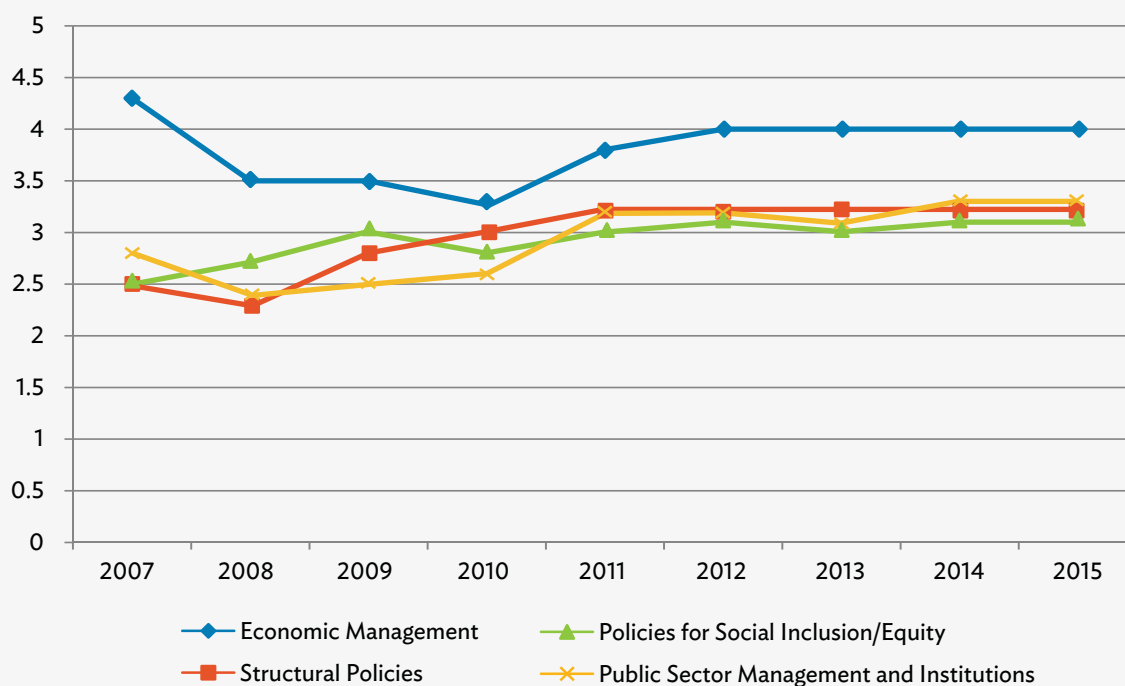
Following its independence in 2002, Timor-Leste has been seeking membership in the Association of Southeast Nations (ASEAN). However, according to ASEAN, Timor-Leste has yet to obtain certain qualifications to fulfill its obligations as a member country, such as human and financial resource capacity and the ability to develop infrastructure to host summits and meetings, and establish diplomatic presence in all ASEAN capitals. Despite its rapidly growing economy in recent years due to the discovery of oil and gas reserves, Timor-Leste still exhibits fragile characteristics. Poverty continues to be a serious problem and about 40% of the population lives below the national poverty line.

The oil sector accounts for around 80% of the total gross domestic product. The government expenditure is funded through the Petroleum Fund, a sovereign wealth fund established to manage Timor-Leste's oil revenues. Current forecasts project that the country's oil reserves could be exhausted by 2021. Without newly discovered gas fields to produce revenue for the Petroleum Fund, potential financing constraints may arise, since oil is a major source of the government's revenue and its rates of return may be insufficient with the increasing budget requirements every year. The private sector is still immature and underdeveloped.

According to ADB's independent evaluation, to ensure long-term fiscal sustainability, the government needs to address "(i) poor physical infrastructure necessary for an enabling environment for private sector growth, (ii) lagging agriculture sector necessary for food security and increased diversification

of the economy, and (iii) the limited capacity of the country's institutions to manage the development process."³² ADB's 2015 CPA identified structural policies and policies for social inclusion/equity as the major development challenges of Timor-Leste (Figure 26).

Figure 26: Timor-Leste Country Performance Assessment Scores, 2006–2015

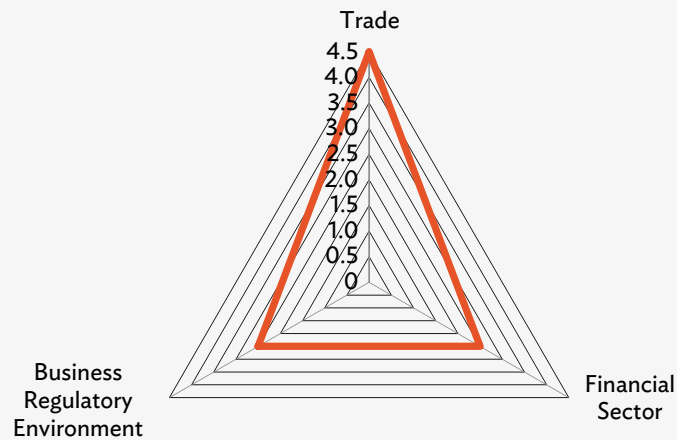


Source: Asian Development Bank.

Structural Policies

Timor-Leste's financial sector is relatively underdeveloped, and access to credit remains limited (Figure 27). The system for credit information is relatively weak, and the legal framework for credit is extremely weak. For instance, a bankruptcy law does not exist and there is limited provision for collateralized lending. Borrowers are constrained by the uncertainties in land tenure and the absence of a framework for using movable property as collateral. As a result, there have been a large number of nonperforming loans, the private sector credit growth has been limited, and banks have tended to place excess funds overseas.

³² ADB. 2015. *Timor-Leste: Country Partnership Strategy Final Review Validation*. Manila. www.adb.org/documents/timor-leste-country-partnership-strategy-final-review-validation

Figure 27: Timor-Leste Country Performance Assessment Score on Structural Policies' Indicators, 2015

Source: Asian Development Bank.

Timor-Leste ranks as one of the lowest countries in Asia and the Pacific in the World Bank's *Doing Business 2016* report; the other two countries are Afghanistan and Bangladesh.³³ In 2013, the government established a one-stop shop for business registration, licensing, and tax registration, and this has significantly reduced the process from 94 days to 5 days. However, the country's ranking in the World Bank's *Doing Business 2016* report did not improve—it dropped from 169 in 2013 to 173 in 2016. There are still deficiencies in Timor-Leste's Company Law, such as a relatively high minimum paid-in capital. While registering a business is quicker, securing a license to operate in some sectors can be costly and time-consuming. Resolution of property disputes, which are plentiful in Timor-Leste, can be very slow.

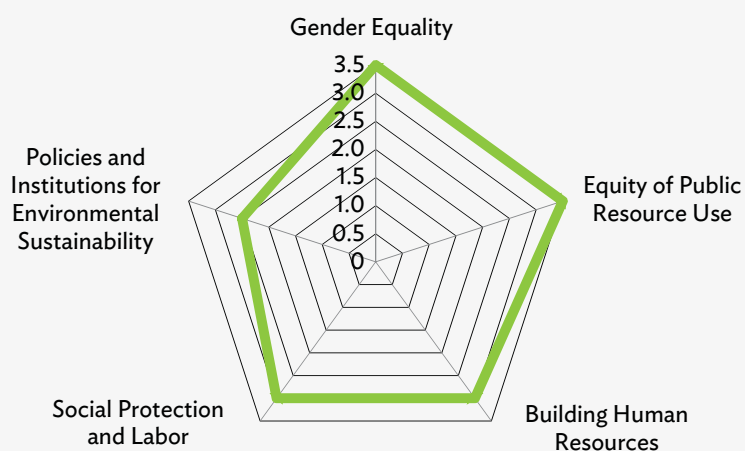
Policies for Social Inclusion/Equity

While Timor-Leste has shown high ratings in gender equality and equity of public resource use in the CPA, the aspects of building human resources such as health, education, and social protection as well as environmental management need greater attention (Figure 28).

Timor-Leste has made some progress in the health sector in the last decade by reconstructing health facilities and expanding community health-based services. This has helped reduce child mortality, eliminate leprosy, and reduce the incidence of malaria and tuberculosis, among others. However, the government is still challenged with high rates of malnutrition, maternal mortality, infant mortality, and

³³ World Bank. 2016. *Doing Business 2016*. Washington, DC. www.doingbusiness.org/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf

Figure 28: Timor-Leste Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

child morbidity and mortality.³⁴ In the education sector, the early reading assessments indicated poor learning outcomes, and these have been attributed to increased enrollments in the disadvantaged areas, highlighting the need for sustained investment in early education. Another challenge in Timor-Leste's education sector is improving teachers' competency and performance.

In terms of social protection, Timor-Leste has an underdeveloped safety net system. There are currently no unemployment savings account or insurance schemes in Timor-Leste, although the labor code does provide for severance pay. The prevalence of child labor is also high. Many rural children are engaged in agriculture, particularly in the cultivation and processing of coffee, where they are exposed to hazards while using potentially dangerous machinery and tools, carrying heavy loads, and applying harmful pesticides. Many of them also work in fishing where they may be at risk of drowning and exposure to harmful elements. To address the high rates of poverty, there is a need for substantial social assistance investment.

Institutional capacity for environmental management remains a constraint, despite legislations and efforts to improve organizational structures. There is a shortage of capable staff in both national and district offices, limiting the enforcement of environmental guidelines and laws. Capacity building and provision of additional funds and logistics support are needed to address environmental issues in the country, such as air and water pollution, poor sanitation, poor waste management, and deforestation, in addition to the risks of climate change.

³⁴ World Health Organization. 2014. *Timor-Leste: Country Cooperation Strategy at a Glance*. www.who.int/countryfocus/cooperation_strategy/ccsbrief_tls_en.pdf

A Way Forward

ADB's independent evaluation for the CPS 2011–2015 recommends that ADB develop options to broaden its sector focus and create opportunities to build synergies with other sectors (footnote 32). The new CPS 2016–2020 will support the government in improving service delivery and strengthening the business environment.³⁵ Based on ADB's Midterm Review of Strategy 2020, the new CPS will also emphasize quality design and efficient implementation of infrastructure projects.

ADB's COBP 2016–2018 is closely aligned with ADB's CPS 2016–2020, Timor-Leste's Strategic Development Plan 2011–2030, and Program of the Fifth Constitutional Government 2012–2017.³⁶ ADB's COBP is supporting Timor-Leste's energy, transport, water and other urban infrastructure and services, education, and finance. The key areas of assistance in the energy sector include development and institutional reform, enhanced energy efficiency and transmission and distribution, and enhanced enabling environment for private sector investment into energy sector, policy, and regulations. Support to the transport sector will focus on roads, road safety, and asset management; water transport; and transport policies and institutional development.

For the water and urban sector, ADB will support urban planning, policies, and reforms. It will help establish new institutional structures for efficient and performance-based service delivery, improve priority water and sanitation infrastructure, increase private sector participation, and achieve more market-based infrastructure and management. In the education sector, ADB will help improve the technical and vocational education and training as well as the education sector policy. ADB will also support the development of the financial sector in Timor-Leste by helping improve the availability and efficiency of financial services.

³⁵ ADB. 2016. *Timor-Leste: Country Partnership Strategy, 2016–2020*. Manila. www.adb.org/documents/timor-leste-country-partnership-strategy-2016-2020

³⁶ ADB. 2016. *Timor-Leste: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/timor-leste-country-operations-business-plan-2016-2018

Tuvalu

COUNTRY PROFILE

Official name: Tuvalu
Capital: Funafuti
Total land area: 26 square kilometers
Population: 9,999 (Country Meters 2016)
Life expectancy: 64.8 years (Country Meters 2016)
Literacy rate (15 years +): not reported by UNESCO
Currency unit: Australian dollar (A\$)
Main exports: copra and fish
Income level: upper middle-income (World Bank)
ADB member since: 1993

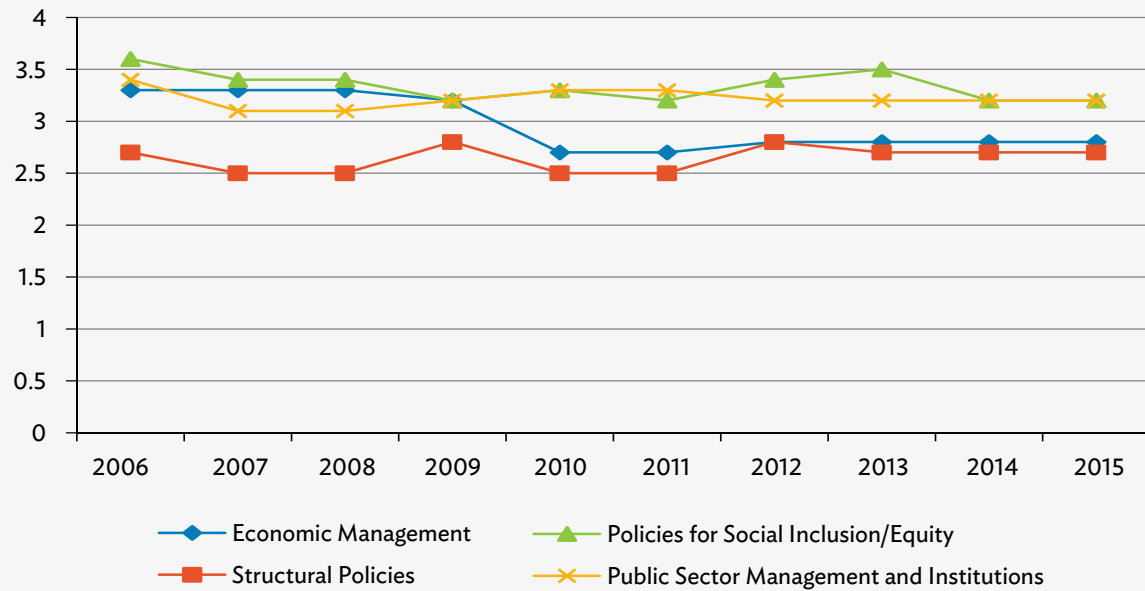


Development Challenges

Tuvalu is among the smallest nations in the world, and is largely dependent on external aid. Tuvalu's economy is also partly driven by a highly variable revenue from fishing licenses, remittances, surpluses from the country's overseas trust fund, and rent of its "dot tv" internet extension. As in any small island country, development in Tuvalu is constrained by physical isolation, small market size, limited economic prospects, weak governance and institutions, and high vulnerability to the risks of climate change.³⁷

The lack of available financing and limited potential cofinanciers constrain ADB investment opportunities in Tuvalu. Political instability, limited country policy development, lack of institutional capacity, and an insufficient pool of local expertise challenge ADB operations in Tuvalu. Based on ADB's 2015 CPA, Tuvalu is weak in the four clusters (that all received a CPA score of 3.2 or less): economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions (Figure 29).

³⁷ Disappearing Tuvalu: First Modern Nation To Drown? (<http://www.worldatlas.com/articles/tuvalu-and-climate-change-rising-sea-levels-threatening-pacific-islands.html>)

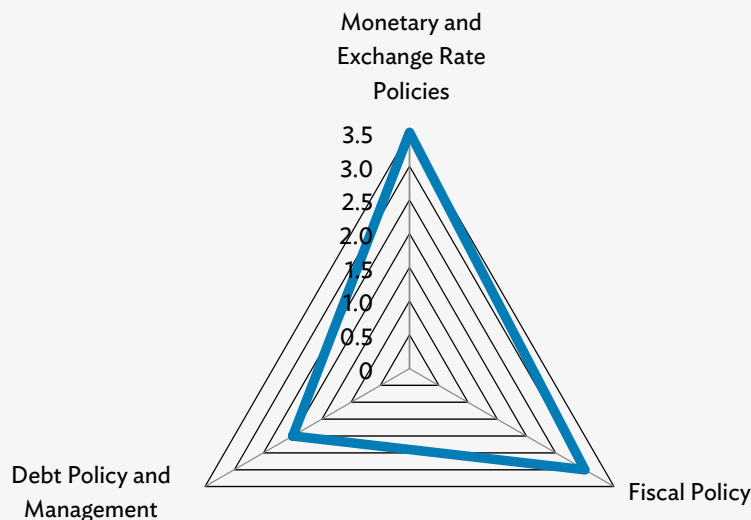
Figure 29: Tuvalu Country Performance Assessment Scores, 2006–2015

Source: Asian Development Bank.

