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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
REGIONAL ENGAGEMENT FRAMEWORK FY2006-2009
FOR
PACIFIC ISLANDS**

May 3, 2005

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

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The date of the last Country Assistance Strategy was May 2000.

ABBREVIATIONS AND ACRONYMS

AusAID	Australian Agency for International Development	NAPA	National Adaptation Program of Action
EDF	European Development Fund	NZAID	New Zealand International Aid and Development Agency
ICT	Information and communications technologies	NERRDP	National Economic Reform
IDA	International Development Association	OED	Operations Evaluation Department
MDG	Millennium Development Goal	OIA	Office of Insular Affairs
CRP	Comprehensive Reform Program	PACER	Pacific Agreement on Closer Economic Relations
FTA	Free trade agreement	PEDF	Pacific Enterprise Development Facility
ADB	Asian Development Bank	PIC	Pacific Island Country
EU	European Union	PICTA	Pacific Island Country Trade Agreement
FAO	Food & Agriculture Organization	PSD	Private sector development
FDI	Foreign direct investment	RAMSI	Regional Assistance Mission to the Solomon Islands
FEMM	Forum Economic Ministers Meeting	RMI	Republic of the Marshall Islands
FSM	Federated States of Micronesia	SIEA	Solomon Islands Energy Authority
FIAS	Foreign Investment Advisory Service	SME	Small- and medium-size enterprise
IBRD	International Bank for Reconstruction and Development	SOE	State-owned enterprise
IAEA	International Atomic Energy Agency	SPREP	South Pacific Regional Environment Program
GDP	Gross Domestic Product	STABEX	Stable Exports Fund (EU compensatory finance scheme)
GNI	Gross national income	SWAp	Sector-wide approach
IFC	International Finance Corporation	UNCTAD	United Nations Conference on Trade and Development
GEF	Global Environment Facility	UNDP	United Nations Development Programme
ICAD	UN Interagency Coalition on AIDS and Development	UNEP	United Nations Environment Programme
ILO	International Labor Organization	UNESCO	United Nations Educational, Scientific and Cultural Organization
ITU	International Telecommunication Union	UNFPA	United Nations Population Fund
IMO	International Maritime Organization	UNICEF	United Nations Children's Fund
ITC	International Trade Center	UNIDO	United Nations Industrial Development Organization
ICAO	International Civil Aviation Organization	UPU	Universal Postal Union
JICA	Japan International Cooperation Agency	WBI	World Bank Institute
JBIC	Japan Bank for International Cooperation	WHO	World Health Organization
KAP	Kiribati Adaptation Project	WIPO	World Intellectual Property Organization
LICUS	Low-Income Country Under Stress	WMO	World Meteorological Organization
		WTO	World Trade Organization

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EXECUTIVE SUMMARY

1. The nine Pacific Island countries (PICs)¹ covered in this regional strategy face similar development challenges today despite notable differences in history, culture, and endowments. The lack of economic growth in the face of growing populations has contributed to rising unemployment and hardship in the region. Even those countries that have seen positive growth in per capita income have been unable to fully translate this into adequate job creation and poverty reduction. With over 50 percent of the region's population under age 24, steady rural-to-urban migration, and the erosion of traditional systems of social support, all PICs recognize the importance of dealing with the issue of youth unemployment and its associated social problems.
2. In the face of these common challenges, the World Bank regional strategy focuses on creating an environment conducive to generating sustainable economic growth and employment, while recognizing that small populations and marked remoteness of the PICs pose significant development challenges to this region. This strategy should be considered a regional framework within which country-specific objectives and expected results can be specifically defined, while recognizing that the depth and composition of country-specific assistance will evolve with national priorities, institutional capacity for reform, and the strength of mutual dialogue.
3. The region is relatively aid abundant with bilateral donors filling the resource gaps quite generously. Growing concerns about the poor development record of the Pacific and its implications for the region have elevated the importance of increasing aid effectiveness. There is a need for policy dialogue and global knowledge products that facilitate better use of these resources and effectively address the development challenges facing the region. The Bank's role in providing such knowledge to the region is considered valuable and timely.
4. In formulating its regional strategy, the Bank is faced with the challenge of exercising selectivity in the face of a broad development agenda and defining a strategic role for itself in an aid-abundant region in need of both regional public goods, as well as capacity building at the country level.
5. The design of this strategy therefore takes guidance from the recently completed Operations Evaluation Department (OED) report² of the Bank's activities in the Pacific and focuses on the main recommendations for improving public expenditure management³ and facilitating private sector-led growth. Consultations with Pacific member countries and their feedback have further underscored these messages, which are reflected in the country assistance programs.

¹ Comprising 9 member countries: Fiji, Federated States of Micronesia, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga and Vanuatu. Individual country assistance strategies are underway for Papua New Guinea, and Timor-Leste.

² *Evaluation of World Bank Assistance to Pacific Islands Member Countries 1992-2002* (CODE2004-0088), November 2004.

³ Although current country demand revolves around sectoral public expenditure reviews, the Bank stands ready to conduct economy-wide public expenditure reviews.

6. This strategy rests on a capabilities and incentives framework with a view to making a contribution toward:

(a) Strengthening government capabilities in service delivery

- Improving the effectiveness of public expenditures, primarily in the social sectors;
- Improving the management of infrastructural assets; and
- Safeguarding service delivery by improving resilience to natural hazards.

(b) Improving the incentives for private sector-led growth and employment by

- Facilitating domestic job creation through reductions in the regulatory and administrative barriers to business development, and improving service and costs in utilities;
- Increasing sustainable revenues from resource-based sectors, such as fisheries or tourism; and
- Improving access to regional labor markets.

7. The Bank will deliver its assistance through strategic economic and sector work, multi-donor dialogues to promote donor coordination on a thematic basis, targeted policy notes to disseminate key messages, and focused technical assistance to implement reforms. Selective lending activities will actively seek to leverage donor resources to maximize their policy impact. The assistance will balance demand-driven, country-specific initiatives with regional-level initiatives to help create regional public goods.

8. Close coordination within the World Bank Group will be a priority to harvest global and intraregional lessons on promoting growth in small states. Since the focus of the Bank's assistance is primarily on analytical and advisory work, intensified efforts at communications outreach and dissemination will be undertaken in the course of this strategy through the Sydney office. Maintaining access to the institutional knowledge based in Washington will be essential to deliver high-quality policy advice to the region.

9. The Bank is not in a position to lead a broad donor coordination effort given its limited presence in the region and the multiplicity of donor objectives in delivering aid to the region. However, the Bank will offer its convening power to the development partners by intensifying dialogue on the thematic objectives and instruments central to this strategy, as well as pursuing implementation of the harmonization agenda.

10. The strategy articulates a set of desired but realistic outcomes at a thematic level in accordance with the Bank's scope of engagement. A set of medium-term results for each activity at the country-level will be identified for monitoring the effectiveness of the Bank's assistance and also for making mid-course adjustments to the assistance when warranted.

CONTEXT AND ROADMAP FOR THE DOCUMENT

1. This document outlines the World Bank's Regional Engagement Framework for the Pacific region for FY2006-09. The region comprises 9 Pacific Island member countries (PICs): Fiji, Federated States of Micronesia (FSM), Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga, and Vanuatu. This regional framework provides the strategic directions for the World Bank's engagement in the Pacific region that leads into an assistance program, as well as some selected regional initiatives, for each of the member countries.

2. This strategy should thus be considered a regional framework within which country-specific objectives and expected impacts can be more specifically defined, while recognizing that the depth and composition of country-specific assistance will be primarily demand-driven and flexible—particularly in those PICs where Bank re-engagement is at an early stage.

Structure of this Paper

3. Section I starts out with a description of the main characteristics of the PICs that pose constraints on economic growth, with many of them being recognized as unchangeable such as geography, size, or even inheritance of fragmented colonial structures. It is in the socioeconomic manifestations of these fundamental characteristics where there is scope for better management. The discussion in this section sets the stage for addressing some of them through this strategy.