Economic Management

Tuvalu's economy is largely driven by the public sector, and private sector investment is limited (Figure 30). To facilitate private sector development, the government has taken the initial steps to reform public enterprises through privatization and better governance. However, limited domestic market size, high cost of business, limited transport infrastructure, and a shortage of skilled labor constrain private sector investment.

The increase in government spending over the past several years, particularly on wages, travel, and subsidies for overseas medical treatment schemes and educational scholarships, could place the government in a difficult fiscal situation. While fiscal policy targets a balanced budget, expenditure management has not been prudent in recent years, as windfall revenue from the Tuvalu Trust Fund and fishing licenses are immediately spent. Policy coordination between debt management and macroeconomic policies requires improvement. There are instances when public enterprises generate contingent liabilities without consulting the government, and loan guarantees to public enterprises do not always adhere to any policy framework. Institutional arrangements for debt management are weak and limited due to capacity constraints.

Figure 30: Tuvalu Country Performance Assessment Score on Economic Management Indicators, 2015

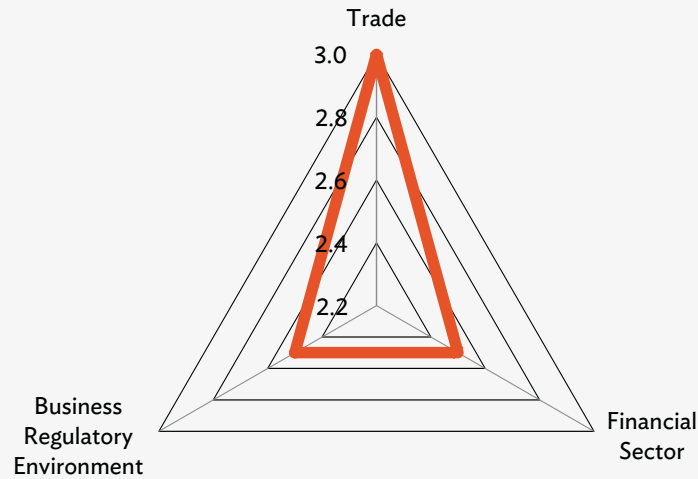
Source: Asian Development Bank.

Structural Policies

Tuvalu has very little domestic production activity, and is heavily dependent on imports (Figure 31). The country's trade policy is primarily focused on public sector revenue-generation, and there are no published policies for domestic industry or business protection. The financial sector is unregulated, prone to substantial risks as evidenced by a sizeable level of nonperforming loans, and vulnerable to domestic shocks due to limited international exposure. The financial market is small and most of the players are government agencies. Loans to the private sector are largely focused on consumer lending with small loan values. There are no credit card facilities, and mobile banking is not available. Microfinance is also limited.

Credit for business development is a major impediment to private sector development, due to cumbersome processes and difficulties of using land as a collateral in applying for bank loans. Though there are no major policy impediments to foreign investments, commercial opportunities for these are limited. Insufficient human resource capacity, a lack of consumer demand, difficulties in securing a loan, cumbersome government rules and regulations, and complicated issues with friends and relatives all contribute to hindering private sector growth.

Land in Tuvalu is strictly controlled. The Native Lands Ordinance limits landownership to natives and prohibits transferring interests by sale, gift, lease, or any other way, subject only to a few specific exceptions. Registering properties and obtaining leases are done through land courts, but are often informal. Land rents are also largely set with the government as the major lessee of land.

Figure 31: Tuvalu Country Performance Assessment Score on Structural Policies' Indicators, 2015

Source: Asian Development Bank.

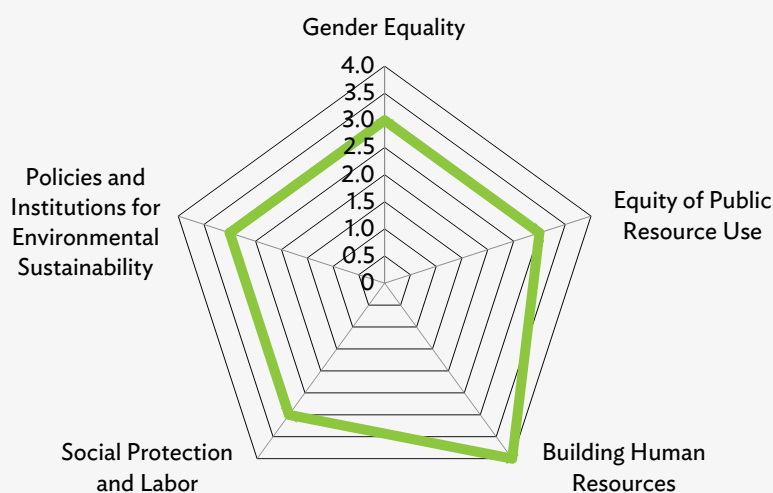
Policies for Social Inclusion/Equity

Key issues for women in Tuvalu include the burden of traditional chores, lack of marketing facilities for their products, insufficient representation in community decision making, inequitable distribution of land, and unfair custodial rights (Figure 32). Women in Tuvalu are very active in small businesses to supplement the household income since the private sector job opportunities are limited, and the public sector wages are insufficient to meet the high costs of living. Hence, the government is actively looking for ways to support women in micro businesses through access to finance, and reduced energy tariffs for home businesses.

Tuvalu culture and traditional practices are identified as the number one barrier to women's advancement and participation in politics. Block voting is practiced in Tuvalu's electoral system, which is mostly influenced by a patriarchal culture and family ties. The Native Lands Ordinance gives women less privilege in family clan matters, particularly in distribution of properties. Incidents of domestic violence against women, many of which are unreported, are also a concern in Tuvalu.

As in other Pacific countries, traditional culture-based social safety nets exist in Tuvalu. However, those living on the outer islands, those with large families, the disabled, the less educated, or those without access to land are at a disadvantage. As the traditional social structure comes under strain from external influences, there is increasing depopulation of the outer islands, thus increasing the dependency ratio among those remaining. As a result, there is increasing poverty and hardship for many families in Tuvalu, and there is a need for more formal social-protection mechanisms.

Figure 32: Tuvalu Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

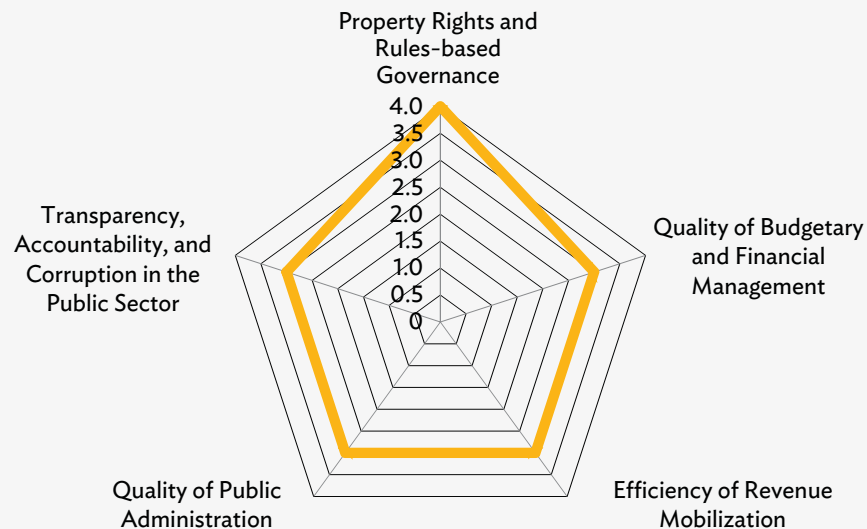
While the government continues to implement educational programs in order to keep children in school and target children who have dropped out for alternative training, gaps remain in the government's legislative framework. Anecdotal evidence suggests that children in Tuvalu are engaged in the worst forms of child labor, particularly in dangerous activities in agriculture and fishing. Children ages 15–17 are also not spared from work in hazardous environments, and boys are not adequately protected from commercial sexual exploitation.

Public Sector Management and Institutions

Given the high reliance on donor funds, fishing license fees, and distribution from the Tuvalu Trust Fund (TTF), the government is unable to exert influence or control over its revenue streams (Figure 33). Forecasting revenues is challenging because fishing license fees are dependent on the catch within the Tuvalu economic zone, and revenues from the TTF are prone to fluctuate due to external factors such as exchange and interest rates, since the funds come from donor countries.

The small size of the population and, consequently, the small number of citizens who are able to achieve a high standard of education and qualification limit the government's ability to improve human capacity within the public service. The core administration demonstrates weak capacity in ensuring quality and effectiveness in policy and regulatory management. Cabinet decisions and policy announcements are sometimes dropped or otherwise not implemented. Changes of government also result in policy disruptions and changes. With a small government administration, business processes contain fewer decision layers; however, the capacity to manage these processes is insufficient.

Figure 33: Tuvalu Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

Audits and other checks and balances on executive power exist but are sometimes ineffective. External accountability mechanisms are also present, but have inadequate resources and authority. Independent audits are conducted, but findings are not always followed up or implemented. External audit reports largely focus on finances and inputs rather than on performance and quality of service delivery. The Freedom House, a US-based independent watchdog organization, states that Tuvalu is one of the few countries in the Pacific islands where corruption is not a serious problem. This has been attributed to the small size of Tuvalu's population and close ties within the communities that provide some deterrent against unethical behavior.

A Way Forward

ADB's engagement in Tuvalu is aligned with the country's national strategy for sustainable development that aims to support good governance, macroeconomic growth and stability, and sustainable infrastructure. The government's key priorities include building and maintaining fiscal resilience and upgrading maritime infrastructure. ADB's COBP 2016–2018 for Tuvalu focuses on strengthening public sector management and the transport sector, including outer island port development.³⁸

³⁸ ADB. 2015. *Tuvalu: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/tuvalu-country-operations-business-plan-2016-2018

ADB will continue to implement public sector management reforms through a policy-based program to strengthen fiscal sustainability and consolidate past reform efforts that were under ADB support. Areas for intervention include strengthening public financial management, public enterprise reforms, and private sector development. An investment project will also help improve outer islands' port facilities—some of which were damaged during tropical cyclone Pam—to ensure the safe and efficient transfer of people and goods, promote economic development, and improve the people's livelihood in the outer islands. As part of the Pacific regional approach, ADB will also explore supporting information and communication technology, energy efficiency, renewable energy, climate change, and economic infrastructure.

Vanuatu

COUNTRY PROFILE

Official name: Republic of Vanuatu
Capital: Port Vila
Total land area: 12,190 square kilometers
Population: 269,737 (Country Meters 2016)
Life expectancy: 64.7 years (Country Meters 2016)
Literacy rate (15 years +): 85.2% (UNESCO 2015)
Currency unit: vatu (Vt)
Main exports: copra, kava, beef, cocoa, and timber
Income level: lower middle-income (World Bank)
ADB member since: 1981



Development Challenges

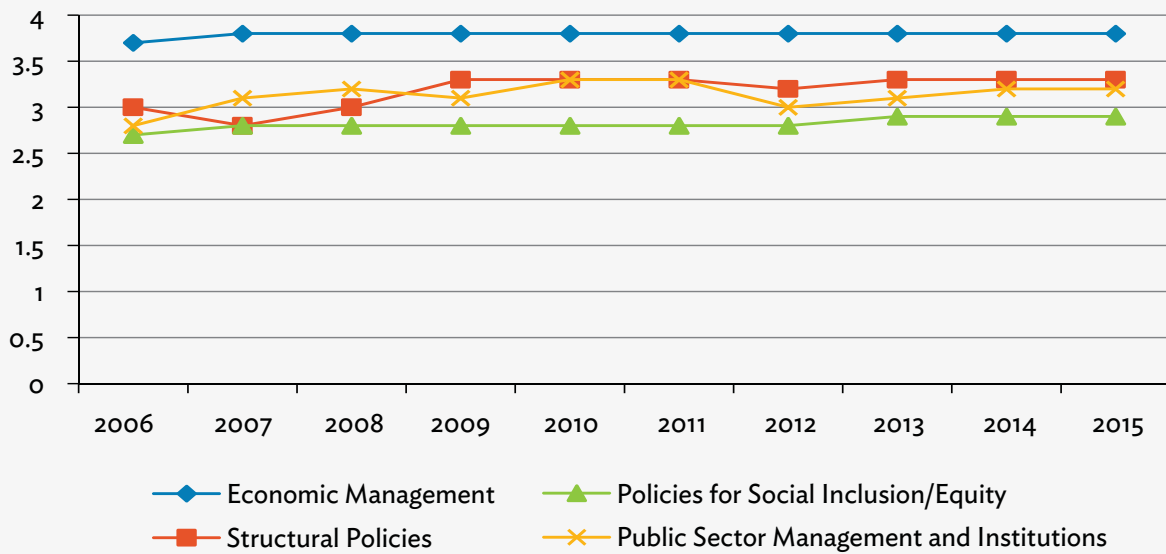
Vanuatu exited ADB's list of fragile and conflict-affected situations in 2013; however, ADB continues to pay attention to the country's fragility issues, including remoteness, small market size, underdeveloped institutions, and limited absorptive capacity. The country has achieved macroeconomic stability with strong growth since 2003. However, due to rapidly increasing population dispersed across many islands and a narrow economic base, it is difficult for development benefits to reach the rural areas where 80% of Vanuatu's population lives. Vanuatu's rural economy depends largely on subsistence farming.

ADB assistance to Vanuatu faces challenges on the sustainability of projects due to lack of administration and inadequate institutional capacity. ADB needs to take into account the political realities and weak governance, while addressing the critical constraints to inclusive growth and social development. Based on ADB's 2015 CPA, the major development challenges of Vanuatu are on policies for social inclusion/equity and public sector management and institutions (Figure 34).

Policies for Social Inclusion/Equity

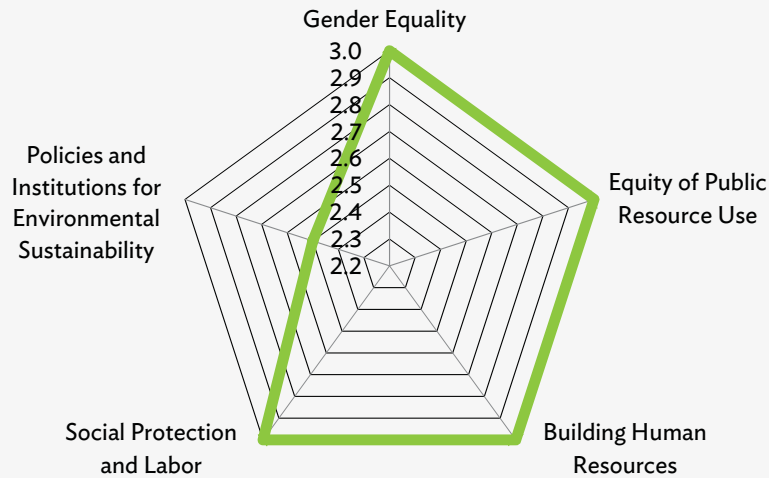
Women in Vanuatu have less access to productive and economic resources than men. Although inheritance laws apply equally to males and females in relation to assets other than land, men still control many aspects of any property (Figure 35). The lack of education and business skills of many women, especially those in the rural areas, hinder them from developing successful business opportunities.

Figure 34: Vanuatu Country Performance Assessment Scores, 2006–2015



Source: Asian Development Bank.

Figure 35: Vanuatu Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

Domestic violence continues to be widespread in Vanuatu, as it is throughout Melanesia. Legislation on sexual assault is present, but is inadequate to protect a range of sexual violations perpetrated against women and girls.

Vanuatu's population is dispersed over scattered islands, and this presents challenges to transportation and delivery of basic services. The lack of transportation or road access hinders access to health services, particularly by those from the remote areas. Outreach programs in remote areas, on the other hand, are constrained by limited trained health personnel, lack of transportation, and inadequate funding. The education sector also faces many issues, including a high proportion of unqualified and uncertified teachers, high rate of teacher absenteeism, poor preparation of school lesson plans, and a lack of teaching resources.

Social protection in Vanuatu is mostly provided through families and kinship networks, involving access to traditional family land holdings for subsistence farming, and a broad array of community-based organizations, especially churches. However, these traditional forms of social protection are slowly eroding in the context of a fast-growing urbanized population and due to landownership disputes. With respect to labor market programs, youth unemployment continues to be a significant problem in Vanuatu.

The government's policy on environmental issues and sustainable management of marine, coastal, and watershed resources is reasonably comprehensive. However, compliance is poor, largely due to a lack of capacity for enforcement and political will to support environmental protection. Despite the Code of Logging Practice and systems for sustainable management of forests, logging and related harvesting activities are still greater than replanting efforts. In addition, the traditional land tenure system is seen as a constraint to sustainable forest management, as there are still numerous disputes between customary owners and forestry leaseholders.

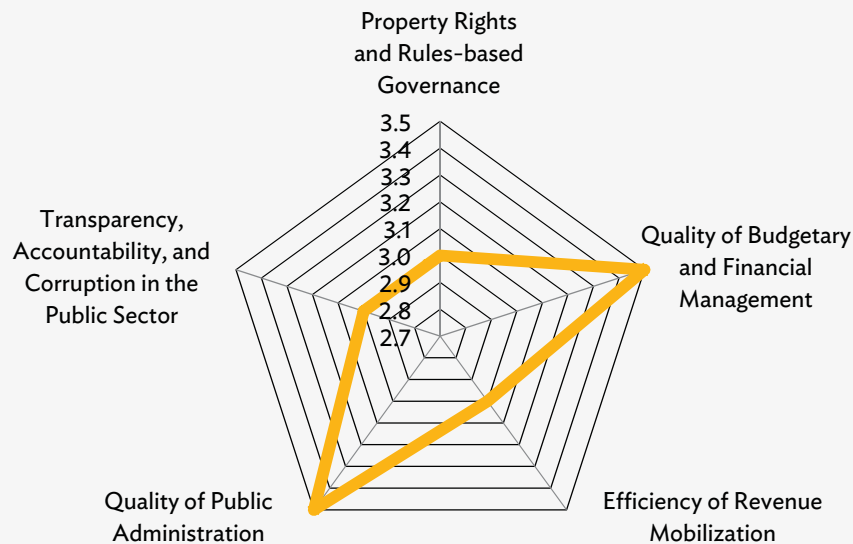
Public Sector Management and Institutions

About 97% of lands in Vanuatu are communally owned, except those in Port Vila and Luganville where most of the lands have been legally alienated and leased for up to 75 years (Figure 36). However, lease creation and management could be problematic due to inefficiencies in land administration.

The formal justice system remains costly, inefficient, and inaccessible to the rural population. However, *kastom* and community-based justice systems exist, with the traditional chiefs having the major role in preventing crime, settling conflicts, and maintaining harmony at the community level. Crime is not regarded as a major impediment to business activity; however, the capacity of the police force is limited in dealing with potential civil outbreaks.

Financial management by line ministries—primarily health, education, lands, public works, agriculture, and the Vanuatu police force—in the provinces is virtually nonexistent, limiting the government's ability to ensure the effective, efficient, and equitable utilization of public funds. A limited revenue base continues to constrain government efforts to deliver services and implement reforms.

Figure 36: Vanuatu Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

Vanuatu has several checks and balances on executive power, including an independent judiciary, basic adherence to the parliamentary process, and a Leadership Code in place, but customary practices tend to blur the line between traditional gift exchange and corruption. External accountability mechanisms exist and are seldom politicized, but have inadequate resources and authority.

A Way Forward

ADB's COBP 2016–2018 for Vanuatu is aligned with the goals and objectives of the government's Priorities and Action Agenda, 2006–2015 as well as Vanuatu's infrastructure strategic investment plan and national energy road map.³⁹ The COBP will focus on energy, transport, water and other urban infrastructure and services, and private sector development. ADB is also providing support to the government in preparing its new national development strategy.

Support for the energy sector aims to increase energy access for households and businesses in the provincial centers of Vanuatu, and contribute to inclusive economic growth through expansion of the existing distribution grids and the development of low-cost renewable energy generation from hydropower. Interventions on the transport sector are expected to improve the efficiency and effectiveness of interisland shipping services through the provision of an integrated package

³⁹ ADB. 2015. *Vanuatu: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/vanuatu-country-operations-business-plan-2016-2018

of assistance: (i) infrastructure investments in the capital of Port Vila and five outer islands, and (ii) establishment of a shipping support scheme to catalyze the provision of services to remote noncommercial destinations. To address the urbanization issues, ADB will help improve urban roads and traffic management, sanitation, and sewerage. Under the Pacific Private Sector Development Initiative, ADB will help improve the country's business environment, and support inclusive and private sector-led economic growth.

CONFLICT-AFFECTED SITUATIONS

The Australian Aid defines conflict as “a violent or nonviolent process in which two or more parties disagree about interests and values. Although it may provide an opportunity for change, if not managed correctly and peacefully, it can escalate into violence.”⁴⁰ Another definition is based on ADB’s experience in engaging with its conflict-affected member countries—a conflict-affected situation is characterized by the presence of secessionist groups that are dissatisfied with the country’s sociopolitical system, and therefore calling out for significant government reforms. This situation, if not properly handled, may lead to violent conflict and political instability. In other words, conflict, particularly a violent armed one, would be the ultimate stage of fragility—fragility at its climax. A conflict-affected situation may also be exacerbated with the presence of terrorist groups, tribal conflicts, and political rivalries.

Two of ADB’s member countries—Afghanistan and Myanmar—have been devastated by decades of conflict. Despite efforts on peacebuilding by both the international community and respective governments, high risks remain and Afghanistan and Myanmar are still on the verge of relapsing to further conflict. The gradual withdrawal of the North Atlantic Treaty Organization (NATO) troops in Afghanistan increases the prospect of Taliban presence, while in Myanmar, there are still multiple ethnic groups that have not been part of the peace process.

It is extremely difficult to start the development process in a conflict-affected situation. The question is where and how to start, without undermining or even reversing the peace dividends that have been reaped in the past. Analysis of ADB’s country performance assessment (CPA) of Afghanistan and Myanmar gives an idea of the most fragile areas (where scores are below the 3.2 cutoff point) that both government and development partners need to address (Figures 37–45).

⁴⁰ Australian Agency for International Development. 2011. *Framework for Working in Fragile and Conflict-Affected States: Guidance for Staff*. Canberra.

Afghanistan

COUNTRY PROFILE

Official name: Islamic Republic of Afghanistan
Capital: Kabul
Total land area: 652,864 square kilometers
Population: 33,379,332 (Country Meters 2016)
Life expectancy: 45 years (Country Meters 2016)
Literacy rate (15 years +): 38.2% (UNESCO 2015)
Currency unit: afghani (AF)
Main exports: natural gas and dried fruit
Income level: low-income (World Bank)
ADB member since: 1966–1979, 2002–present
 (Afghanistan was a founding member of ADB in 1966 and was supported by ADB until 1979. ADB reengaged in Afghanistan in 2002 after the hiatus from 1980 to 2001.)



Development Challenges

Afghanistan is a landlocked country in Central Asia, bordered by Pakistan in the south and east; Iran in the west; Turkmenistan, Uzbekistan, and Tajikistan in the north; and the People's Republic of China in the far northeast. ADB has been supporting Afghanistan over two periods: (i) from 1966 to 1979; and (ii) since ADB resumed operations in the country in 2002 to the present, after the hiatus from 1980 to 2001. Decades of war have shaped Afghanistan's current state of fragility.⁴¹

Despite billions of aid spent, there are still high rates of poverty indicators, such as illiteracy, unemployment, maternal and infant mortality; and the continuing conflict has displaced about 1.2 million Afghans.⁴² ADB's interim country partnership strategy (CPS) for Afghanistan, 2014–2015 identifies insecurity and political instability, high poverty rates, inadequate infrastructure, and weak governance and institutional capacity as the main development challenges in the country.⁴³ ADB's 2015 CPA captures these challenges in four clusters: economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions (Figure 37). These challenges make project implementation more difficult and costly for both ADB and the government.

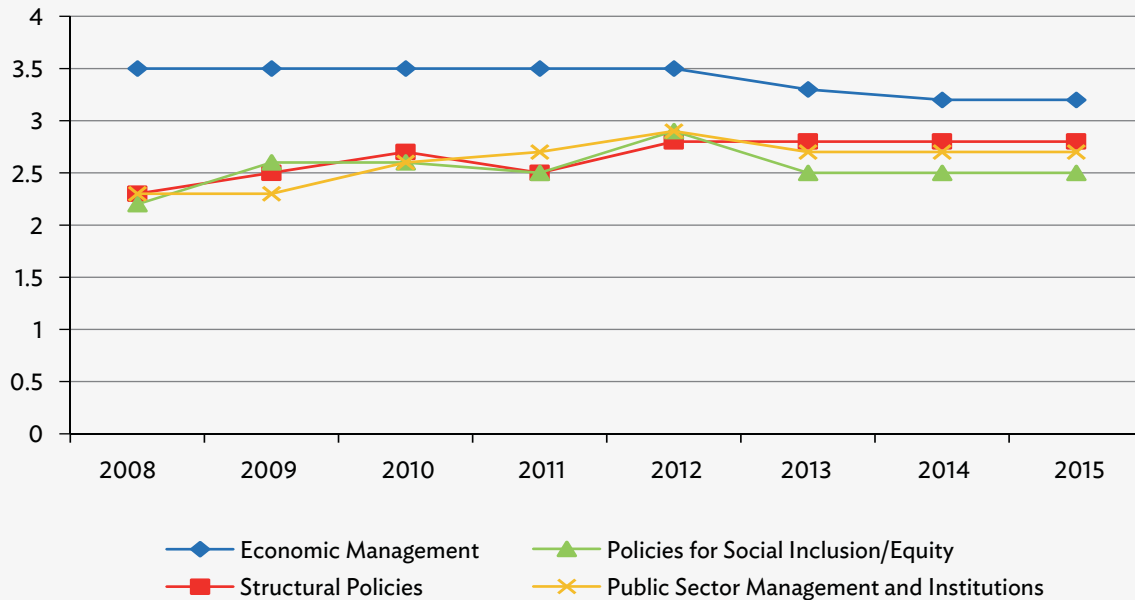
⁴¹ OECD. 2015. States of Fragility 2015. *Meeting Post-2015 Ambitions*. Paris. www.oecd.org/dac/states-of-fragility-2015-9789264227699-en.htm

⁴² United Nations Assistance Mission in Afghanistan. 2015. Protection of Civilians in Armed Conflict. *Afghanistan: Annual Report 2015*. Kabul. http://unama.unmissions.org/sites/default/files/poc_annual_report_2015_final_14_feb_2016.pdf

⁴³ ADB. 2014. Interim Country Partnership Strategy: for Afghanistan 2014–2015. Manila.

The government is confronted with the need to reform policy and institutional frameworks, improve transparency and accountability, and achieve greater operational efficiencies.

Figure 37: Afghanistan Country Performance Assessment Scores, 2008–2015



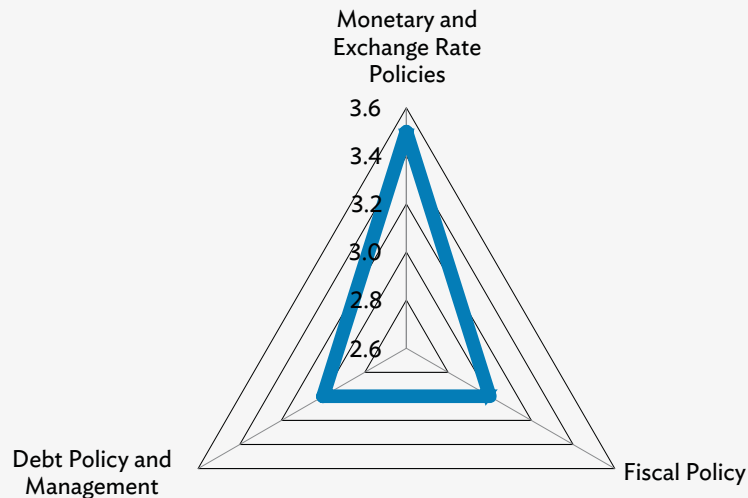
Source: Asian Development Bank.

Economic Management

Afghanistan is largely dependent on foreign grants for government spending, especially in the security sector (Figure 38). After the withdrawal of the NATO troops in late 2014,⁴⁴ security risks have increased not only due to the prospect of stronger Taliban presence, but also due to grim economic prospects with international aid decreasing from \$8 billion a year to \$1.8 billion a year. The withdrawal of the NATO troops entails a great decrease of businesses and livelihoods on which most Afghans depend for their daily survival. The new coalition government, established in September 2014, remains fragile and continues to face a number of challenges.

In addition to rising security sector spending coupled with increasing civilian wages and pension bills, operation and maintenance costs of the infrastructures built by donors will exert further fiscal pressures on the meager domestic financing resources. According to 2015 report of the International Monetary Fund (IMF), Afghanistan is weak in fiscal policy implementation, with setbacks in revenue mobilization

⁴⁴ The current government, however, signed a bilateral agreement with the United States (US) allowing US military presence up to 2024 and station its troops at five important military bases across Afghanistan.

Figure 38: Afghanistan Country Performance Assessment Score on Economic Management Indicators, 2015

Source: Asian Development Bank.

efforts and difficulties in expenditure and cash management.⁴⁵ Recently, however, substantial improvement was achieved in revenue mobilization. Moreover, the recent joint IMF–World Bank debt sustainability analysis concludes that “After extensive debt relief and substantial medium-term pledges from donors, Afghanistan’s debt outlook, under the baseline scenario, is benign. However, this is predicated on continued economic growth, progress in reforms, improvements in security as well as all donor assistance being provided in the form of grants.”⁴⁶

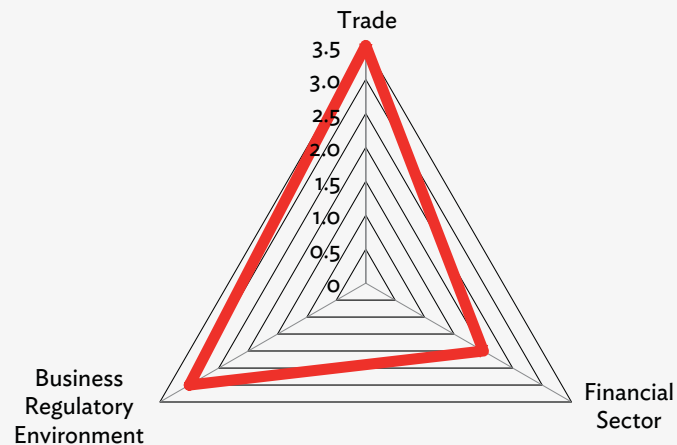
Structural Policies

The quality of risk management and financial supervision is still weak in Afghanistan, and not at par with the countries in the region (Figure 39). The financial sector efficiency and resource mobilization are also weak. Credit to private sector was only 4% of gross domestic product (GDP) in 2015, reflecting the scarce profitable lending opportunities.⁴⁷ Lending is largely based on relationships rather than market-oriented. The financial sector is not diversified, but dominated by money service providers. The banking sector is limited to 15 commercial banks: 3 foreign and 12 domestic banks. The formal financial institutions, mostly banks, do not perform efficiently even at the standards in the region. There is no

⁴⁵ IMF. 2015. *Islamic Republic of Afghanistan: Staff Report for the 2015 Article IV Consultation and First Review Under the Staff Monitored Program*. Washington, DC. (3 November). <https://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf>

⁴⁶ IMF. 2015. *Islamic Republic of Afghanistan: Staff Report for the 2015 Article IV Consultation and First Review Under the Staff Monitored Program—Debt Sustainability Analysis*. Washington, DC. (13 November). <https://www.imf.org/external/pubs/ft/scr/2015/cr15324.pdf>

⁴⁷ World Bank. Domestic Credit to Private Sector (% of GDP). <http://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?locations=AF> (accessed 29 July 2016).

Figure 39: Afghanistan Country Performance Assessment Score on Structural Policies' Indicators, 2015

Source: Asian Development Bank.

bond market, capital market, and money market in the country. The nonbank financial institutions only consist of three insurance companies and a nonprofit microfinance institution supervised and regulated by the government.