4. Section II outlines a role for the World Bank, articulating the rationale for its involvement in the region and identifying the key issues to which its engagement would be responding. It also lists the constraints faced in defining a business model and identifies a product mix for activities going forward. In that context, lessons from experience and the recent OED evaluation of the Bank's activities in the Pacific, as well as client feedback, are discussed.

5. Section III spells out the regional framework, presenting the thematic pillars of this strategy and the likely focus areas within each pillar. Section IV provides an overview of the balance between regional analytical products and country-level activities, which is expected to continue to evolve. Section V discusses the importance of partnerships in implementing this strategy, both within the Bank and with the IFC and Foreign Investment Advisory Service (FIAS) groups, as well as with our bilateral donors and multilateral financial institutions. Section VI outlines the expected thematic outcomes of the Bank's assistance during the strategy period that are appropriate for its level of engagement in the region. Section VII presents the risks along with actions being pursued to mitigate them.

6. Section VIII contains the 9 country chapters that present the economic update, overview of donor activities, and the key issues shaping the Bank's response with details of its current and expected program in the country. Annexes A-I provide the country data at-a-glance and country social and economic indicators. Annex J includes a summary of nonlending services in the Pacific Islands.

I. DEFINING FEATURES OF PACIFIC ISLAND COUNTRIES

1. The World Bank's Regional Engagement Framework for the Pacific region for FY2006-09 covers 9 Pacific Island member countries (PICs): Fiji, Federated States of Micronesia (FSM), Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga, and Vanuatu. This framework provides the strategic directions for the Bank's engagement that leads into an assistance program, as well as some selected regional initiatives, for each of the member countries. This strategy should thus be considered a regional framework within which country-specific objectives and expected impacts can be more specifically defined, while recognizing that the depth and composition of country-specific assistance will be primarily demand-driven and flexible—particularly in those PICs where Bank re-engagement is at an early stage.

2. While the World Bank's Pacific Island member countries (PICs) differ in some cultural and economic aspects, they also share several defining features that have shaped their development in similar ways. These can be thought of as the exogenous factors or “givens” that constrain any medium-term development strategy. However, these factors have important socio-economic manifestations that could potentially be better managed with appropriate policies and instruments. This section first outlines the exogenous factors, then moves on to a discussion of these socio-economic manifestations. The latter provide the starting point for defining a Bank role in the region, though it is important to bear in mind that the Bank is also on a learning curve in adapting well-known policy prescriptions to the special circumstances that prevail in the Pacific Island countries. Box 1 provides a brief overview of subregional differences.

A. Exogenous Factors

3. **Remoteness and Isolation.** The constraints of geography have played a major role in shaping economic opportunities in the Pacific. The total land area of the PICs, dispersed among hundreds of small islands and atolls, is only 88,800 square kilometers (km)—about one-third the size of New Zealand. However, the sea area controlled through exclusive economic zones exceeds the land area of the United States. Kiribati, for example, has a population of a little under 100,000 that is spread over 33 islands that cover 4,000 km from east to west, and 2,000 km from north to south, while the 200,000 inhabitants of Vanuatu are spread over 80 islands in a 800-km chain. The total population of the PICs is about 2.1 million, with Fiji accounting for about 40 percent and Palau for 1 percent (Table 1). The PICs' physical distances from world trade centers make them among the most isolated populations in the world. For most islands, the closest major ports are Auckland, Sydney, or Tokyo, which are over 3,000 km away on average. The least remote island, Palau, is 1,677 km from Manila. This can be contrasted with the small island states of the Caribbean, which are less than 1,000 km from the huge U.S. market.

4. **Legacy of Colonial Experience.** The formal political systems that exist in the region reflect the interaction of traditional political systems, colonial histories, and the relatively recent re-independence experiences. Colonial history, stretching back over 200 years, has involved Australia, Britain, France, Germany, Japan, New Zealand, Spain, and the United States. The move to political re-independence in the Pacific began in 1962 when Samoa regained its independence. These are new countries still coming to terms with the overlay of colonial systems over traditional foundations.

Box 1. Subregional Differences in the Pacific

While there are some important similarities between all the Pacific Island countries, the region is not homogenous. In particular, the recognition of the differences between Melanesia (Fiji, Solomon Islands and Vanuatu); Polynesia (Samoa and Tonga); and Micronesia (Kiribati, Marshall Islands, Federated States of Micronesia, and Palau) is important in informing the World Bank's regional approach.

Geographically, Melanesia is characterized by larger land masses and populations; Polynesia by smaller but relatively compact land masses, and Micronesia by very small and widely dispersed land masses. In terms of natural resources, Melanesia tends to be relatively resource-rich; Polynesia generally possesses adequate resources; while Micronesia tends to be resource-poor, thereby posing some different development opportunities and challenges.

Social cohesion tends to be much stronger in Polynesia than in Melanesia and is intermediate in Micronesia primarily because, though generally sharing a language, the islands of Micronesia are much more widely dispersed. Land disputes also tend to be much more common and significant in Melanesia than in Polynesia, again a reflection of social fragmentation. Traditional social and political systems also differ among the three subregions; for example, clans are primarily a Melanesian social structure and are more extensive than the *ainga* of Samoa or *kainaga* of Kiribati.

As such, a key distinction between the Melanesian states and the rest of the region has to do with ethnic tensions, which are sometimes exacerbated by conflict over resource rights. Governance structures and quality vary considerably across the region. Both the Solomon Islands and Fiji have had serious problems in relations between ethnic groups in the last five years, while Vanuatu has also had problems in the past.

There are also differences between the subregions in their susceptibility to natural disasters. The Micronesian islands are generally out of the typhoon/cyclone path, but are more susceptible to the effects of climate change and rising sea levels, due to the low-lying nature of the atolls.

Table 1. Defining Features of Pacific Island Countries

	Fiji	Kiribati	Marshall Is	FSM	Palau	Samoa	Solomon Is	Tonga	Vanuatu	EAP region	Low-middle income
Population ('000, 2004)	848	98	53	127	20	179	471	102	215	1,854,500	2,655,200
Km to nearest major port	3,215	4,534	4,501	3,703	1,677	4,340	2,854	3,580	2,471	-	-
Atlas GNI per capita (US\$, 2003)	2,360	880	2,710	2,090	7,500	1,600	600	1,490	1,180	1,080	1,480
Avg. aid per capita (US\$, 1998-2002)	40	198	1,183	911	2,308	194	113	214	187	5	8
Aid as a % of GNI (1998-2002)	2	20	52	45	35	14	16	14	16	1	1
Fertility rate (births per woman, 2002)	2.6	3.6	-	3.5	2.5	4.0	5.3	3.4	4.3	2.1	2.1
Avg. population growth (annual %, 1998-2004)	1.1	2.3	0.9	1.9	1.5	1.0	2.8	0.6	2.6	1.0	0.9

Source: World Development Indicators, 2004.

5. **Communally Focused Cultural Norms.** Unlike the Indian Island and Caribbean countries to which they are sometimes compared, Pacific indigenous cultures have remained strong. They

continue to play a large part in national life and exert considerable influence over national policies and decision making, thus influencing asset ownership, economic mobility, and overall governance outcomes—all of which vary across the region. The existence of a defining sense of family, clan, and ethnic identity manifests itself in two significant ways. First, social networks defined by clan, and family relations have done much to alleviate the harshest effects of poverty due to access to communally owned land for subsistence agriculture, as well as strong social norms to provide support to the needy in the community. Second, the primacy of the community places social barriers against the development of a culture of aggressive private entrepreneurship, as all successes (and failures) are viewed as belonging to the family or clan. Moreover, these cultural standards mean that there is generally widespread support for the involvement of the public sector in many economic activities that in other countries would be regarded as solely in the sphere of private activity.

6. Land is an asset that identifies family, clan, and lineage. It is valued for what it symbolizes, as well as the subsistence and livelihood it provides. Nonetheless, while the social support networks that are reflected in the importance of communal land ownership have done much to ameliorate real destitution in the Pacific, this aspect of the Pacific identity does present a sizeable barrier to mobilizing investment in the PICs, as communally owned land is generally unavailable to collateralize lending activities. This greatly limits the scale and scope of financial intermediation in the islands. In addition, the high incidence of disputes over land ownership, especially in the Melanesian states, increases the risk premium facing investors considering leasing arrangements; or conversely makes the land open to exploitation in the absence of clear ownership rights (e.g., illegal logging).

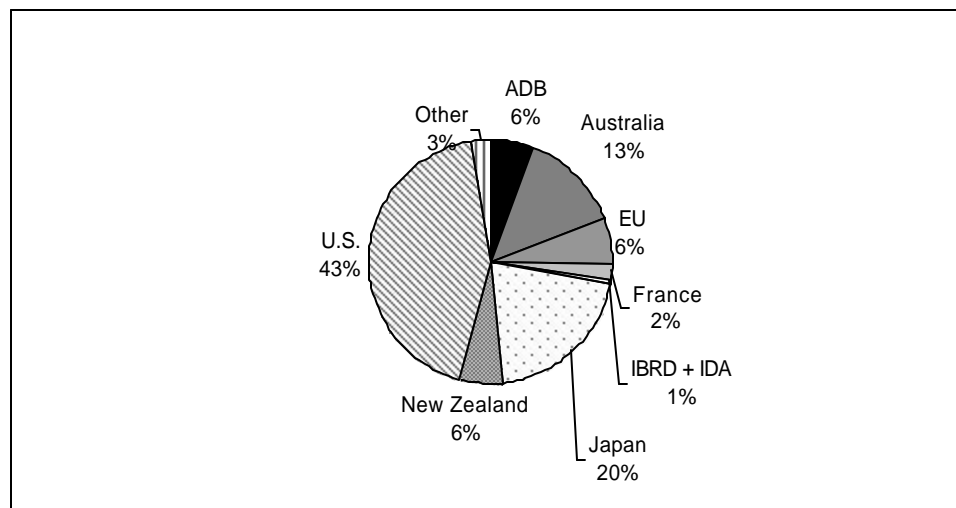
7. **Susceptibility to Natural Disasters.** The Pacific Island region is vulnerable to extreme weather events. The potential impact of these events is increasing as the islands' vulnerability rises due to growing urbanization, degradation of coastal ecosystems, and concentration of infrastructure on fragile coastal areas. In addition, climate change and the expected rise in sea levels will further exacerbate current problems. In low-lying islands (such as Kiribati, Marshall Islands, and other atolls), inundation due to storm surges could increase significantly, leading to loss of assets and salinization of groundwater sources. Climate change could also cause more intense cyclones and droughts, prompt the failure of subsistence crops and fisheries, and intensify the spread of infectious diseases.

8. **Reliance on Natural Resources.** Pacific countries tend to be highly dependent on natural resources for their livelihood, and resource management is a critical factor in their economic development. The majority of the PIC populations are still dependent on subsistence agriculture and fishing to supplement money incomes. Some islands also have significant mineral resources, and many have commercially exploitable forest and fishery resources. Indeed, in resource-rich but socially fragmented Melanesia, one of the key challenges is the development of cooperation and transparency in the exploitation of resources. The richest tuna fishing grounds in the world are found in the South Pacific. But despite the large exclusive economic zones controlled by many of the PICs, fishing rights are leased out to foreign fishing companies at terms that are not favorable to the Pacific. Access fees represent significant components of government revenue for some of the PICs, especially Kiribati (47 percent) and FSM (25 percent).⁴

⁴ Figures are for 2001 (IMF Article IV staff reports).

9. **Aid Dependence.** With the exception of Fiji, PIC economies are generally dependent on official aid flows (refer back to Table 1). This is in part a legacy of the decolonization process, partly a reflection of international recognition of the problems facing small island states, and partly related to donors' strategic interests in the region. Aid levels, on both a per capita basis and relative to gross national income (GNI), are significantly higher than income-level comparators. Most aid is provided by bilateral donors and, as illustrated in Figure 1, in the last five years the largest donors have been the United States, followed by Japan, Australia, and the European Union (EU). The U.S. aid is focused on the North Pacific, Australian aid on the Melanesia and Polynesia, and New Zealand aid on Polynesia.

Figure 1. Aid Donors to the PICs (Average 1998-2002)



Source: *International Development Statistics* online database.

B. Socio-Economic Manifestations

10. The interactions of the exogenous factors described above have manifested themselves in a number of ways in the Pacific. Focusing on improving their management through the appropriate policies forms the broad basis of the World Bank's engagement in the region. Some of these could be effectively addressed through well-designed regional initiatives.

11. **Dominant Public Sectors.** Large public sectors are characteristic of many PICs, supported by the inability of small population sizes to exploit returns to scale in the provision of public sector services, communal attitudes to proper scope for state involvement, as well as the large aid flows that made feasible its financing. Government spending to gross domestic product (GDP) ranges from a low of around 20 percent in Vanuatu, up to 150 percent in Kiribati (Table 2). Government employment accounts for nearly one-third of total formal employment in Fiji and the Solomon Islands and about two-thirds in Kiribati. This relative size of the public sector, combined with the sizeable involvement of state-owned enterprises in many economic activities, has led to a crowding out of private sector activity. Public sector wage levels tend to drive trends in the private sector, which makes many activities uneconomic, especially when compared to production costs in the low wage economies of South East Asia.

12. As a consequence of the large size of the public sectors in PICs, governance issues affecting the management and control of the public sector budget take on an even greater importance. Table 2 indicates the size of budget deficits over the last five years, which in some cases have been exacerbated by the effects of civil conflict (e.g., Solomon Islands and the attempts of the Fijian government to overcome the downturn associated with the coup of 2000) and the instability of parliamentary majorities (e.g., Vanuatu). In many PICs, weakness in public expenditure management has led to a recurrence of unbudgeted spending and arrears to government employees, to suppliers, or to holders of government debt. More generally, budget management has been weak, with loose procedures for enforcing public accountability and oversight.

Table 2. Public Sector Indicators

	Fiji	Kiribati	Marshall Is	FSM	Palau	Samoa	Solomon Is	Tonga	Vanuatu
Government expenditure as a % of GDP, 2004	34.5 ^a	150.0 ^a	78.2	58.8	68.7	32.3	44.1	26.1	20.1
Avg. budget balance as a % of GDP, 1999-2003	-7.7	-3.1	8.6	-2.7	-17.0	-1.1	-6.6	-1.4	-4.0
Public sector debt as a % of GDP, 2003, of which	57.2	26.9	86.5	25.2	19.4	54.0	91.5	47.8	37.2
<i>Domestic</i>	46.2	-	-	-	-	0.1	27.6	3.2	9.0 ^b
<i>External</i>	11.0	26.9	86.5	25.2	19.4	53.9	63.9	44.6	28.2
Proportion of external debt on concessional terms, 2003	13.3	-	-	-	100.0	98.9	96.4	92.4	92.0

Sources: World Development Indicators, 2004, and IMF Article IV Staff Reports

^a Data for 2003

^b Data for 2002

13. Despite issues with public expenditure management, total public and publicly guaranteed debt levels have generally been stable or falling over the last five years. Exceptions to this generally positive trend include the Solomon Islands,⁵ in which debt levels have increased by around 30 percentage points of GDP; and Fiji, which has seen a smaller, though still significant, increase in debt levels. While most debt in the PICs is on concessional terms, the relative size of the principals outstanding has in some cases raised concerns about the sustainability of additional loans. These concerns, coupled with large bilateral grant assistance, have contributed to shifting the emphasis of the Bank's role toward nonlending services.

14. **Poor Delivery of Public Services.** Pacific Island governments spend comparatively large proportions of their budgets and GDP on the social sectors (Table 3); and donor support for social sectors also dominates. However, these generous resource flows have not, by themselves, shown a significant positive relationship with health or education outcomes, although there is some evidence to suggest that a positive relationship may exist once governance structures are taken into account.⁶

⁵ Debt levels and arrears have fallen since the Regional Assistance Mission to the Solomon Islands intervention in 2003.

⁶ *Current Trends, Future Opportunities: Human Development Outcomes in the Pacific Islands*, World Bank, 2005.