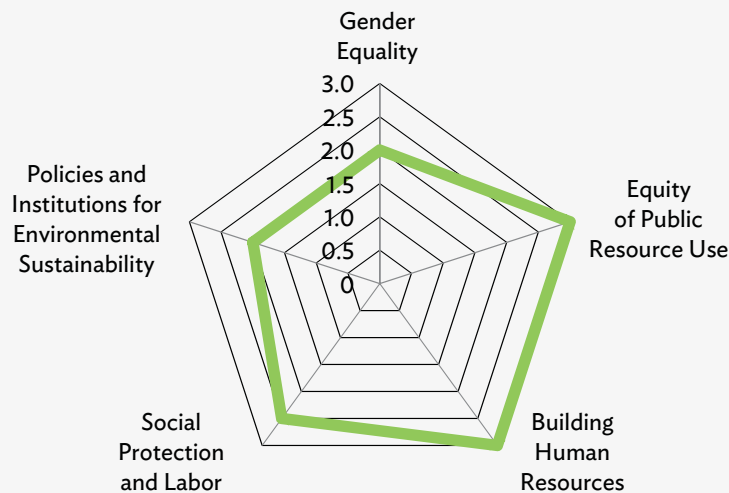
Afghanistan has simplified starting a business. The time and cost to get a business license has been reduced, and the condition for the inspection of the premises of newly registered companies has been eliminated. However, regulatory inspections and compliance are weak because of the scarcity of professional personnel and a weak governance and regulatory framework, along with high levels of corruption. Private ownership of land is permitted with no restrictions for citizens, while there are few restrictions in the case of foreign ownership.

Complex issues exist in land registration and titling. Registering property is time consuming, complicated, and expensive due to too many procedures and corruption. To register a property, it takes 9 procedures, 250 days, and costs 5% of the property value. There is no legal or institutional barrier to landownership, but the land market is highly distorted by significant monopolistic elements. State intervention in the labor and land markets is limited to enforcing regulations and smoothing out market imperfections such as running labor market programs. According to the Heritage Foundation, informal labor activities exist in many sectors in the absence of a well-functioning labor market system.

Policies for Social Inclusion/Equity

There has been a recent increase in women's participation in education, health, and employment, but it is only concentrated in Kabul and other major cities (Figure 40). Women in Afghanistan have less access to economic and productive resources than men. Women's access to land and property is restricted by custom. Although the Constitution of Afghanistan says that all Afghans have equal rights and duties, women are disadvantaged by customary laws, which are mostly applied in rural areas. These informal laws favor men and often result in women being treated as a property. Violence against women in Afghanistan is exceptionally high—up to 87.2% of women have experienced physical, sexual, or psychological violence, or forced marriage.⁴⁸

Figure 40: Afghanistan Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

The education system in Afghanistan is still in need of significant improvements in terms of enrollment rates, education quality, and tackling illiteracy, most especially for girls. Adult illiteracy is still a major problem for the workforce. In addition to uncertain security, the extreme mountain terrain and harsh climate make it difficult to access education, especially for girls. Early marriage also often interrupts girls' education. A general shortage of teachers and need for female instructors, coupled with too few physical structures, makes attendance difficult, particularly in rural areas.

⁴⁸ Global Rights: Partners for Justice. 2008. *Living with Violence: A National Report on Domestic Abuse in Afghanistan*. Washington, DC. www.globalrights.org/Library/Women's%20rights/Living%20with%20Violence%20Afghan.pdf

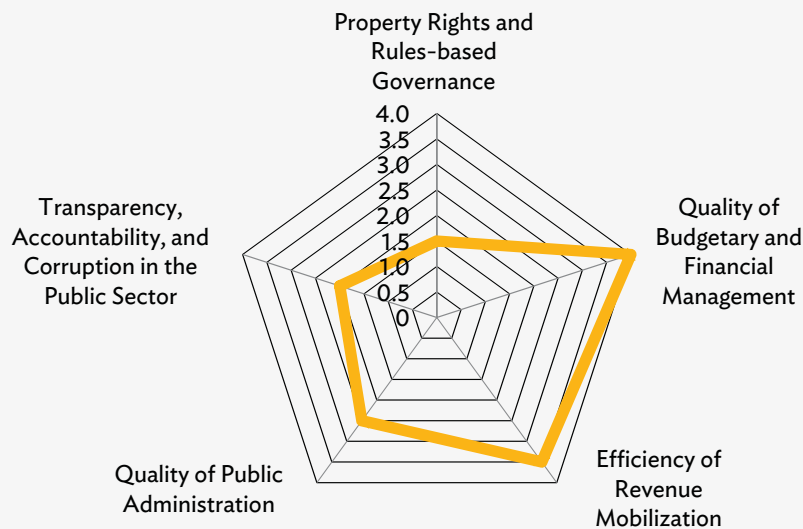
There is disparity between health services in the urban and rural areas and in the private and public sectors. The quality of health services in the private sector is better than those of the public health facilities; and treatment at private health facilities is very expensive for the majority of the population living in urban and rural areas. Poor families from the rural areas have less access to public health facilities that are mostly funded by donors.

The social protection system in Afghanistan is still in the infant stage, and is challenged by staff capacity constraints, lack of program coordination and effectiveness, limited coverage, and poor targeting. Most ministries are performing well in tackling environmental issues except for other ministries that have weak capacity, such as the ministries that deal with transport and tourism.

Public Sector Management and Institutions

Weak systems of governance and oversight are considered as one of the causes of conflict and fragility in Afghanistan along with political and security instability, regional/tribal affiliations, power and socioeconomic imbalances, limited function of civil society, and corruption (Figure 41). Afghanistan ranks third as the most corrupt country in Asia and the Pacific, next to Democratic People’s Republic of Korea and Somalia.⁴⁹

Figure 41: Afghanistan Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

⁴⁹ Transparency International. 2016. *Corruption Perceptions Index 2015*. <http://www.transparency.org/cpi2015#results-table>

Poor linkages between the national and subnational levels of governance and an imbalance in the distribution of power between the three branches of government, with power concentrated in the executive branch, continue to limit effectiveness and legitimacy. The limited human capacity and lack of formal training and education for the civil service hamper the development of a stable government in Afghanistan. Overall, this also contributes to the weak absorptive capacity of the government to the massive financial aid from the international community.

Upon the handing over of projects by development partners, the government needs to ensure operation and maintenance; thus, it has to improve its budgetary processes and financial management. Despite its conflict situation, Afghanistan has accomplished a remarkable progress on the fiscal front, according to the World Bank.⁵⁰ Fiscal discipline has been strictly enforced and maintained, and there is significant fiscal transparency. The government's commitment to financial transparency and accountability has gained the confidence of donors and resulted in high levels of aid.⁵¹ Key challenges, however, still remain including capacity constraints at the national and subnational levels; weak planning and budget formulation; and challenges in communication and coordination across ministries, among donors, and between national and subnational entities.

A Way Forward

ADB's assistance is aligned with the Afghanistan National Development Strategy (ANDS), which “envisions a stable Afghanistan by 2020 based on constitutional democracy with social equity, environmental sustainability, and a market economy led by the private sector.” The ANDS highlights the three pillars—(i) security; (ii) governance, rule of law, and human rights; and (iii) economic and social development—as priorities.

Under its interim CPS for Afghanistan, ADB will continue to support pillar 3 and, to some extent, pillar 2 of the ANDS.⁵² Assistance will be focused on transport, energy and agriculture, natural resources, and rural development, combined with capacity and institutional development and sector reform. In line with ADB's Second Governance and Anticorruption Plan, public financial management, procurement, and anticorruption will be emphasized. ADB is also anticipating additional strategic investment in the private sector. ADB will adopt conflict-sensitive approaches to its development activities, including the use of multitranche financing facility and application of the peacebuilding tool in ADB programs and projects.⁵³

⁵⁰ World Bank. *Afghanistan: Overview*. www.worldbank.org/en/country/afghanistan/overview (accessed 29 July 2016).

⁵¹ World Bank. 2013. *Afghanistan: Public Financial Management and Accountability Assessment*. Washington, DC. <http://documents.worldbank.org/curated/en/2013/08/18525716/afghanistan-public-financial-management-accountability-assessment>

⁵² ADB. 2014. *Afghanistan: Interim Country Partnership Strategy, 2014–2015*. Manila. www.adb.org/documents/afghanistan-interim-country-partnership-strategy-2014-2015

⁵³ ADB. 2012. *A Peacebuilding Tool for a Conflict-Sensitive Approach to Development: A Pilot Initiative in Nepal*. Manila. www.adb.org/publications/peacebuilding-tool-conflict-sensitive-approach-development-pilot-initiative-nepal

Myanmar

COUNTRY PROFILE

Official name: Republic of the Union of Myanmar

Capital: Nay Pyi Taw

Total land area: 676,578 square kilometers

Population: 54,258,848 (Country Meters 2016)

Life expectancy: 64.9 years (Country Meters 2016)

Literacy rate (15 years +): 93.1% (UNESCO 2015)

Currency unit: kyat (MK)

Main exports: natural gas, minerals, beans, and pulses

Income level: lower middle-income (World Bank)

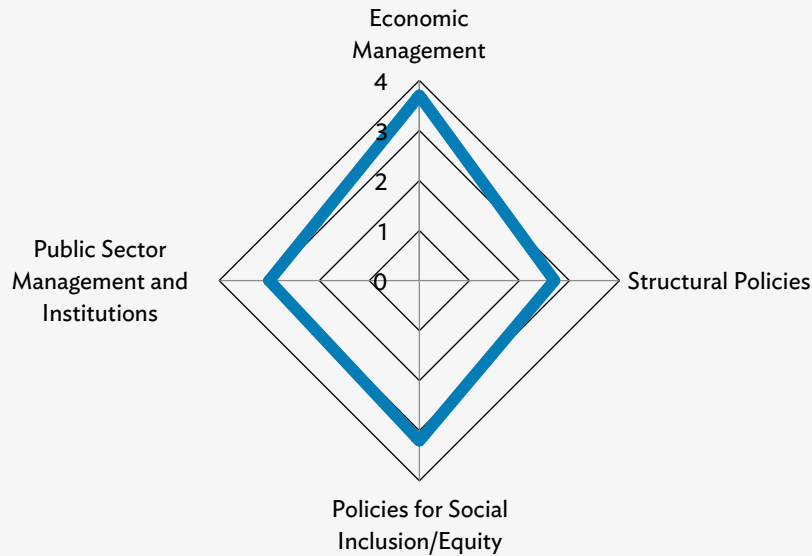
ADB member since: Reengaged in 2012 (after an absence from direct assistance to the country since 1998)



Development Challenges

Myanmar is going through reforms toward a democratic system and market-based economy after 60 years of economic and political isolation. The country faces significant challenges on both the macroeconomic front and peacebuilding. It needs to continue peace and reconciliation efforts while dealing with deficits in infrastructures, human resources, and governance to achieve sustainable social and economic development.

Multiple long-standing ethnic conflicts across the country make it difficult for development partners to implement programs and projects in Myanmar. A conflict-sensitive approach to development is needed through understanding the local context, adopting flexibility, and establishing local ownership. Central and line agencies are also constrained with weak capacity to manage the increasing numbers of development projects. Country systems need to be strengthened, particularly in the areas of project management, financial management, procurement, environmental and social safeguards, and other critical operational skills. Based on ADB's 2015 CPA, the major development challenges of Myanmar are structural policies, policies for social inclusion/equity, and public sector management and institutions (Figure 42).

Figure 42: Myanmar Country Performance Assessment Score, 2015

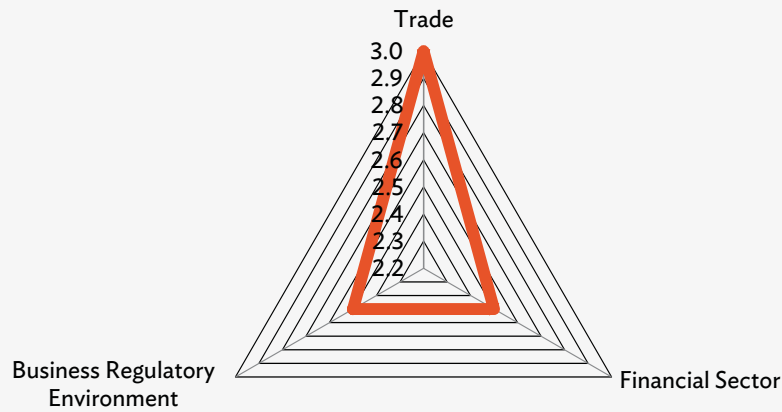
Note: Myanmar has no available country performance assessment in previous years, since ADB only reengaged with the country in 2012.

Source: Asian Development Bank.

Structural Policies

Inadequate infrastructure and complex procedures are a major constraint to trade in Myanmar (Figure 43). In particular, transport, information and communication technology, maritime connectivity, and customs administration need improvement. Most legislation related to customs is in need of revision, and is largely inadequate for a modern customs administration. The clearance process itself is done manually. The Customs Department has a computer system, but is only used for data-keeping, calculating duty and taxes, and issuing periodical reports. Smuggling and corruption at the Myanmar borders are widespread. The customs administration is unable to track and trace shipments of goods. With the weak banking system and inadequate customs valuation policy, payments are largely made through the informal system.

Myanmar's financial sector has restrictive administrative controls resulting in a large shadow financial system with a significant offshore component. The Central Bank of Myanmar needs substantial capacity building in financial sector regulation and supervision. Gradual financial liberalization is taking place as some restrictions have been eased recently. The size and diversity of Myanmar's financial market is still underdeveloped, but improving. Access to finance is limited, particularly in rural areas. The government has introduced measures to improve access to credit and financial intermediation. The microfinance sector is still at an early stage of development.

Figure 43: Myanmar Country Performance Assessment Score on Structural Policies' Indicators, 2015

Source: Asian Development Bank.

Businesses in Myanmar are confronted with a weak banking system, inadequate infrastructure, and significant red tape that contribute to high transaction costs. There are a few bans on investment, but the cumbersome certification, licensing, inspections, and customs regimes continue to discourage foreign investment, and limit the ability of local firms to invest and compete internationally.⁵⁴

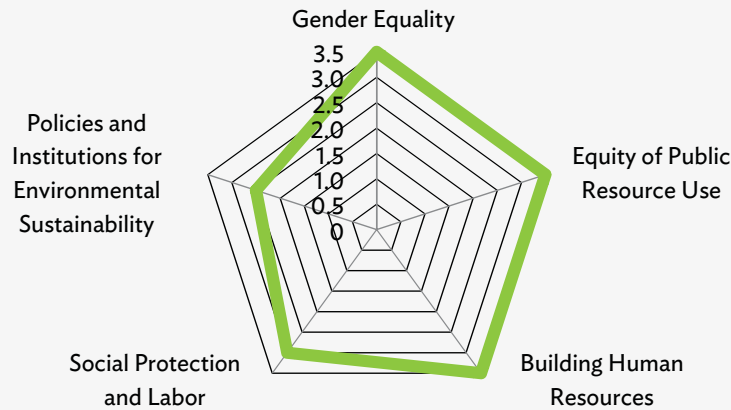
Under the Constitution, the government is the ultimate owner of all lands and natural resources and will supervise the use or extraction of them. Hence, only the lease of land is allowed in Myanmar, and thus the land market is underdeveloped. In 2012, the Parliament enacted the Farmland Law as well as the Vacant, Fallow and Virgin Lands Management Law allowing, for the first time, the long-term use of large tracts of land for private investors in agricultural, industrial, and contract farming and provided adjustments in protecting land rights of smallholders and poor farmers. The Parliament has formed an inquiry commission to investigate the impact of the new land laws on rural households. The government is also looking into overhauling the land use policy.

Policies for Social Inclusion/Equity

Although Myanmar has made some progress in achieving the Millennium Development Goal on health and nutrition, some health indicators remain weak, which affects the quality of human capital (Figure 44). There is low government expenditure in the health care system, which is characterized by inefficiency, inequity, and inaccessibility of essential health services. Key issues in education, particularly in poor and ethnic areas, include disparities in completion rates and degrees of preparedness at the primary level; demand-side factors such as financial and opportunity costs, language, other cultural

⁵⁴ European Union. IMG Trade Mission Report. Unpublished.

Figure 44: Myanmar Country Performance Assessment Score on Indicators for Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

factors, and disabilities; and supply-side factors such as gaps in school networks in remote areas, limited human resources, and low budget.

Myanmar does not yet have an effective and comprehensive social protection system in place, though the government has reemphasized the need to tackle widespread poverty and is exploring options for establishing social safety net programs. Informal social safety nets exist and are largely centered on family and friends, as well as nonstate actors such as nongovernment and religious organizations. Many rural households migrate to urban areas or abroad due to low remuneration, seasonality of jobs available in poor communities, and poor employment returns, which are aggravated by occurrence of natural disasters.