Table 3. Public Spending in Social Sectors (2001)

	Fiji	Marshall Islands	FSM	Palau	Samoa	Tonga	Vanuatu
Public expenditure on health & education as % of total public exp.	27.2	37.5	20.3	24.9	30.3	22.9	43.1

Source: Human Development Outcomes in the Pacific Islands: Current Trends, Future Opportunities, 2004-05.

15. The most important challenge for education in the Pacific region is that schooling is not adequately equipping children with the basic skills needed to pursue further studies/training or to succeed in the labor market. Although primary enrolment rates are generally high, many children quit before completing basic education, or complete but without the expected educational achievements. These problems are associated with the variable quality of school facilities, school management, curriculum and learning materials, teachers, and district support staff. Moreover, access to lower secondary schooling is very low in some of the PICs, particularly in Melanesia, largely due to government's insufficient resources to meet the recurrent costs and compounded by the lack of physical facilities. These poor outcomes persist despite the relatively high levels of government expenditures and donor support to education

16. While aggregate health measures, such as life expectancy and infant mortality rates tend to compare well with countries at a similar level of development, the incidence of malaria and HIV/AIDS is quite high and rising in some parts of the Pacific. Non-communicable diseases, such as cancer, diabetes, hypertension, and cardiovascular disease, have also become prevalent and are replacing communicable diseases as the primary cause of death in some of these island economies. The care and treatment of noncommunicable diseases constitute a large burden on households and national health budgets, with treatment often being provided by overseas referral. The fact that a large proportion of recurrent health expenditure is dedicated to expensive overseas tertiary care has meant that there has been limited funding for pro-poor public health programs such as reproductive health and community health care. In addition, there are on-going problems associated with the inability of governments to retain and utilize trained health personnel, as many emigrate in search of better opportunities (notwithstanding the future potential benefits from remittances and knowledge transfers from Diaspora).

17. **Undiversified Exports.** Due to their endowments, size, and remoteness from large foreign markets, the PICs produce a relatively narrow range of goods and services, but they consume and therefore need to import a wide range.⁷ For some PICs, merchandise imports are a multiple of exports, implying large merchandise deficits. Table 4 shows the size of the trade and goods and services deficits, and indicates the degree of concentration in goods exports. This reliance on a small number of export goods makes the economies susceptible to terms of trade shocks, and in particular those economies that are almost entirely reliant on commodity exports often face correlated falls in prices. Preferential access into developed markets based on historical factors has

⁷ Invisible earnings reduce the gap somewhat in most countries, except the Solomon Islands, Marshall Islands, and FSM. Of these, tourism earnings are important for Fiji, Vanuatu, Tonga, and Samoa; and remittance flows are a major contributor to the Kiribati, Tongan, and Samoan economies. Despite these flows, a large gap remains that is met through aid.

also played a role in distorting trade competitiveness and left these small economies vulnerable to the duration of these special terms.

Table 4. External Trade Indicators

	Fiji	Kiribati	Marshall Is	FSM	Palau	Samoa	Solomon Is	Tonga	Vanuatu
Average trade deficit as a % of GDP, 1999-2003	-10.1	-42.6	-43.9	-39.3	-75.9	-15.2	-5.7	-32.4	-24.5
Average deficit in G&S as a % of GDP, 1999-2003	-5.4	-56.7	-48.0	-44.3	-35.5	-25.6	-5.8	-33.8	-5.3
Main exports (% of total exports)	Garments (20), Sugar (18)	Copra (23), Seaweed (16)	Diesel reexport (72), Copra cake (15)	Fish (92), Banana (1)	Garments (100)	Fresh fish (36), Garments (10)	Timber (67), Fish (17)	Squash (37), Fish (32)	Copra (12), Cocoa (3)

Sources: World Development Indicators, 2003; IMF Article IV Staff Reports; Central Bank Bulletins.

18. **Subdued Private Sector Activity.** The role of the private sector has generally been marginal in the Pacific, in large part a reflection of the constraints posed by small population sizes and the marked remoteness of these island states. Cultural standards opposing the development of aggressive private entrepreneurship, communal ownership of land that renders it unavailable for collateralization, and large flows of foreign aid that have supported bloated public sectors have also combined to constrain private sector development. Key public utilities, such as those in the power, telecommunications, and water subsectors, are too often inefficient and unreliable, imposing large costs on private sector activity. Furthermore, planning and management in natural resource-based sectors, such as forestry and fisheries, has been weak or subject to corruption undermining the ability of these sectors to contribute to growth.

19. Recent Bank work on benchmarking the Doing Business Indicators in 2005 has illuminated some of the regulatory constraints to private sector growth. While the data do show significant variation in the performance of the individual PICs, common features include a lack of disclosure on ownership and business financials, time consuming and costly contract enforcement, and weak bankruptcy resolution practices.

20. **Significant Costs Imposed by Natural Disaster Cleanup.** Since 1950, the reported cost of extreme events (primarily cyclones and droughts) in the PICs has been significant (Table 5). During disaster years the average economic losses are nearly half of GDP for Samoa and a third of GDP for Vanuatu, and over 40 percent of the population of Tonga and Samoa are affected. While extreme weather events will always be a major factor in the Pacific, there is much that can be done to alleviate this risk, such as introducing appropriate adaptation measures that reduce the vulnerability of physical assets and local populations. These include setting back infrastructure from vulnerable areas, better management of coastal ecosystems, and protection of water sources.

During the 2004 Cyclone Heta, Samoa is estimated to have saved up to US\$165 million in damages due to hazard management procedures adopted in the 1990s.

Table 5. Losses Due to Natural Disasters

	<i>Number disasters reported</i>	<i>Average annual total affected (% of total population in disaster years)</i>	<i>Average annual total affected (% of total population, 1950-2004)</i>	<i>Average annual damages (% of GDP in disaster years)</i>	<i>Average annual damages (% of GDP, 1950-2004)</i>
Fiji	38	10.8	5.1	7.7	2.7
Samoa	12	42.2	6.1	45.6	6.6
Tonga	37	42.0	5.3	14.2	1.8
Vanuatu	16	15.5	4.5	30.0	4.4

Source: EM-DAT: the OFDA/CRED International Disaster Database for 1950-2004 data, adjusted by SOPAC (2005) for 1994-2004 data.

21. **Rapid Population Growth.** Fertility rates in the PICs are high, and well above both regional and income-level averages, particularly for Melanesian countries, such as the Solomon Islands and Vanuatu (refer to Table 1). In most cases these high fertility rates have generated high population growth rates, although those countries for which emigration is available (Samoa and Tonga to New Zealand, and the Northern Pacific countries to the United States) have managed to ameliorate this issue somewhat. Nevertheless, around 40 percent of PIC population are between 0 and 15 years of age (and another 20 percent is between 15 and 24), and this expanding youth bulge is exerting significant pressure throughout PIC societies.

22. **Stagnant Economic Growth and Poverty.** All the issues highlighted above have contributed to the stagnant growth performance exhibited by the PICs over the last five years, which is consistent with longer-run trends (Table 6). While Samoa and Fiji have been the better performers in the Pacific, even they still lag behind regional and income-level comparators to a significant degree. In the case of the Solomon Islands and Vanuatu, living standards have fallen significantly over the period. In Vanuatu's case, real per capita incomes in 2004 are the same as they were at independence in 1980.

23. While the poverty data are not strictly comparable across countries because they are based on nationally defined poverty lines, Kiribati, Vanuatu, and FSM (and very likely Solomon Islands) have high percentages of their populations living in poverty. Anecdotally, there is an understanding that with the gradual erosion of traditional support systems, rural-urban migration, and a move away from subsistence farming, poverty (or "hardship" as it is referred to in the Pacific) is rising significantly.

24. Unemployment statistics also signal elevated risk levels in some countries. Figure 2 presents unemployment rates according to recent censuses in all nine Pacific countries.⁸ The

⁸ Due to the limitations of the census instrument, definitions of unemployment within the census data bases differ in some respects from those used to calculate unemployment from labor force surveys. For example, it is not possible to distinguish active from inactive unemployed in all surveys. However, the analysis permits a consistent comparison between and within countries of the order of magnitude of unemployment.

results show several important patterns. First, there is wide variation in unemployment rates among Pacific countries. The Solomon Islands and FSM report much higher levels of unemployment than the other countries, with the former registering over 30 percent unemployment. In Tonga and Marshall Islands, rates are moderate (officials have reported an increase in Tonga and Fiji since 1996). It is important to note that in countries where the measured unemployment rate is very low (e.g., Kiribati), employment is predominately in subsistence work.

Table 6. Average Growth in Per Capita Income and Population in Poverty

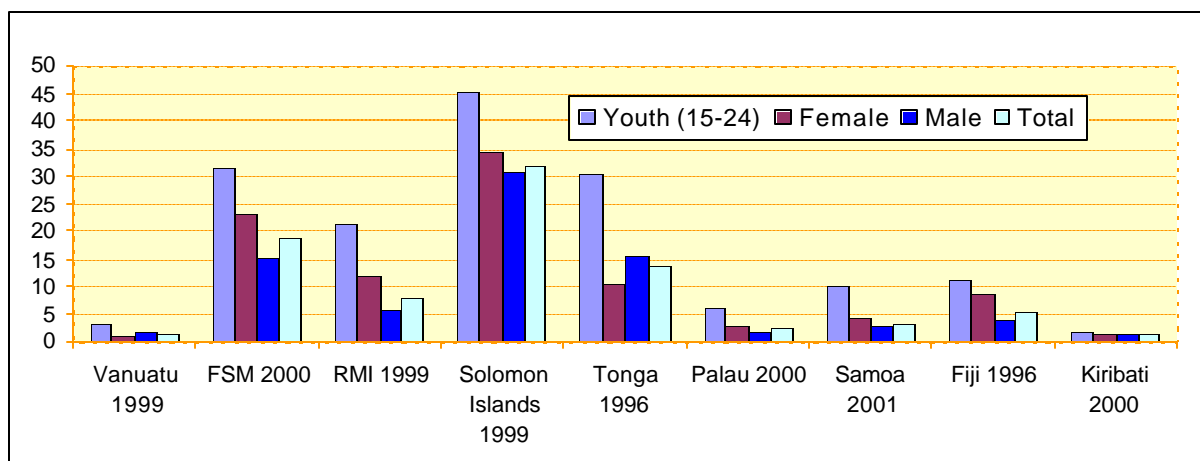
	Fiji	Kiribati	Marshall Is	FSM	Palau	Samoa	Solomon Is	Tonga	Vanuatu	EAP region	Low-middle income
Average growth in real GDP per capita, 1999-2003	2.6	0.9	0.1	-0.1	2.0	3.0	-7.4	2.1	-2.4	5.6	3.7
Percent population below poverty line (latest year available)	26	51	20	40	-	20	-	23	40	-	-

Source: World Development Indicators, 2003, and Asian Development Bank estimates.

Note: Poverty statistics are based on nationally defined poverty lines.

25. A second important pattern is the high level of youth unemployment. While expected to be relatively high in any labor market, youth unemployment is more than double the total male unemployment rate in most of the Pacific countries (Fiji, FSM, Marshall Islands, Palau, Samoa, and Tonga). At the same time, the female unemployment rate is consistently higher than the unemployment rate of males, except for Tonga.

Figure 2. Youth Unemployment Rates



Source: Human Development Outcomes in the Pacific Islands: Current Trends, Future Opportunities, 2004-05.

Note: Updates and projections for youth unemployment are estimated in the context of the labor mobility study using latest population projection figures and estimates of sectoral demand for labor in the PICs.

II. ROLE OF THE WORLD BANK IN THE PACIFIC

26. In the face of these common challenges, a regional strategy that focuses on creating an environment conducive to fueling sustainable economic growth and job creation is needed. Changing demographics resulting in a large percentage of youth in the population with the backdrop of crumbling economic and social traditional structures is worrisome for PIC governments, neighboring donors, and development partners as it threatens social stability in these economies and, possibly, in the wider region.

27. Aid has largely reflected bilateral strategic motivations and often been directed toward service delivery—law and order, schools, hospitals, or in a few cases, rural employment creation to avoid social conflict—hence its effect on growth has been uncertain. A World Bank strategy that leverages donor resources in a way that focuses attention on economic growth is therefore needed not only to guide the Bank’s activities but also for its greatest potential to enhance the impact of donor resources.

28. While the large presence of bilateral donor grant funds in the region implies that the financing needs of the PICs are met without recourse to borrowing, there is now growing concern regarding aid effectiveness and development outcomes among donors—underpinned by the reality of rising poverty or “hardship” levels, the risk of failing to meet the Millennium Development Goals (MDGs), and to varying degrees, by security concerns for the region. This has elevated the importance of policy dialogue and global knowledge products that facilitate better use of donor resources and effectively address the economic challenges facing the region.

29. There is evidence of a growing donor appetite for the World Bank’s ability to offer technical expertise, access to global knowledge, and international networks; and facilitation of partnerships with other development organizations, the private sector, and civil society. Although a modest level of Bank lending based on country demand and grant instruments is feasible and appropriate, the World Bank is unlikely to be a major source of development finance for the region. Hence, the Bank is mindful of the need to:

- exercise selectivity in the face of a broad development agenda and the backdrop of recent Bank re-engagement with Pacific clients;
- define a demand-driven business model based less on project finance than on knowledge dissemination of good practices in promoting growth in small islands;
- determine an appropriate balance of country-focused and regional interventions—tailoring advice, analysis, and financial support to individual country needs while at the same time seeking to identify regional economies of scale and promoting regional public goods; and
- promote more strategic aid management to enhance aid effectiveness and encouraging harmonization, given the Bank’s small financial role in the donor community.

30. In this context, assimilating the lessons from experience, the OED evaluation, and client consultations are important and discussed next.

A. Lessons from Experience

31. The last Pacific Regional Strategy was discussed by the Board in May 2000. It outlined the World Bank's re-engagement in the Pacific Region, coupled with the decentralization of the Bank's country management unit to Sydney. The objectives of the strategy were to promote poverty reduction through support for the human capital, policies, institutions, and physical infrastructure needed for equitable and sustainable growth. It sought to achieve these objectives by reducing disparities within countries and promoting equitable access to the benefits of development through focused lending, particularly in the social sectors and infrastructure (transport, telecommunications), with an added emphasis on strengthening private sector capacity in these areas.

32. Accordingly, during 2000-2003 the World Bank completed analytical work on regional environmental issues, trade policy, noncommunicable diseases, and climate change adaptation; and offered policy advice on environmental risk management and climate change adaptation. The Bank financed a small number of lending operations in the health and infrastructure (including natural hazard recovery) sectors and technical assistance grants in health, private sector development, and environment/conservation.

33. An OED evaluation of World Bank assistance to the Pacific over the 1992-2002 period found that the Bank had not been able to make a satisfactory contribution toward fueling economic growth in the region.⁹ Going forward the OED evaluation recommended that the Bank (a) focus on improving expenditure management and removing bottlenecks to private activity in the region, (b) define focused and measurable country-specific objectives and interventions for countries where its engagement is expected to continue, (c) prioritize support for a select set of regional-level initiatives, (d) deepen and broaden its relationship with other donors, and (e) ensure that its strategy is fully funded and staffed.

34. The planned strategy incorporates the recommendations of the OED evaluation into the strategy for FY2006-09. This strategy focuses on promoting an environment conducive to fostering sustainable economic growth and job creation in the region. The regional framework emphasizes building government capabilities for service delivery by improving public expenditures in key areas, as well as improving the incentives for private sector-led job creation. The strategy also identifies a combination of regional and country-level objectives and interventions while emphasizing the importance of stronger development partnerships in order for the Bank's technical assistance to effectively leverage donor resources. A set of thematic objectives with accompanying outcomes are identified in the strategy, and country-specific outcomes will be identified for individual activities. Increased attention to dissemination that promotes dialogue with clients, bilateral donors, development partners and civil society on key issues, and follow-up implementation will be priority actions. The World Bank has increased its staff capacity in the Sydney regional office and is strengthening a network of in-country contacts to facilitate dialogue and implementation of assistance. These issues are elaborated upon in this document.