The issue of climate change has only recently been assessed as a high priority in Myanmar. The government's perspective changed fundamentally after cyclone Nargis hit the country in 2008, causing severe damage, including loss of many lives and livelihoods. Myanmar's vulnerability to climate change is now widely recognized, with the country coming second in world ranking.⁵⁵ Potential climate change-related impacts on Myanmar include incremental sea level rise, saltwater intrusion, loss of mangroves, increased incidence of droughts, loss of biodiversity and ecosystems such as wetlands, and loss of land resources. Myanmar is already experiencing the effects of climate change, with a clear trend of rising temperatures, shortening of monsoon duration, and increased frequency of intense rainfall and severe cyclones along Myanmar's coastline.

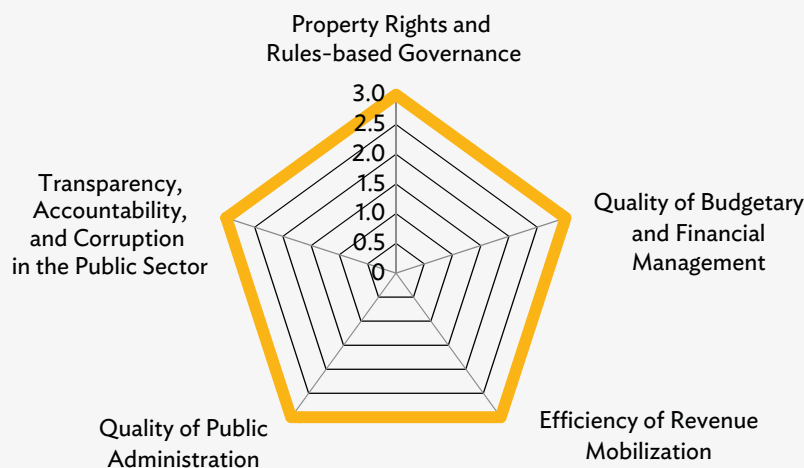
⁵⁵ S. Kreft et. al. 2014. *Global Climate Risk Index 2015*. Berlin: German Watch. <https://germanwatch.org/en/download/10333.pdf>

While climate change is mainly related to global phenomena, national actions in Myanmar are both contributing to climate change globally and the country's vulnerability in terms of human health impact, agricultural security, and loss of biodiversity. Deforestation is of particular concern, with decreasing forest cover and quality-reducing adaptive capacity and potential to absorb greenhouse gases. Forest fires represent an additional climate change pressure, especially in dry forests that dominate the central part of the country. The government is responding to climate change risk and vulnerability, quickly putting in place a national plan for disaster-risk reduction. Although there is currently no national policy target, Myanmar has made several international commitments, including the United Nations Framework Convention on Climate Change (UNFCCC) which was ratified in 1994 and the related Kyoto Protocol, in 2003. Myanmar also submitted its new climate action plan (or the Intended Nationally Determined Contribution) to the UNFCCC in Paris in December 2015.

Public Sector Management and Institutions

The 2008 Constitution provides that the state ultimately owns all the land and natural resources, although it permits some exercise of private property rights (Figure 45). Myanmar citizens can own land, but the state can confiscate the property for its own use, resulting in the loss of livelihood in the communities and causing civil unrest in the country. Most ordinary people do not have legal title to their land and other properties. Inconsistent application of laws, delays in decisions, and corruption constrain citizens and businesses to enforce their rights; thus, many commercial disputes are being resolved informally. The government has maintained ceasefires with most nonstate armed groups across the country, and is in continuous discussion with them for a comprehensive peace agreement.

Figure 45: Myanmar Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

Myanmar has a narrow tax base and provides moderate tax exemptions. The government relies heavily on earnings from gas exports, rather than taxes, for its revenues. Tax administration is generally weak, but improving. Salaries of many civil servants, in particular at the lower levels of the bureaucracy, are often not enough to cover living costs. Myanmar's civil bureaucracy has long been characterized by a high degree of centralization, a weak degree of administrative and managerial autonomy, and an almost nonexistent consultative process. Policy coordination is generally poor in Myanmar. Although there are effective horizontal forms of coordination in some core ministries, coordination outside the core administration is difficult to manage. Due to unclear responsibilities and redundancies, friction has emerged in the larger public sector.

According to a recent World Bank study, a much higher level of accountability exists at the local level than one might expect in a country that is still not fully democratic with the active presence of civil society organizations.⁵⁶ There are local level institutions that operate to mediate disputes, channel voice, and provide some form of social accountability. Bribery and corruption are a concern in Myanmar; however, the country's ranking in the Transparency International's Corruption Perception Index has improved in 2015, ranking 147th out of 167 countries compared with 172nd out of 176 countries in 2012.

A Way Forward

ADB's program in Myanmar aims to support the government in achieving inclusive and sustainable economic growth and job-creation for poverty reduction. ADB's forthcoming CPS 2017–2021 will focus on improving access and connectivity, strengthening the human capital, and reforming structures and institutions. The CPS will align closely with the government's strategies and priorities and ADB's Strategy 2020. The CPS priority sectors will be transport, energy, urban and water, and agriculture and rural development.

ADB will help address the critical infrastructure needs of Myanmar by building rural–urban–regional transport networks to connect rural and urban areas and markets, and to link Myanmar business with its neighbors and the global market place. Policy reforms and capacity building will be incorporated into ADB's transport activities, including institutional restructuring and public–private partnerships where suitable. For the energy sector, a long-term sovereign programmatic engagement in the electric power subsector is planned to develop the power transmission and distribution network. ADB will also consider cross-border power transmission projects in the future. Related policy reforms and capacity building will be embodied in ADB's energy activities, and ongoing support to public–private partnerships in the energy sector will continue. ADB's nonsovereign operations will explore opportunities in power generation.

ADB will also help support the improvement of urban infrastructure and services, including water supply, wastewater, solid waste, urban floods, and urban transport. Modernized spatial planning and

⁵⁶ World Bank. *What Lies Beneath: An Operational Analysis on Leadership and Institutions at the Local Level in Myanmar*. Washington, DC.

urban management will be a critical element of ADB's interventions to facilitate urbanization as a driving force for economic growth. To promote agriculture and rural development, ADB will undertake sector investments in irrigation and asset management and in the promotion of agro-business value chains along selected economic corridors. ADB's intervention in education and training will focus on enhancing the role of the secondary education subsector, and technical and vocational education and training in equipping the youth for the workplace, as a prerequisite to economic modernization (including attracting foreign and international investments into modern sectors) and inclusive growth.

TRANSITIONAL SITUATION

A transitional situation, also sometimes referred to as a post-conflict situation, include countries that have exited from a conflict situation. The economy of a post-conflict country may be growing, but reform processes could be constrained with weak capacities and poor governance. The transition may take decades for a country to transform from an undeveloped economy to a developing economy.

Nepal is one of ADB's developing member countries that is in a post-conflict or transitional situation. The country suffered 10 years of armed conflict, largely due to social and political upheaval by the Maoist movement. The peace process in Nepal has yielded significant social and political reforms, including a new Constitution that has been prepared through an inclusive approach. However, fragility risks remain, given the recent earthquake and some pockets of poverty and inequality in the country.

Nepal

COUNTRY PROFILE

Official name: Nepal
Capital: Kathmandu
Total land area: 147,181 square kilometers
Population: 28,795,634 (Country Meters 2016)
Life expectancy: 66.2 years (Country Meters 2016)
Literacy rate (15 years +): 64.7% (UNESCO 2015)
Currency unit: Nepalese rupee (NRe)
Main exports: carpets, clothing, hemp, leather goods, jute goods, and grain
Income level: low-income (World Bank)
ADB member since: 1966



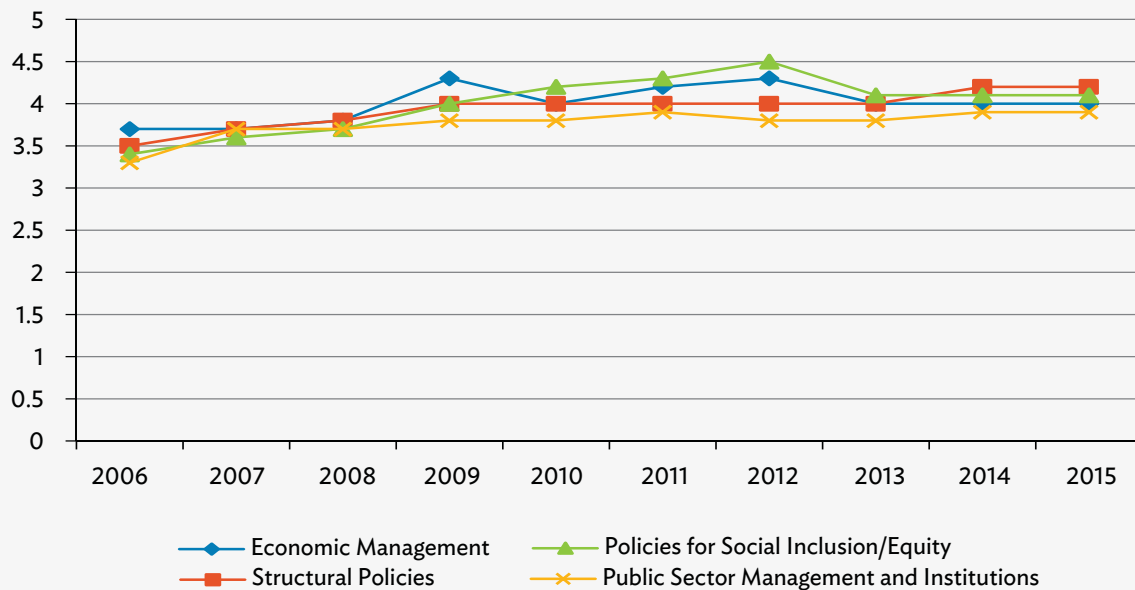
Development Challenges

Nepal is a landlocked country, consisting mainly of hilly and mountainous terrains, along the Himalayas and bordered to the north by the People's Republic of China and to the south, east, and west by India. Nepal is recovering from the devastations of the 2015 earthquake. ADB operations in Nepal are challenged by weak capacity of public institutions in project planning and implementation. Capacity building of contractors, consultants, and project agencies are also needed for efficient contract management.

Fiduciary risks are high at the local level due to a political vacuum or absence of elected local governments since 2002. The government's capacity to efficiently plan and manage sector investments and sustain assets is also limited. The lack of conducive business environment for the private sector, the country's rugged terrain, inadequate infrastructure, acute power shortages, disruptive labor relations, and low human capital are some of the bottlenecks to Nepal's economic growth.

Nepal is no longer in the list of ADB's fragile and conflict-affected situations since 2008. However, ADB continues to pay close attention to the country's fragility issues. While Nepal has shown scores higher than 3.2 in most of the country performance assessment (CPA) indicators (Figure 46), there are indicators under the public sector management and institutions cluster that need significant improvement. They are indicators that have a score of below 3.2 in ADB's 2015 CPA—quality of legal and judicial system, coordinating the larger public sector human resource management (HRM) regime, state capture by narrow vested interests, and integrity in the management of public resources (Figure 47).

Figure 46: Nepal Country Performance Assessment Scores, 2006–2015

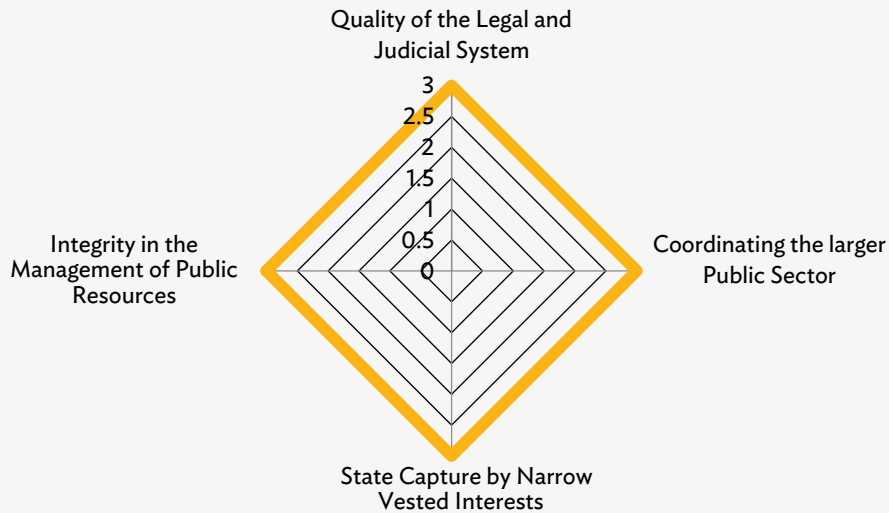


Source: Asian Development Bank.

Public Sector Management and Institutions

Quality of legal and judicial system. Access to justice is still a challenge for the poorest and marginalized groups in Nepal. The government recognizes that the justice system is not only slow and cumbersome, but it is also expensive. Despite the reforms made in recent years, the lack of human resources that results in a huge backlog constrains the judiciary. Courts receive 7,000–8,000 new cases every year.

Figure 47: Nepal Country Performance Assessment Score on Indicators for Public Sector Management and Institutions, 2015



Source: Asian Development Bank.

Coordinating the larger public sector. The public administration is open to influence of political patronage. The overall wage bill of the public sector has been termed sustainable, but there are some risks of unsustainability with the increasing size of the security forces and the integration of Maoist ex-combatants as part of the peace process. There will also be pressure on medical and other benefits and future pension payments. Overall, the rising recurrent expenditures (42% increase in the fiscal year 2017 budget) pose a fiscal risk.

State capture by narrow vested interests. The Transparency International Corruption Perceptions Index 2015 ranks Nepal at 130 out of 168 countries, with a score of 27 (with 0 indicating highly corrupt and 100 very clean).⁵⁷ The conflict of interest occurs due to the absence of a strong unified legal framework and effective political leadership. There is also a strong influence of interest groups lobbying in Nepal's policy-making process. Political protection impedes the ability of the state to effectively enforce existing laws against syndicates, primarily in the transportation of goods and public transit, which has resulted in monopoly of such markets by interest groups.

Integrity in the management of public resources. The formal institutional framework for public procurement has improved since the government introduced major reforms in public procurement processes in 2007, including the rollout of electronic government procurement system.⁵⁸ Despite improvements, informal practices and political influence over the awarding of public contracts continue

⁵⁷ Transparency International. Corruption Perceptions Index 2015. www.transparency.org/cpi2015?gclid=CPqFrZvRsM0CFVBffgodEw0Agw#results-table

⁵⁸ P. Krause et al. 2013. *Operational Risk Assessment of Public Financial Management Reform in Nepal*. London: Centre for Aid & Public Expenditure.

to present a challenge, particularly at the local level. The Public Procurement Monitoring Office has limited capacity, and the full provisions of legal reforms have not been implemented so far.

A Way Forward

ADB recognizes that Nepal must recover from the 2015 earthquake and strive to roll out essential economic reforms, scale up both public and private investments, and build quality human capital. The country needs to realize its potential in hydropower generation, tourism, high-value agriculture, modern manufacturing, and service industries. Nepal also needs to reach a consensus with all agitating parties and expedite the legislative reforms necessary to smoothly transition to a federal system of governance as envisaged in the new Constitution, facilitating lasting peace and stability, critical for achieving the Nepali people's aspirations for rapid socioeconomic progress.

ADB has been supporting the government's development objective of accelerated, sustainable, and inclusive growth, under the CPS 2013–2017.⁵⁹ The CPS for Nepal seeks to improve energy, air, and road transport; water and urban facilities; and irrigation to create an enabling environment for economic opportunities. ADB operations will focus on human capital development (by supporting reforms for improving the quality of education and skills development) and agriculture. Under its 2016–2018 country operations business plan for Nepal, ADB will support reforms and investments in hydropower generation, transmission, and distribution; highways and airports for regional integration; reforms and investments in the water utility of Kathmandu, and strategic urban planning and investments along economic corridors; enhancement of secondary and higher education, and skills development; and agriculture policy reforms and market infrastructure investments.⁶⁰

ADB will emphasize gender equality, good governance, climate change adaptation and environmental sustainability, regional cooperation and integration, and private sector development in its operations. ADB will work with Nepal to build sound institutional capacities for sector planning, project design and implementation, and sustainable asset management, while making the nation more resilient to the risks of climate change.

⁵⁹ ADB. 2013. *Nepal: Country Partnership Strategy, 2013–2017*. Manila. www.adb.org/documents/nepal-country-partnership-strategy-2013-2017

⁶⁰ ADB. 2015. *Nepal: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/nepal-country-operations-business-plan-2016-2018

SUBNATIONAL CONFLICT SITUATION

The Uppsala Conflict Data Program indicates that Asia has the largest number of conflicts in the world, and most of these are subnational in nature.⁶¹ Subnational conflict, according to the Asia Foundation, is the most widespread, enduring, and deadly form of conflict in Asia, and this may occur and endure in both low-income and middle-income countries.⁶² Middle-income countries, for example, such as Indonesia, the Philippines, and Thailand, have pockets of fragility in their remote parts. Pakistan and Sri Lanka, which are considered developing economies and have not been part of ADB's list of fragile and conflict-affected situations, have also subnational situations of fragility.