⁹ *Evaluation of World Bank assistance to Pacific Islands Member Countries 1992-2002* (CODE2004-0088), November 2004.

B. Feedback from Consultations

35. The World Bank team has consulted with a range of stakeholders in government, private business, academia, and civil society during the preparation of this strategy and sought feedback on the analytical framework, modalities for assistance, and country-specific needs. The Bank has also consulted other development partners and Pacific regional organizations on the planned strategy, as well as on opportunities for potential partnerships. In-country workshops and follow-up dialogue have provided valuable feedback throughout the preparation of this strategy.

36. There were several key messages received from these consultations:

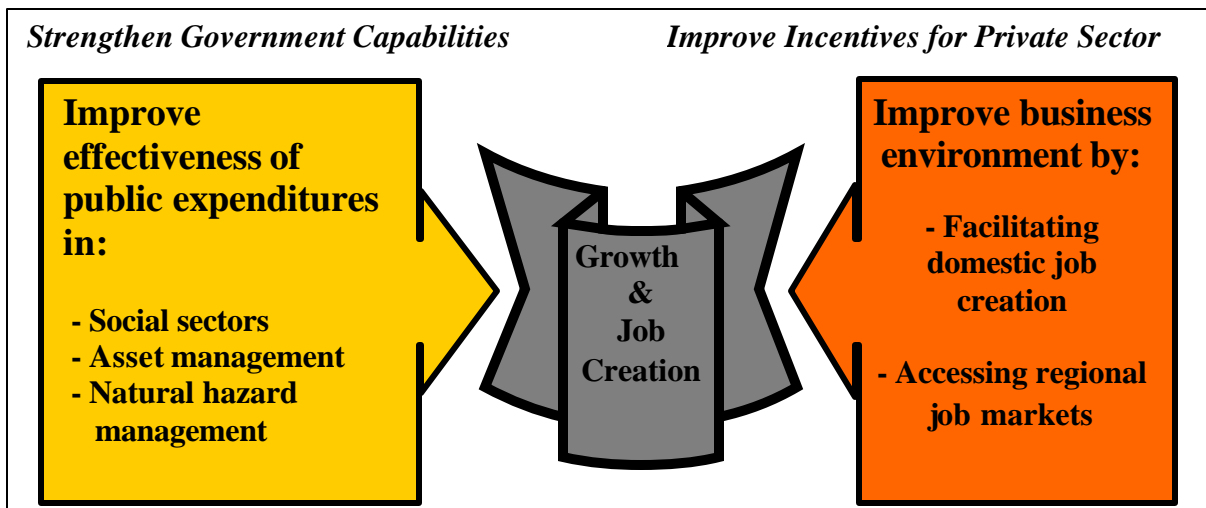
- The capabilities and incentives approach adopted in this strategy captures the main issues facing the region that need concerted attention from the development community.
- Vehicles that foster donor coordination would improve the chances of tackling these challenging issues effectively, as would a stronger role by Pacific governments themselves that donors could also encourage.
- The World Bank's analytical/technical expertise in these areas is very valuable and hence more frequent interaction and dissemination of its global activities would be desirable.
- The World Bank should work closely with regional organizations in the Pacific.
- The Foreign Investment Advisory Service (FIAS) and IFC's Pacific Enterprise Development Facility (PEDF) and the World Bank should closely coordinate support for private sector development.

III. REGIONAL FRAMEWORK

37. Reflecting these recommendations and messages, the aim of the Bank's Pacific Regional Strategy for FY2006-2009 is to help address the issues of rising poverty and youth unemployment by creating an environment conducive to generating sustainable economic growth and employment opportunities for Pacific Islanders, working in cooperation with other development partners in the region.

38. An analytic framework reflecting the supply side (capabilities) and the demand side (incentives) is planned as a guide to outlining the strategic pillars for the Bank's role in the region (Figure 3). These pillars are informed by the Bank's assessment of how it can most effectively contribute to addressing the issues of unemployment and rising "hardship" based on areas of comparative advantage and client demand: (a) strengthening government capabilities in service delivery and (b) improving the incentives for private sector development and job creation.

Figure 3. Analytical Framework for Fostering Sustainable Growth and Job Creation



A. Strengthening Government Capabilities in Service Delivery

39. The Bank would contribute to a strengthening of government capacity in improving the effectiveness of public expenditures in the areas where PIC governments expend a large share of their resources—social sectors, infrastructure, and natural disaster management. Donor support to the Pacific is also concentrated in these three areas; and with the rising concerns about aid effectiveness in the Pacific, donors, and governments have expressed a strong need for the Bank to distill the regional and global lessons to inform the design and implementation of programs. Improving outcomes in these three areas also has a potentially large positive impact on some of the most vulnerable sections of the population—the poor, women, and inhabitants of outer islands. The Bank's involvement through sectoral public expenditure reviews would reflect the Bank's comparative advantage and commitment to the MDGs, offer an opportunity to deepen donor coordination, and strengthen government capacity to lay the foundations for economic growth.

40. Consultations with client governments or donors have not yet revealed a demand for broad economywide public expenditure reviews or targeted stand-alone assistance to support public sector and financial management reforms. An emerging request from Fiji to review the general efficiency of public expenditures is under consideration and expected to serve as an entry point into a more specific engagement, the nature of which is not known at this time (see Section VIII, Country Chapter A on Fiji). As the information base and country relationships expand, the Bank will make available its core diagnostic products, adopting as appropriate to the Pacific context.

41. The Bank's contributions will be in the areas of social sectors, infrastructure, and natural hazard management.

1. Improving the Effectiveness of Public Expenditures in the Social Sectors

42. The Bank will attempt to make a contribution toward understanding the causes and addressing the difficulties encountered in improving the outcomes in education and health so that they are better aligned with the large amounts of public expenditures being devoted to these sectors (refer back to Section I for related discussion).

43. The Bank is preparing a regional economic report reviewing the issues in the social sectors in the Pacific that will identify the governance structures, policies and institutions where reforms would speed progress toward the attainment of the MDGs by improving service delivery in health and education, especially to the poor and inhabitants of outer islands. Through this report and country-level activities, the Bank will share global experience, disseminate good practice, and test the relevance of new approaches with the main donor partners, supporting implementation where appropriate (e.g., sectorwide approaches).

2. Improving the Management of Infrastructural Assets

44. While donor funding of infrastructure is quite prevalent, insufficient attention to asset management has led to a deterioration of these investments, causing disruptions to availability of basic services. If costly rebuilding activities are to be avoided, greater attention needs to be paid to the maintenance of these physical assets.

45. The Bank's role here would be to bring in best practice lessons and innovative public-private partnerships to help the countries implement reforms to improve coordination, accountability, and capacity in infrastructure management. This area is being scaled up in the Pacific in response to stakeholder feedback and will take guidance from the recently completed Infrastructure Report prepared jointly by the Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and the World Bank.

3. Safeguarding Service Delivery by Improving Resilience to Natural Hazards

46. High vulnerability to natural disasters (in terms of proportion of area and population affected) has resulted in the cost of extreme events, primarily cyclones and droughts, totaling

US\$2.8 billion in real 2004 value in the 1990s alone¹⁰ (refer back to Section I for related discussion).

47. The Bank is preparing a policy note to review the incentives, institutions, and (financial) instruments available for hazard risk management, emphasizing that being proactive in building resilience has a high pay-off. In fact, the cost of inaction is high in terms of fatalities and economic damages. From this work the Bank will draw upon regional and international experience to build local capacity for hazard management and develop cost-effective instruments for the Pacific that can minimize the risk of various types of losses and interruptions in public service delivery, which obviously have a disproportionately larger effect on the poorer populations and retard the attainment of MDGs.¹¹

B. Improving the Incentives for Private Sector-led Growth and Employment

48. The Bank will seek to make improvements in the incentive environment for job creation by adopting a two-pronged approach: (a) by supporting private sector development domestically by improving the business environment to make it attractive for domestic business development and inward foreign investment attraction; and (b) in recognition of the natural constraints to private sector development in the Pacific by facilitating outward labor mobility for Pacific Islanders into neighboring developed countries in the context of deeper regional integration. Both these areas are new to the Bank's assistance package in the region and reflect the concerns of countries that have successfully implemented public sector reforms but not received the expected private investment (e.g., Samoa). This work would attempt to deepen and complement those reforms.