Mindanao, Philippines

Subnational situations of fragility are afflicted by decades of violent armed conflict, underdevelopment, poor governance, and political instability. Such subnational situations typically lag behind in key development indicators compared with other developing parts in a country (including cities and provinces). A case in point is the Autonomous Region of Muslim Mindanao (ARMM) in the Philippines. ARMM has the lowest human development indicators of all the regions in the Philippines.⁶³ Due to conflict and displacement of population, residents have difficulty accessing basic services, including health, education, and employment. There are no available country performance assessment (CPA) results for ARMM, since it is a subnational region; and also the Philippines, as a middle-income country, is not a recipient of the Asian Development Fund (ADF) with allocation linked to the CPA.⁶⁴ The following section gives a snapshot of the main drivers of fragility in Mindanao and presents ADB's possible future directions in dealing with a subnational fragile situation.



⁶¹ T. Pettersson and P. Wallensteen. 2015. Armed Conflicts, 1946–2014. *Journal of Peace Research* 52(4). www.pcr.uu.se/digitalAssets/66/66314_1armed-conflict-by-region-1946-2014.pdf

⁶² T. Parks, N. Colletta, and B. Oppenheim. 2013. *The Contested Corners of Asia: Subnational Conflict and International Development Assistance*. San Francisco, CA: The Asia Foundation. <http://asiafoundation.org/publication/the-contested-corners-of-asia-subnational-conflict-and-international-development-assistance/>

⁶³ UNDP. 2013. *Human Development Index Highlights Inequality, Slow Pace of Progress*. Manila (29 July). www.ph.undp.org/content/philippines/en/home/presscenter/pressreleases/2013/07/29/human-development-index-highlights-inequality-slow-pace-of-progress.html

⁶⁴ ADF is a major instrument of concessional financing funded by ADB's member countries. It offers loans at low interest rates as well as grants to help reduce poverty in ADB's poorest member countries. ADB gauges the relative performance of eligible borrowers with access to ADF by conducting annual country performance assessments (CPAs), and uses the CPA results to derive ADF allocations.

Development Challenges

Multilayered conflict. ARMM, a home to more than 3 million Bangsamoro people, is the southernmost part of the Philippines. It has been buffeted by conflict for more than 4 decades. The conflict is multilayered, characterized by separatism, communist insurgency, clan feuds, and banditry. In 2014, the government and a separatist group (Moro Islamic Liberation Front) made a peace agreement leading to the preparation of the Bangsamoro Basic Law (BBL), which establishes a political identity for the Bangsamoro people. However, despite the peace agreement, there are other factors that cause insecurity in and fragility of ARMM that are beyond the radar of the peace talks. Among these factors, there is a type of conflict characterized by sporadic outbursts of retaliatory violence between families and kinship groups as well as between communities, called “rido.”⁶⁵ In addition, the existence of terrorist groups and gangsters and political rivalries to maintain political dynasties are also reported.

Subnational economic stagnation. Despite the Philippines’ robust economic growth, the southern part of the country—the conflict-affected ARMM—continues to suffer from poverty, posting a growth rate of 3% in 2014. According to the Philippines Statistics Authority, for the year 2014, the National Capital Region had the largest share of the country’s gross domestic product at 36.3%, followed by Calabarzon (Southern Luzon) at 17.2% and Central Luzon at 9.3%. ARMM, which has a big development potential because of its abundant natural resources, only accounted for the smallest share of the national economy at 1.3%.⁶⁶ To improve socioeconomic development in ARMM, the government has been implementing development programs in hard-to-reach areas, including electrification and building of roads as well as quick impact programs on health, education, and livelihood. However, pockets of conflict continue to cause forced displacement, and criminal incidents have discouraged business investments and negatively affected the tourism industry. At present, the financial authority remains under the jurisdiction of the central government, limiting the efficiency of the regional government to address poverty and underdevelopment.

Land tenure issues. The root cause of conflict in Mindanao can be traced from the period wherein migrant settlers obtained lands in Mindanao under the state law, which is not recognized by the Muslim communities as they have their own indigenous laws for landownership way before the Government of the Philippines was established. This has led to land grabbing, a mass of landless poor in Mindanao, and the rise of rebellion. Currently, there is a lack of clear policy on landownership, whether it should follow the traditional or state system, or whether it should be a private or communal ownership. This has led to disputes between families or clans, as well as between neighboring local governments. Under the BBL, the Bangsamoro government will “adopt and implement a comprehensive urban land reform and land use program, to ensure the fair utilization of lands within its jurisdiction.”⁶⁷

⁶⁵ W. Torres III, ed. 2014. *Rido: Clan Feuding and Conflict Management in Mindanao*. Asia Foundation: Manila. <http://asiafoundation.org/publication/rido-clan-feuding-and-conflict-management-in-mindanao/>

⁶⁶ Philippine Statistics Authority. http://www.nscb.gov.ph/pressreleases/2015/psa_pr-20150730-sn1-01_grdp.asp (accessed 3 May 2016).

⁶⁷ Republic of the Philippines House of Representatives. Sixteenth Congress-Second Regular Session. Housebill Number 4994. <http://www.opapp.gov.ph/sites/default/files/House%20Bill%20No.%204994.pdf>

A Way Forward

ADB's country partnership strategy 2011–2016 for the Philippines emphasizes the use of conflict-sensitive approach and the integration of capacity development plans in development activities in the subnational fragile situation of Mindanao.⁶⁸ Overall, ADB operations focus on (i) sustainable and climate-resilient infrastructure; (ii) good governance and inclusive finance; (iii) inclusive employment and education; and (iv) regional integration, as stated in its country operations business plan 2016–2018 for the Philippines.⁶⁹ Areas for intervention in Mindanao include improvement of national roads, strengthening of institutions for investments, and improvement of environmental management, among others.

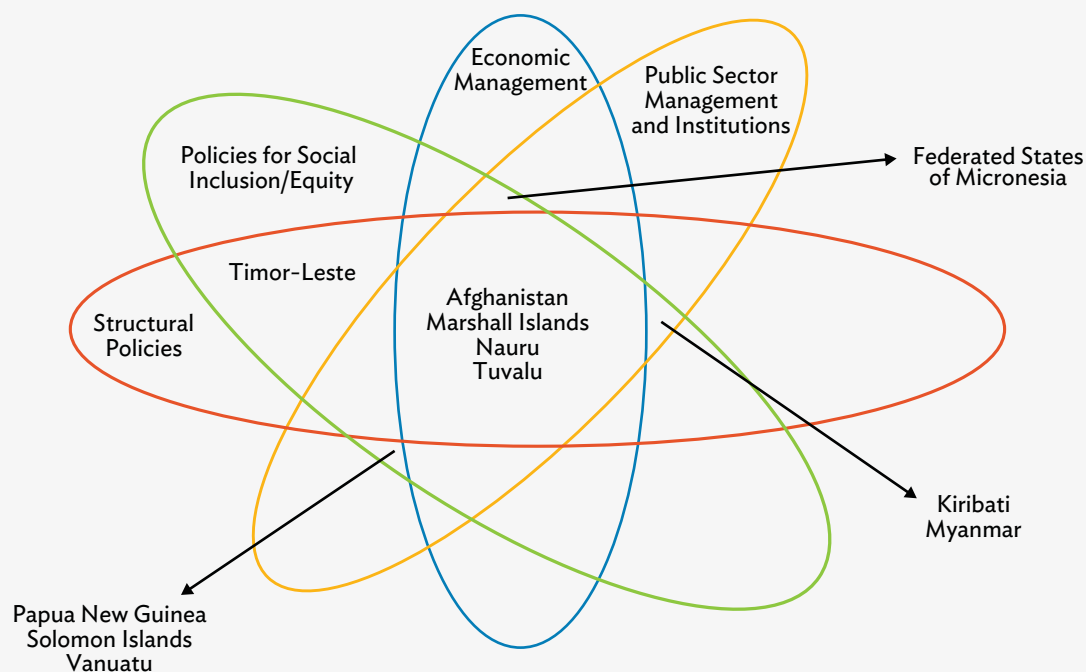
⁶⁸ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila. www.adb.org/sites/default/files/institutional-document/33024/files/cps-phi-2011-2016.pdf

⁶⁹ ADB. 2015. *Philippines: Country Operations Business Plan, 2016–2018*. Manila. www.adb.org/documents/philippines-country-operations-business-plan-2016-2018

FRAGILITY AND CONFLICT: SAME STORY, DIFFERENT ORIGIN

There are several differences found between the situations of the fragile and conflict-affected situations (FCAS) countries reviewed in this study.⁷⁰ However, the comparison of the overall results of the clusters of country performance assessments (CPAs) from 2006 to 2015 point to certain similarities. These countries vary in terms of geographic condition, history and power struggle, governance, as well as resource and economic situations; but there is a common story that plays out in each of them. Figure 48 shows a snapshot of the commonalities of these FCAS countries in terms of what areas or CPA clusters are most fragile in each of them. The countries within the spectrum of the given cluster(s) have garnered a CPA score of 3.2 or less in that area.

Figure 48: Asian Development Bank Spectrum of Fragile and Conflict-Affected Situations



Note: Nepal is not included in this spectrum since it has garnered a score above the cutoff score of 3.2. The Philippines is also not included since it is not considered part of fragile and conflict-affected situation countries, but has a subnational situation of fragility.

Source: Asian Development Bank.

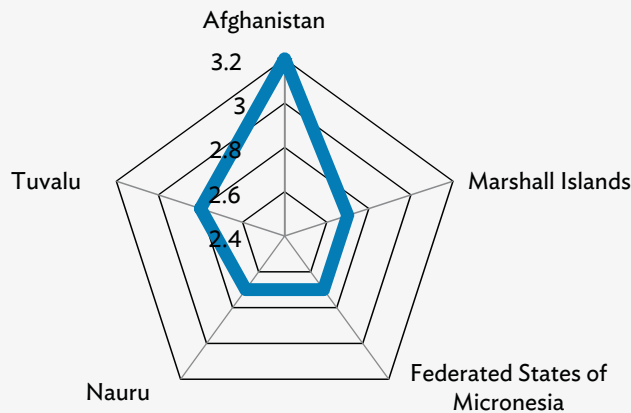
⁷⁰ In a development context, fragility is an evolving concept. It can be a situation either stagnating, or gradually deteriorating, or slowly improving. However, positive evolution (country's transition) may take decades, especially after prolonged period of chaos. Conflict, particularly a violent armed one, would be the ultimate stage of fragility—fragility at its climax.

Economic Management

Criteria for the CPA cluster on economic management include monetary and exchange rate policies, fiscal policy, and debt policy and management. The countries with low scores in economic management are Afghanistan, the Marshall Islands, the Federated States of Micronesia (FSM), Nauru, and Tuvalu (Figure 49). These countries are highly dependent on grants from development partners. The Marshall Islands, Nauru, and Tuvalu are experiencing debt distress while Afghanistan and FSM have no immediate concern about debt distress, but they could be vulnerable when their external funding diminishes.

Public expenditure management and domestic revenue mobilization need significant improvement in these five countries for them to achieve fiscal sustainability. However, hurdles remain due to underdeveloped economic policies, lack of institutional and human capacity, and limited private sector investment. In the four Pacific countries, these challenges are exacerbated by remoteness, restrictions to land use for development, and monopoly of businesses by the public sector. In Afghanistan, security issues, the continuing conflict, and the proliferation of the opium industry remain as major constraints and challenges to development.

Figure 49: Comparison of Fragile and Conflict-Affected Countries with Low Scores on Economic Management, 2015



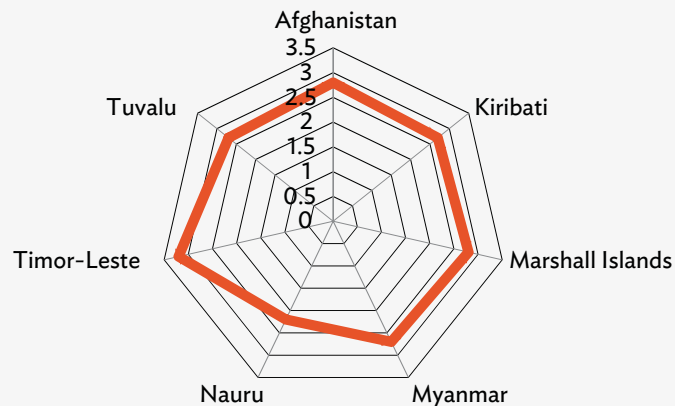
Source: Asian Development Bank.

Structural Policies

The cluster on structural policies is composed of trade, financial sector, and business regulatory environment. Countries with low scores in structural policies are Afghanistan, Kiribati, the Marshall Islands, Myanmar, Nauru, Tuvalu, and Timor-Leste (Figure 50). These countries have weak regulatory framework for the trade, financing, and business sectors. Processes in customs administration, securing credit, and business registration and licensing are cumbersome, thus impeding private sector investments, resulting in limited economic activities. In addition to the lengthy and costly processes are underdeveloped infrastructures, financial markets, banking system, and human resource capacity.

Policy restrictions on land use are prominent in Myanmar and in the Pacific countries, and customary ownership of lands in the Pacific acts as disincentive for securing credit and starting up a business. Leasing land could be difficult, costly, and uncertain due to the presence of squatters, unresolved land disputes, and lack of property records. In Afghanistan, there is no restriction on landownership, and there are few restrictions for foreigners; however, the land market could be highly distorted. Financial services are also limited in these countries, especially in their remote areas. Microfinance is, however, growing in most Pacific countries, driven mostly by churches and community-based organizations.

Figure 50: Comparison of Fragile and Conflict-Affected Countries with Low Scores on Structural Policies, 2015

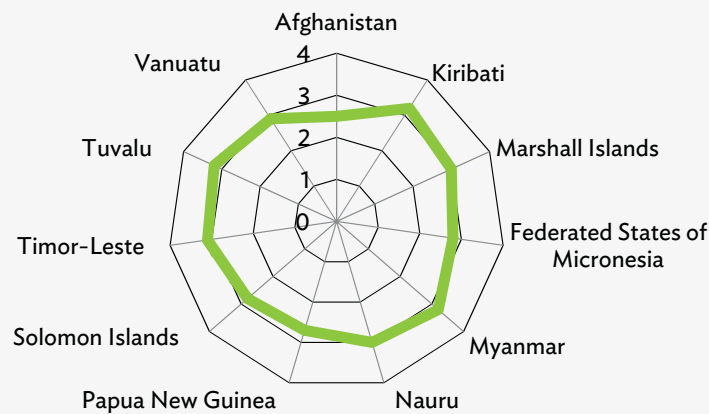


Source: Asian Development Bank.

Policies for Social Inclusion/Equity

Policies for social inclusion/equity include gender equality, equity of public resource use, building human resources, social protection and labor, and policies and institutions for environmental sustainability. All FCAS countries have low scores in the area of social exclusion and equity (Figure 51).⁷¹ Gender inequality is most pronounced in fragile and conflict-affected situations. Women have less access to economic resources and social services, and are poorly represented in the country's political system. Gender-based violence is also a common issue compounded with a weak justice system that may overlook domestic violence.

Figure 51: Comparison of Fragile and Conflict-Affected Countries with Low Scores on Policies for Social Inclusion/Equity, 2015



Source: Asian Development Bank.

The public education and training systems in FCAS are far from international standards, and often have inadequate qualified teachers, limited teaching resources, and poor infrastructure facilities. Poor access to health, clean water, and sanitation is also a major challenge in FCAS, especially in the rural areas. Most FCAS countries have formal social protection systems, but they are underdeveloped and have limited coverage. There is an existing traditional social safety net—wherein tribal and ethnic clan members would support each other—but this is gradually eroding, especially in the urban areas due to modernization.

Climate change exacerbates fragility. The FCAS countries are the most vulnerable to the risks of climate change, such as rising sea level and natural hazards like cyclones, floods, landslides, storm surges, earthquakes, and droughts. Governments in FCAS have low adaptive capacity to climate change,

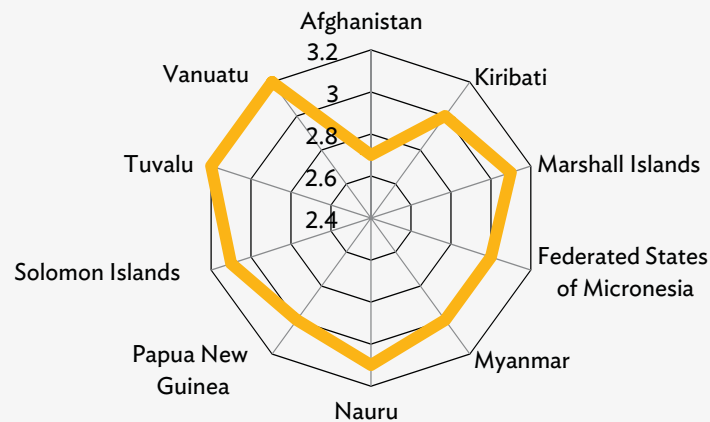
⁷¹ Nepal and the Philippines are not considered FCAS. Nepal exited ADB's FCAS list in 2008 and is currently considered to be in transition, while the Philippines has a subnational situation of fragility in its southern region, Mindanao.

and are often lacking in financial and human resources. Environmental policies exist, but they are not adequately enforced, and there is poor coordination across sectors.

Public Sector Management and Institutions

The cluster on public sector management and institutions includes property rights and rules-based governance; quality of budgetary and financial management; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption in the public sector. All FCAS countries, except Timor-Leste, have low scores in public sector management and institutions (Figure 52). Most FCAS countries have a narrow income tax base due to dependence on grants and limited economic activities. Tax administration is usually inefficient and opportunities for corruption exist. Most of them also have weak absorptive capacity to external aid due to inadequately educated and trained human resources, and poor capacity and resources of core government institutions. Institutional capacities in policy formulation, planning, implementation, and monitoring and evaluation are inadequate, and there is a lack of coordination across sectors and between national and local levels of governance. There is also a weak culture of accountability, and decision making is a top-down approach. Some countries in the Pacific are politically unstable due to frequent changes in government, while in Afghanistan and Myanmar, political stability is threatened by the existence of insurgent groups.

Figure 52: Comparison of Fragile and Conflict-Affected Countries with Low Scores on Public Sector Management and Institutions, 2015



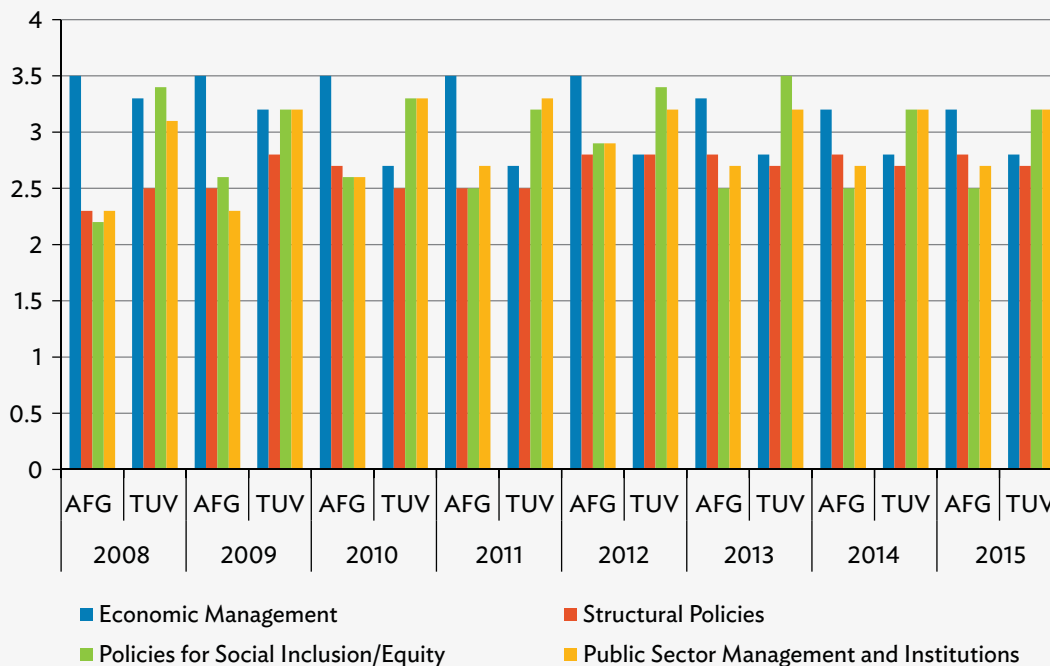
Source: Asian Development Bank.

Government processes are cumbersome and could be informal in most cases. Basic services are mostly concentrated in the capital city and surrounding urban areas, and rural areas have difficult access to social services such as health, education, and justice. In the Pacific, securing property and contract rights is hindered by informal landholdings, inefficient land administration, and unresolved land disputes. In Afghanistan and Myanmar, there is a lack of transparency in land governance, and land grabbing is a serious issue as a result of displaced people from conflict who left their lands unattended for a long time.

A Comparison of a Fragile Situation and a Conflict-Affected Situation

Tuvalu is fragile, but not conflict-affected, while Afghanistan is both fragile and conflict-affected. Both have been in the ADB FCAS list for the last 9 consecutive years, with most clusters and criteria below the 3.2 cutoff point of the CPA (Figure 53). Tuvalu is a relatively peaceful country, but is as equally fragile as Afghanistan. Both countries have limited economic prospects; the only difference is the root cause of fragility—lack of investment is mainly due to remoteness in Tuvalu, and insecurity in Afghanistan. Land use is strictly controlled in Tuvalu, while in Afghanistan, although there are no legal or institutional barriers for landownership, the land market is monopolized. Both countries are dependent on external aid—Tuvalu has its public sector driving the economy; military spending dominates Afghanistan’s economic sector. Both countries also have limited institutional and human resources capacities due to a weak education sector. Adding to this limitation is the small population size of Tuvalu, and the persisting conflict in Afghanistan.

Figure 53: Comparative Country Performance Assessment Scores of Afghanistan and Tuvalu, 2008–2015



AFG = Afghanistan, TUV = Tuvalu.

Source: Asian Development Bank.

Tuvalu is a very small country compared with Afghanistan, but they are both vulnerable to the effects of climate change—largely, rising sea levels and typhoons for Tuvalu and drought, landslides, and

earthquakes for Afghanistan. Gender inequality is a major issue in both countries wherein women suffer violence and less access to social and economic opportunities because of culture and customary laws. Corruption in Tuvalu is not a major challenge due to its small size and close ties among communities that serve as watchdog to each other. In Afghanistan, corruption is a serious problem hampering the reconstruction process. Both countries being politically unstable is attributed to frequent changes of government leadership in Tuvalu, and the presence of insurgent groups threatening the incumbent government in Afghanistan.⁷²

⁷² P. Safran. 2015. Small is beautiful but fragile in the Pacific. *OECD Institutions and Instability*. OECD: Paris. (11 December). <http://g4dpblog.blogspot.fr/2015/12/small-is-beautiful-but-fragile-in.html>

A Comparison of National and Subnational Conflict Situations

Myanmar is identified as a conflict-affected country; the Philippines exhibits a subnational situation of fragility due to a conflict-affected situation in the Autonomous Region of Muslim Mindanao (ARMM). Conflict situations in Myanmar and ARMM have caused both to lag behind the achievement of the Millennium Development Goals and pose a challenge to both in implementing the Sustainable Development Goals.

Myanmar gained its independence in 1948, and eventually became a one-party, military-led state. Civil unrest and insurgencies have been part of the country's history, until recently. A newly formed democratic government has now made peace agreements with some of the existing rebel groups. However, the conflict situation persists at the national level with several armed ethnic groups still opposed to the government. On the other hand, the Philippines gained its independence in 1946, and also experienced military rule and civil unrest for more than a decade, and eventually gained a democratic government in 1986. However, in the southern part of the country, in ARMM, secessionist movements and terrorist groups began to flourish and persist despite the government's several attempts for peace agreement.

Myanmar and the Philippines are both categorized by the World Bank as lower middle-income countries. Despite the presence of pockets of fragility due to conflict situations, both countries have experienced economic growth in recent years—with Myanmar having a gross domestic product growth rate of 8.4% and Philippines 6% in 2016.⁷³ However, the Philippines' Mindanao region (ARMM) continues to have the smallest share in the country's economy—despite being very rich in natural resources—due to low levels of investments as a result of security issues and armed conflict. In Myanmar, the economy remains vulnerable to shocks given the restrictive administrative controls, weak banking system, inadequate infrastructure, significant red tape, and low skill levels of the workforce.

Land grabbing has become one of the drivers of conflict in both Myanmar and ARMM. In Myanmar, land grabbing was common during the former military regime, wherein lands were used to expand military bases, build new government offices and infrastructures, and for the military units' commercial purposes. The current government is returning farmlands to former landowners that were confiscated by previous governments. In 2013, about 6,000 acres of land were returned to landowners. However, inadequate land laws may still expose rural communities to rampant land grabbing by well-connected businesspeople, given the newly opened market economy that promises a boom in agriculture and property investment.

⁷³ ADB. 2016. *Asian Development Outlook 2016: Asia's Potential Growth*. Manila. www.adb.org/sites/default/files/publication/182221/ado2016.pdf

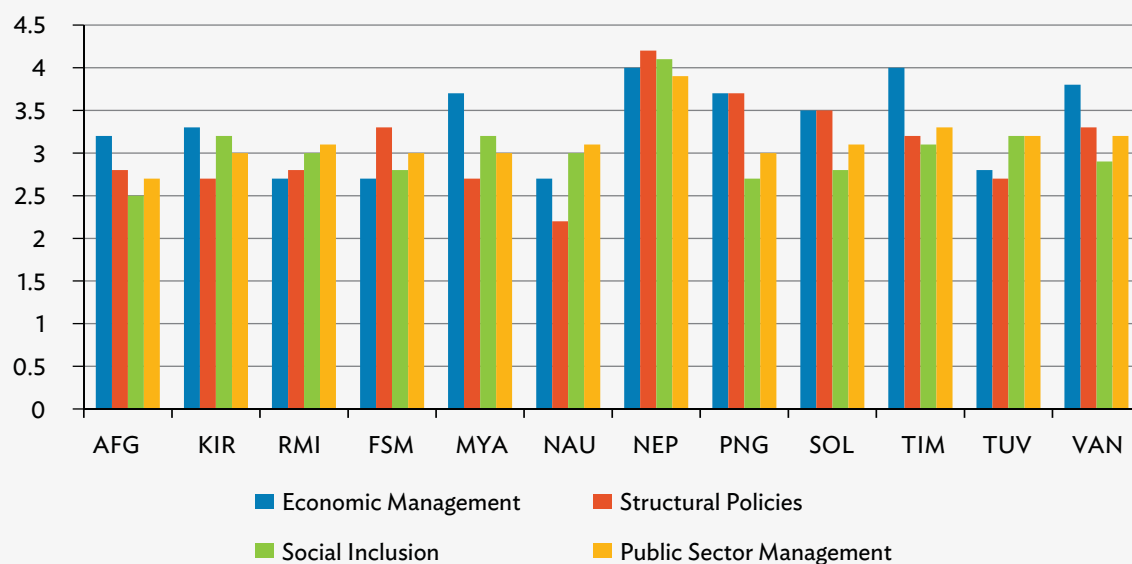
In Mindanao, Philippines, particularly in ARMM, land grabbing by various groups to gain control of lands rich with natural resources has been proliferating since the 19th century. The 1987 Constitution of the Philippines recognizes the indigenous people's customary ownership of ancestral lands and domains. However, there is no clear policy which should be followed, whether the state laws or the indigenous systems that existed long before the state was established. The Christians follow the state laws while the Muslims and indigenous groups follow the indigenous laws; hence, conflict continues to persist between and among these groups.

In Myanmar, religion and ethnicity play a big role in social exclusion; while in Mindanao, the long history of land grabbing that has left the communities impoverished excluded them from the development that took place in the rest of the Philippines. Myanmar has insufficient capacity in governance and public management; however, a World Bank study points out that there is a higher degree of accountability at the local level (footnote 56). This is different in ARMM, where there is lack of accountability at the local level, compounded with the lack of oversight from the central government. In terms of capacity, both the central and local levels of governance in Myanmar have inadequate capacity to deliver basic services. However, in the Philippines, the central government has the capacity to do so, including local governments in areas without conflict; but in areas affected by conflict, in ARMM, service provisions are disrupted.

HIGHLIGHTS AND RECOMMENDATIONS

ADB recognizes four types of fragile and conflict-affected situations (FCAS)—conflict-affected, fragile, transitional, and subnational—and each situation has its own unique set of characteristics, and all also have commonalities. Their unique characteristics call for development players to take context as the starting point,⁷⁴ while their commonalities can serve as a basis for regional approach and cooperation. The commonalities of the FCAS countries, based on this study’s findings—regardless of whether they have exited or not the list of ADB’s FCAS, or whether they are conflict-affected, fragile, transitional, or subnational—imply that special attention should be given to all these countries (Figure 54).

Figure 54: Comparative Country Performance Assessment Scores of Fragile and Conflict-Affected Countries, 2015



AFG = Afghanistan, KIR = Kiribati, RMI = Marshall Islands, FSM = Federated States of Micronesia, MYA = Myanmar, NAU = Nauru, NEP = Nepal, PNG = Papua New Guinea, SOL = Solomon Islands, TIM = Timor-Leste, TUV = Tuvalu, VAN = Vanuatu.

Source: Asian Development Bank.

⁷⁴ One of the fragile states principles of OECD. OECD. 2007. *Principles for Good International Engagement in Fragile States*. Paris. www.oecd.org/dac/governance-peace/conflictfragilityandresilience/principlesforgoodinternationalengagementinfragilestates.htm

Special attention entails understanding the local context, engaging on a long-term basis, promoting country ownership, and adopting flexibility in doing business in such fragile environments, as noted by both ADB Strategy 2020 midterm review and ADB FCAS operational plan.⁷⁵ Countries like Nepal, Papua New Guinea, and Vanuatu, which are no longer identified as FCAS countries (because they have exited the FCAS list), should also be given equal attention because risks of fragility remain and do not vanish in a short period of time. The Philippines is a middle-income country that exhibits a subnational situation of fragility in ARMM, and development interventions in Mindanao should be handled with care. More importantly, the bulk of international resources should not be channeled to conflict situations alone, but should be equally channeled to fragile situations.

This mapping exercise suggests that weakness in policies for social inclusion/equity is the most pressing issue for all FCAS, followed by weakness in structural policies (Figure 55). This means that these two areas should be given some priority by development partners. Policies for social inclusion/equity need to address gender inequality, inequitable use of public resources, inadequacy of education and health services, lack of inclusive social protection system and labor laws, and weak policies and institutions for environmental sustainability. Structural policies need to improve the business regulatory environment to attract more investors, provide credit access efficiently to boost the financial sector and private sector investment, and formulate comprehensive trade policies as well as improve trade facilitation to increase market size. Further, a comparison between FCAS and (selected) non-FCAS countries shows that country performance assessment (CPA) scores of non-FCAS countries under all the clusters are always higher than those of the FCAS countries (Figure 56).⁷⁶

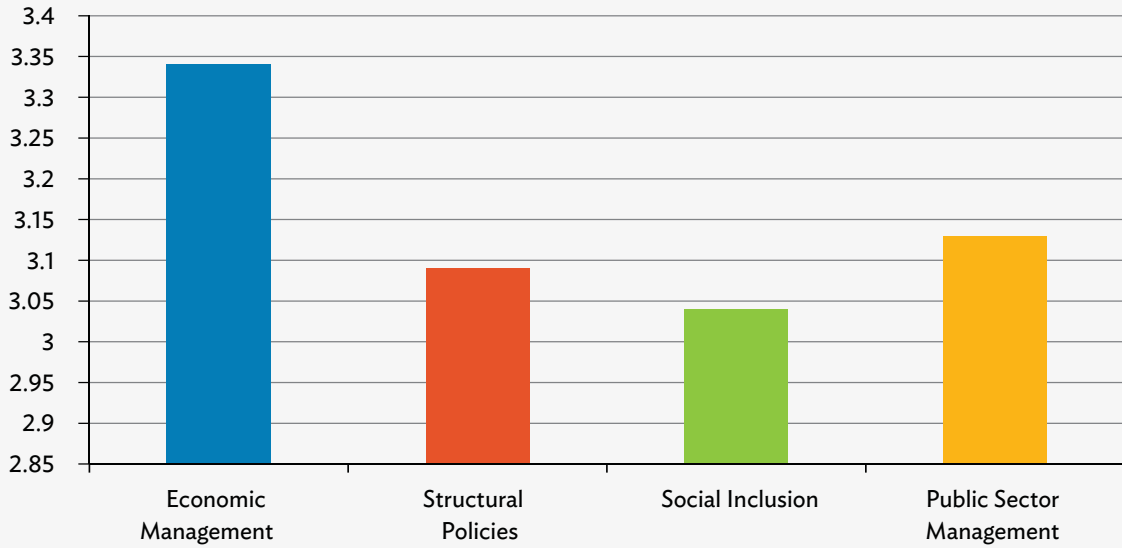
While economic management and public sector management and institutions are important, a greater share of the limited resources for FCAS should be channeled to policies on social inclusion and structural policies. An empowered and cooperative population, for example, is a core foundation for effective governance and improving economic activities. Without capable individuals to fill up the labor force, the economy will continue to stagnate, and delivery of essential services will continue to be inefficient and ineffective. Without the effective structural policies in place that will shape the economy as well as the governance mechanisms, attempts to improve economic growth and public institutions will be futile. Effective structural policies should also result in strengthened core government institutions, particularly policy formulation, public finance management, public service administration, and private sector development regulatory environment.⁷⁷

⁷⁵ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. www.adb.org/about/strategy-2020-mid-term-review; and ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila. www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations

⁷⁶ The selected non-FCAS countries covered in Figure 56 (for this study) include Samoa and Tonga (Pacific countries that have never been considered fragile, but are ADF recipient countries or those that are among ADB's poorest member countries); Cambodia (which used to be conflict-affected); the Lao People's Democratic Republic (which was in the ADB FCAS list in 2007, but exited in 2008); Sri Lanka (which was never considered as FCAS, but exhibited a subnational conflict situation); and Viet Nam (which used to be conflict-affected like Cambodia).