1. Facilitating Domestic Job Creation

49. The Bank's activities in this area would fall into one of these categories:

- The cost of doing business could be reduced by improving the broad administrative and regulatory framework affecting entry and exit of firms. The Doing Business Indicators database benchmarks the PICs against several other countries on both cost and time taken to obtain business licenses, access credit, collect on a debt, etc. Several of the PICs have shown a keen interest in improving the performance in some of these areas. Appropriate technical assistance programs will be designed to address those requests in close partnership with other partners. In some countries, the Bank may focus on reducing costs of specific utilities (e.g., telecom), stressing regional cooperation to reap economies of scale and pooling of regulatory capacity. While small size of markets may limit privatization options, regulatory reform efforts to increase private participation in service provision will be supported.
- Sustainable revenues from resource-based sectors, such as fisheries, forestry or tourism, could be enhanced particularly in the smallest islands that are single-sector

¹⁰ Figure from EM-DAT and SOPAC, 2005.

¹¹ Guidance will be drawn from *Managing the Debt Risk of Exogenous Shocks in LICs* (SecM2005-0112), March 9, 2005.

economies and are either not able to secure fair deals in international negotiations that could be addressed through better regional cooperation, or where the lack of transparent frameworks has led to exploitation and threatened sustainability of the sector. Since these are where the long-term sources of growth may lie, the Bank would look for opportunities to team up with the specialized regional agencies¹² to identify proposals for equitable revenue sharing, as well as avenues to support the IFC's sectoral investments (e.g., in tourism) through policy dialogue.

Close coordination with other development partners such as the ADB, AusAID and NZAID on private sector development issues will be a high priority given the broad agenda that needs to be tackled.

2. Accessing Regional Job Markets

50. While the business environments in the PICs have considerable scope for improvement, there are natural limitations on the size of the private sector due to small size and geography of the PICs. Yet, an immediate solution to job creation is needed in the face of large (and growing) percentages of youth in the populations that are showing an inclination to move away from subsistence cultures.

51. As donors are becoming more “hands-on” in the Pacific, the climate is right to offer consideration of the merits of some form of labor market integration with their Pacific neighbors. The Bank is therefore undertaking an analytical and empirical study on this topic that is a logical extension to its previous regional economic report.¹³ One of the recommendations of this report was an expansion of the free trade area (FTA) formed within the PICs (known as the PICTA) to include the developed neighbors, New Zealand and Australia (known as PACER), in order to enhance the gains from trade creation.¹⁴ If the PICs do consider widening the FTA, they are likely to do so if trade in services and in particular labor mobility is incorporated.

52. The Bank's analysis of labor mobility attempts to quantify the costs and benefits of labor mobility with a focus on documenting the impact of remittances on poverty and income inequality reduction in recipient communities while drawing policy recommendations for both sending and receiving countries to maximize the development impact of managed migration. Frequent dialogue with New Zealand and Australia on labor mobility issues is being maintained in order for this study to understand the opportunities and address the constraints to labor market integration.

¹² For example, Forum Fisheries Agency to raise the share of fishing revenues accruing to the Pacific from the current low of 4 percent

¹³ *Embarking on a Global Voyage: Trade Liberalisation and Complementary Reforms in the Pacific*, Report No. 24417-EAP, PREM Unit, East Asia and Pacific Region, World Bank, September 10, 2002.

¹⁴ The report also recommended that more attention be paid to the ‘behind-the-border’ agenda in order to extract benefits from trade integration. The focus of this strategy on improving the domestic business environment is in line with that recommendation. On related areas, the lead is being taken by other development partners (e.g. NZAid on trade facilitation, and PFTAC on tax reform). The Bank is ready to tap into the institutional knowledge on this broad agenda—WTO accession, Integrated Framework on Trade, Small States Task Force work on trade—if the demand arises from clients or partners, and could make available capacity-building instruments in partnership with the World Bank Institute.

Table 7 summarizes the likely delivery instruments, main partners, and analytical products (combination of completed and ongoing reports) which underpin the Bank's approach.

Table 7. Analytical Products, Instruments and Partners for Delivering Bank Assistance to the Region

<i>Thematic focus</i>	<i>Analytical product that will underpin Bank involvement</i>	<i>Proposed instrument to deliver assistance</i>	<i>Main partners^a</i>
Improve Effectiveness of Public Expenditures			
Social sectors	Regional Economic Report (FY05) on HD.	Donor coordination to leverage resources, SWAps in education sector	Australia, New Zealand
Infrastructure Management	Infrastructure Report, Regional Infrastructure Conference (FY05)	Dialogue with regional organizations, Country-level technical assistance and operations to leverage donor resources	Australia, ADB, Pacific Islands Forum
Hazard Management	Policy note on HM issues (FY06)	Capacity building workshops, Country-level operations	Specialized regional agencies
Improve environment for private sector development			
Reducing the cost of doing business	Doing Business Indicators (FY03, and ongoing updates)	Country-level advisors and consultative groups to implement reform	ADB, Australia, FIAS
Increasing revenues and sustainability of natural resource-based sectors	Regional Economic Report (FY96) ^b	Joint sectoral policy reviews with donors or leveraging IFC investments	Australia, EU, Japan, IFC
Improving access to regional labor markets	Migration and Remittances analysis (FY06)	Discussion forums, FEMM briefings, close dialogue with Australia	Australia, New Zealand, Pacific Islands Forum, University of South Pacific

^a Not meant to be exhaustive; more detail provided in Section VIII, Country Chapters.

^b *Pacific Island Economies: Building a Resilient Economic Base for the Twenty-First Century*, Country Department III, World Bank, 1996.

IV. BALANCING REGIONAL AND COUNTRY-LEVEL FOCUS

53. Given the variety of issues identified in the analytical framework, the strategy will deploy a combination of a regional and country-level focus in its activities.

A. Regional Focus

54. The rationale for taking a regional approach to some issues is that if countries deal with regional public goods individually without internalizing the effect on other countries in the region, it may result in the “tragedy of the commons” where everyone loses due to the lack of cooperation. Thus regional cooperation on public goods can generate large benefits. Such a debate has begun to take shape in the Pacific. Bilateral donor partners are interested in exploring ways to test the viability of regional public goods. Given the well-known constraints of scale and capacity facing the individual island countries, a meaningful dialogue and analysis of regional cooperation is long overdue. Working at a regional level also allows scarce Bank resources to be bundled in a way that enhances efficiency in analysis, as well as in disseminating global knowledge. Hence, the upcoming strategy would support this thinking by undertaking selected thematic pieces of analytical work at the regional level for fostering dialogue with and discussion among Pacific Island policymakers and other stakeholders on common challenges. The Pacific Plan being developed by the Pacific Islands Forum Secretariat presents such an opportunity.

55. The definition of the term *regional* often varies. A differentiation is made between activities or diagnostic work that have regional coverage in the data (such as the Doing Business indicators) (a) from activities when due to common characteristics among countries, a component is highly portable and hence offers potential for cross learning and demonstration effects (such as hazard management practices); and (b) from activities which involve pooling of resources for provision of service (such as a regional airline) or integration (such as by forming a free trade area).

56. A description of the regional analytical work currently underway is summarized below. Given the systemic nature of the issues being addressed and the varied interactions with clients and regional organizations, these should be viewed as multi-year initiatives. In keeping with OED’s recommendations, increased attention will be devoted to engaging with stakeholders during the concept and preparation stages, while sufficient resources will be dedicated to disseminating and implementing the findings emerging from such analytical work.