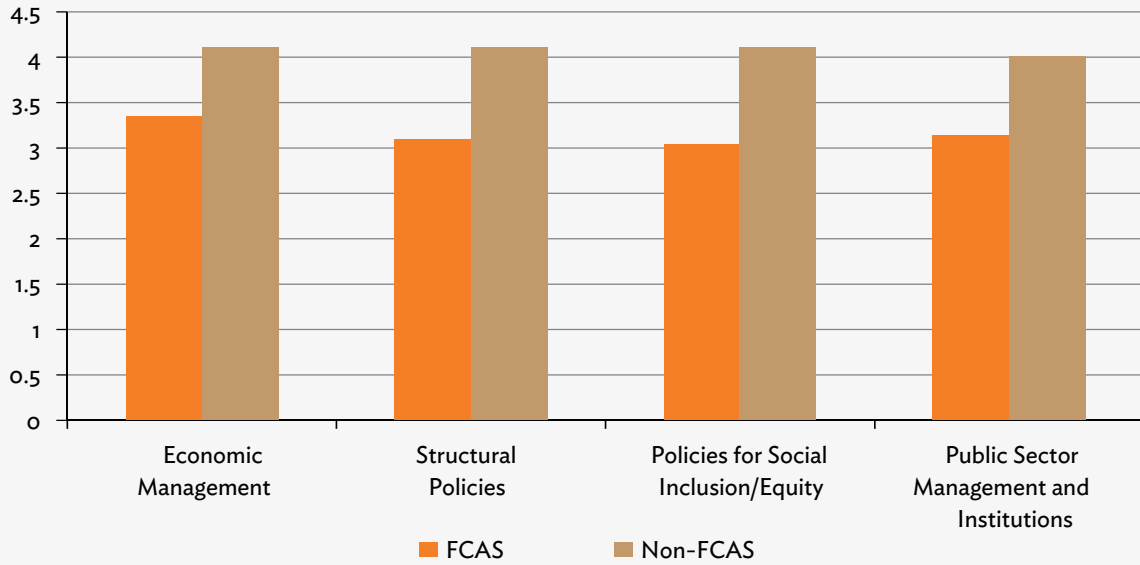
⁷⁷ ADB. 2014. *Institutional Strengthening Framework: A Guidance Note*. Manila. www.adb.org/publications/institutional-strengthening-framework-guidance-note

Figure 55: Average Country Performance Assessment Scores of Fragile and Conflict-Affected Countries, 2015



Source: Asian Development Bank.

Figure 56: Comparison of Average Country Performance Assessment Scores of Fragile and Conflict-Affected Situations (FCAS) and Selected Non-FCAS, 2015



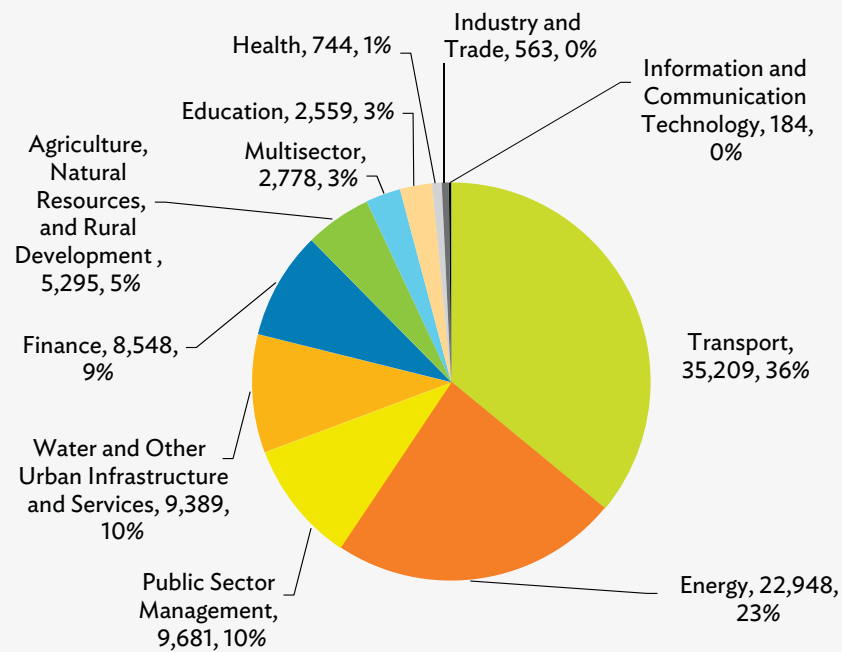
Source: Asian Development Bank.

Further, a set of recommendations drawn from the findings of the mapping exercise (specifically from the common issues found among the FCAS countries as summarized earlier) could help in improving the policies for social inclusion/equity and structural policies. These recommendations are geared toward problem-solving and human-centered design approach, which ultimately focuses on improving service delivery outcomes for citizens. These are:

- (i) **Mainstreaming gender equality at the local level.** The idea of empowering women by giving them access to health, education, economic, and political opportunities is widely recognized in the international community and already gaining ground in the central governments of FCAS. However, this has to be mainstreamed at the local or provincial levels, where the customary culture of patriarchy is largely dominant. Mainstreaming gender equality requires a cross-sector approach, since health and education services—which are hardly accessible in the rural areas—need to reach women in order to empower them economically and politically. Men should also come to a realization of the benefits of empowering women and an appreciation that women are the ones nurturing the future generation; thus, advocacy on gender equality should be targeted to men rather than women, especially the male heads of households in the rural areas.
- (ii) **Strengthening accountability mechanisms for public resource use.** Use of public resources should ideally be incorporated in the national strategic plan, crafted from a wide and inclusive consultation. Accountability mechanisms are usually weak or nonexistent in FCAS, the decision-making process uses a top-down approach, and the civil society has little demand for better governance (perhaps because of a lack of understanding). Strengthening the accountability mechanism should be coupled with a transparent approach for budget planning, monitoring, and evaluation. To do this, capacity building on financial management information system should be in place. Computerized information system is ideal; however, if the capacity to establish and maintain information and communication technology (ICT) is still lacking, simple institutional systems to integrate budget formulation with the national plan, monitor and evaluate public resource, and making all these information available to the public could be adopted. Forcing the use of ICT in FCAS is usually a failure because of the insufficient infrastructure on energy and insufficient human resources to handle ICT that requires adequate operation and maintenance support. Efficiency does not necessarily entail the use of ICT, but as long as there is an efficient system in place (e.g., Excel software can be used instead of a complicated information system that require information technology intelligence).
- (iii) **Increasing investment in health and education.** The bulk of ADB's investment goes to transport and energy. Only 3% are allocated for education and 1% for health (Figure 57). Given the international aid available for FCAS, financial resources should not be an issue, but rather the absorptive capacity of FCAS for aid. FCAS institutions are usually not capable enough to manage and sustain development aid; and based on the CPA results, this is highly attributed to the lack of human resource capacity. The labor force, which is supposed to boost the economy by attracting local and foreign investors, is weak due to inadequate education and training. Child malnourishment and other health issues are also prevalent in FCAS and undermine the full human development of the future generation. While transport and energy infrastructures are necessary to achieve socioeconomic development, it has to be equally complemented with human development in order to ensure the effectiveness and sustainability of aid.

- (iv) **Capacity building for environmental institutions.** Regional initiatives on climate change must be complemented with capacity building on environmental sustainability, including climate change adaptation and mitigation. Environmental policies are in place in most FCAS countries, but the common problem is the lack of enforcement due to lack of funds, inadequate technology, weak human resource capacity, and lack of environmental awareness and education among the communities. Capacity building should be targeted to both government and civil society organizations. This is to enable the government to establish appropriate mechanisms to regulate the use of natural resources for development and investment, and provide adequate services on waste disposal. Civil society organizations should also be capacitated to create awareness among the communities on climate change and environmental sustainability, and educate them on environment-friendly practices to better manage the natural resources.

Figure 57: Sectoral Breakdown of Total Ordinary Capital Resources Loans
(as of 31 December 2015, in US\$ million, %)



Source: ADB. 2016. 2015 *Financial Report: Scaling Up to Meet New Development Challenges*. Manila. www.adb.org/sites/default/files/institutional-document/182852/adb-financial-report-2015.pdf

- (v) **Developing innovative policy framework on land use.** Difficulty in accessing land, either due to legal restrictions or customary traditions, is a reality in FCAS countries. Strategies to improve the economy without first addressing this constraint could be futile. While there are well-established informal land tenure systems in most FCAS countries, these are not comprehensive enough and are subject to political and traditional influences. In Afghanistan and Myanmar, land grabbing can further exacerbate conflict and violence; while in Pacific fragile countries, land disputes due to multiple or communal landownership curtail local and foreign investments.

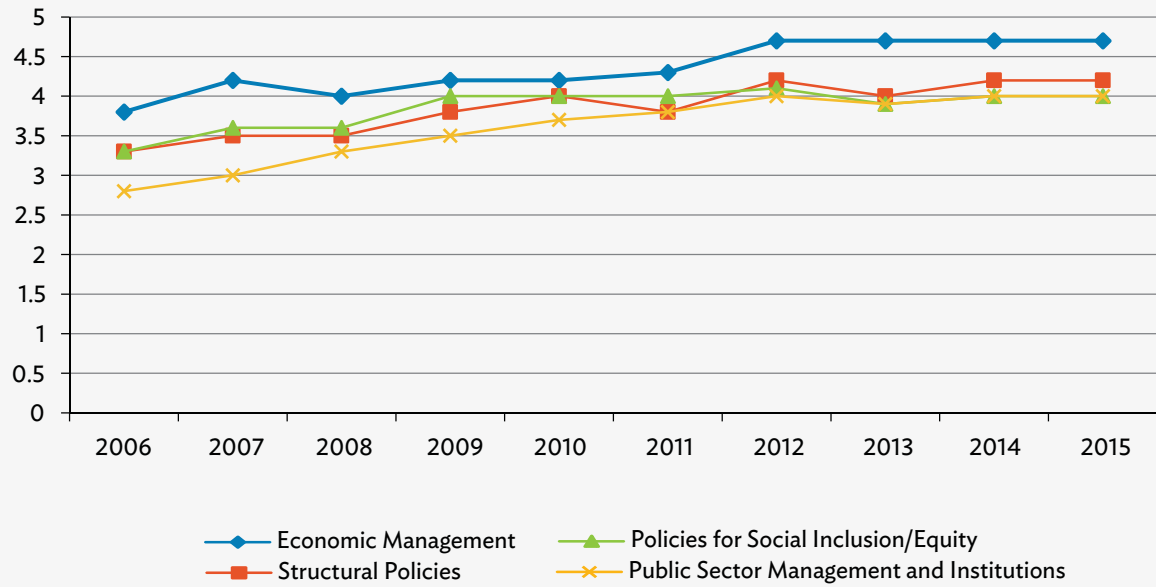
Addressing land issues needs the involvement of all stakeholders—the government, landowners, private sector, and communities. A wide and inclusive consultation should be done to formulate and customize adequate land policies, based on the local dynamics; this may require merging of state and traditional systems. The policy framework should include strengthening the legal system for land registration, the land information system, and land development systems. Putting in place and enforcing these systems will significantly reduce land disputes, improve investors' confidence for doing business, and maximize the use of land resources, leading to increased productivity.⁷⁸

- (vi) **Improving regulatory frameworks on trade, finance, and business.** Improved trade policies and processes are prerequisites to gaining and restoring the confidence of international markets. This will help boost the inherently small market size of FCAS countries. This should include policies for anti-smuggling and to protect local businesses, such as the antidumping policy, which is nonexistent in most FCAS countries. Policies providing easy access to credit, especially by small enterprises, should also be in place, and this should be coupled with capacity building of financial institutions. Diversifying the economy and easing the condition for doing business (creating enabling environment) can help attract foreign and local investors. It is also important to build the confidence of the private sector in the government by conducting dialogue and consultation between them during policy-making processes relevant to private sector investments.

A decade of unchanged single story. A single story can be gleaned from the almost flat graphs that have CPA scores below the 3.2 cutoff score. The performance of all FCAS countries reviewed in this study, from 2006 to 2015, shows that there is little or no change despite massive international aid to these fragile countries. They keep relying on external assistance as unsustainable infrastructure and capacities are being rebuilt over and over again. Interventions for the transport, energy, education, health, and private sectors may have reaped some fruitful benefits but only for a short time, and for only a few of the population. This study suggests that the lack of effective policies and institutions as well as exclusion (as described above) have contributed to unsustainable development. Further, a comparison between Afghanistan (FCAS) and Cambodia (non-FCAS) validates that there is very little change in the CPA scores for FCAS compared with the improved CPA scores of a non-FCAS in a span of 10 years (Figures 37 and 58).⁷⁹

⁷⁸ Some 70 years ago, Fiji adopted a best practice in optimizing its land for productive use by establishing the National Land Trust Board, now called the iTaukei Land Trust Board. A central repository of unused lands and a mechanism to transfer such lands to other uses were established, which in turn helped further develop Fiji's sugar, tourism, and other industries. A similar approach could be adopted in fragile Pacific countries. iTaukei Land Trust Board. <https://www.tltb.com.fj/>

⁷⁹ Cambodia used to be conflict-affected. ADB resumed its operations in Cambodia in 1992, contributing to the country's transition and sustained growth. Afghanistan, on the other hand, is still conflict-affected and ADB resumed its operations in the country in 2002, after a hiatus from 1980 to 2001.

Figure 58: Cambodia Country Performance Assessment Scores, 2006–2015

Source: Asian Development Bank.

Therefore, development partners need to rethink their approaches, or be even more innovative, for fragile countries to leverage into sustainable development. Business-as-usual does not work in fragile situations. Rethinking may entail knowledge and understanding of the political economy context of each sector in designing development programs and projects. Developing innovative approaches may necessitate looking into governance, institutional, political, and social issues, before intervening on infrastructure and technology constraints. The right policies—customized to the local context—should be in place and core institutions need to be strengthened with the appropriate capacity and resources; otherwise, FCAS countries will continue to exhibit the vicious cycle of fragility, conflict, and poverty. Every fragile situation calls for a unique response, and addressing issues needs consideration of the local context.

Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific

The ADB Experience

This study maps out the major weaknesses of each fragile situation on the latest country performance assessment exercises. It identifies the overall common issues which require special attention when crafting strategies and implementing programs and projects. Rethinking the Asian Development Bank's engagement in these fragile countries is critically important. This must be backed by a comprehensive understanding of the governance, institutional, political, and social issues that are behind each country's exposure to conflict or fragility.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to half of the world's extreme poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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