- ***Human development services.*** The Review of Human Development in the Pacific Islands (FY04-05) comprises a series of discussion papers addressing the challenge of delivering more relevant, equitable, and socially inclusive human development services in the Pacific Islands. It is underpinned by the concern over high levels of funding in the health and education sectors that seem unmatched by improvements in service quality and improved outcomes. Key to the success of this human development review will be the depth and frequency of consultation and collaboration with regional stakeholders to determine the scope of regional initiatives in the delivery of education and health services. The World Bank team will link up with expert collaborators in the

- region, both to improve the analysis and to ensure that its results are relevant to current policy concerns of the Bank's clients.
- ***Doing Business Indicators*** (first release FY04, with annual updates). The World Bank is undertaking a survey of over 130 economies to indicate the regulatory costs of business and analyze specific regulations that enhance or constrain investment, productivity and growth. The indicators—on the cost and time required to start a business, hire and fire workers, enforce contracts, obtain credit and close a business—are being used to benchmark the Pacific Islands against global or regional best practice and identify reforms that are most pressing in order to promote domestic business formation or attract foreign investment. Some of these reforms will be at the country level, such as easing of administrative barriers for entry and exit of businesses; and others, such as credit registries or investment promotion, would encourage regional public goods.
 - ***Infrastructure***. The World Bank (along with ADB and JBIC) are undertaking a joint study to highlight the role that infrastructure can play in reducing poverty by supporting economic growth and development and providing access to key services. The goal of the study is to provide practical guidance to senior policy-makers and support a process of dialogue on infrastructure issues with development partners. Following an extensive series of consultations throughout the Asia Pacific region (FY04-05), the World Bank will undertake a review of the specific infrastructure issues and needs in the Pacific region, providing guidance to policy makers, governments, and donor agencies on available options for infrastructure service provision and financing. The scope for regional cooperation in transport services or a regional independent regulator will be explored (in collaboration with AusAID's work on this topic.)
 - ***Labor mobility***. In order to extend regional integration beyond trade in goods, the Bank is undertaking an analysis of the prospects for enhanced Labor Mobility from the Pacific (FY05-06). This analysis is intended to inform policy makers in both receiving and sending countries and will provide an empirical evaluation of the benefits of labor mobility to both migrant-receiving and migrant-sending countries. Recommendations based on existing guest worker schemes elsewhere in the world are being drawn out and discussed with key stakeholders. Specific instances where regional cooperation would be warranted would be identified, such as regional certification of qualifications for migrants.
 - ***Risk management and adaptation***. A series of analytical work and discussion/dissemination activities are proposed on the theme of Pacific Risk Management and Adaptation (FY05-06). The objective is to influence policymakers and development partners in the Pacific Island region to take proactive action on risk management and adaptation and thereby minimize the future costs of disasters, climate change, and sea-level rise. The analysis will consist of positive and negative lessons learned, both regional and global, providing summaries of best practices in the pilot countries and practical recommendations on the strategic way forward.

- ***Fisheries management.*** At the request of the Forum Fisheries Agency, the World Bank is providing technical advice on the preparation of economic performance indicators for the Western and Central Pacific Tuna Fishery (FY05-07). This reflects a desire by Pacific Island countries that more attention and effort be paid to economic analysis in regional fisheries management. The project will develop a limited number of economic indicators that would illustrate annual changes in the impact of the tuna industry on Pacific Island country economies. Such information is essential to develop improved management arrangements aimed at enhancing sustainable economic benefits
- A series of short policy notes for the Pacific has recently been launched called *SPacific Notes* (beginning FY05 and continued with regular frequency). These are short notes disseminating key messages on a variety of topics considered to be of relevance to the Pacific audience at large. These notes are intended to share global expertise and promote dialogue in the region, while increasing Bank visibility to the clients in a low-cost manner.

B. Country-level Focus

57. Country-level activities will complement the proposed regional programs. In some cases, regional analytical work will lay the foundations for subsequent interventions focused on policy advice, implementation support, and capacity building at the country level. Exploring the links between the regional and country-specific initiatives will be crucial in order to allow the Bank to cluster some activities that could otherwise be quite varied and isolated.

58. The Bank's level of engagement currently varies across the Pacific. In some countries the demand for policy advice is evident in areas that are already identified as national development priorities and that pose opportunities for deepening Bank partnerships to leverage donor resources effectively. While this is not the case across the region, the Bank stands ready to serve all its clients by initiating and pursuing a development dialogue. In the interest of maximizing the development impact of Bank assistance, the scope of activities will be shaped by the Bank's ability to leverage the resources of the major development partners.

59. To support the focus on policy advice, the Bank stands ready to deliver financial assistance to its Pacific clients. Modest financing will be made available on a case-by-case basis with the following criteria serving as a guide:

- (a) Overall policy environment and the client's absorptive capacity for the resources;
- (b) Bank's ability to engage in partnerships that effectively leverage donor resources; and
- (c) Progress made on the harmonization and alignment agenda.

60. Evolving client demand will continue to guide the Bank's engagement. Since this engagement in the region is at a relatively early stage compared to other development partners, the Bank will explore low-cost innovative ways to fill the information gaps regarding its institutional knowledge base at the country-level. Individual country economic updates; the key development challenges facing each country; Bank objectives, assistance, and tentative IDA allocations; as well

as the activities of development partners are provided in Section VIII with individual country chapters.

61. An overview of the Bank's objectives in each of the nine PICs follows:

- ***Fiji.*** In the case of Fiji, a lower-middle income client (and IBRD-eligible borrower), the objectives of the World Bank's assistance program will be to assist the government in improving the country's growth prospects that had begun to recover a little in the aftermath of the 2000 coup. But future growth projections are again pessimistic due to imminent eroding preferences in sugar and garment exports. Alternate and sustainable sources of growth will have to be quickly found to restore economic growth but also to preserve social stability that seems quite fragile. Hence the Bank's focus would be on improving the domestic business environment by addressing the regulatory and administrative barriers to business formation while also reviewing issues in the forestry sector and supporting telecom sector reforms with a view to creating an enabling environment for the development of ICT-based services. To stimulate the economy after the slump in 2000, the government had also increased spending substantially and may need assistance in consolidating its fiscal position by enhancing public sector efficiency.
- ***Kiribati.*** Since climate change threatens the island, the main focus of the World Bank's support will be on assisting the government with mainstreaming of risk management into national economic planning.
- ***Marshall Islands, Federated States of Micronesia, and Palau.*** The Marshall Islands, Federated States of Micronesia, and Palau receive substantial assistance from the United States under the Compact of Free Association. The Bank's engagement with these countries is at an early stage and will evolve based on the degree of leverage afforded to our assistance by the U.S. donor funds. These island countries are quite small and the Bank may offer advice on improving the prospects in the one or two sectors that could drive the economy. For example, in Palau (population of 20,000), the World Bank is advising on environmental aspects of oil and gas exploration and natural resources valuation.
- ***Samoa.*** Samoa has undertaken a number of successful economic and structural policy reforms in the last decade. It now faces "second generation" challenges of boosting private investment. The World Bank will focus assistance on facilitating the environment for private sector development by addressing the regulatory and administrative barriers to investment, as well as supporting reform of the telecommunications and postal sector. Previously, the Bank has assisted Samoa in improving the effectiveness of public expenditures in the social sectors (health), infrastructure asset management, and cyclone recovery; and will continue to assist in consolidating these efforts.
- ***Solomon Islands.*** The Solomon Islands present a different set of challenges. The country has emerged from four years of ethnic conflict and exhibits many of the

characteristics of a low-income country under stress (LICUS): weak government and institutions, coupled with high levels of poverty. Australia has a strong bilateral presence in security; law and justice; and economic management, including in-line government staff. The aim of the Bank's assistance program is therefore to identify selective entry points for supporting reforms and constituencies for change, capacity building, and tailored policy advice based on global experience and communications/outreach. The Solomon Islands program consists of analytical/advisory services and small grants; and working with governments and, where appropriate, communities. The focus is likely to be on facilitating progress toward the MDGs through education and health reform; reducing the cost of doing business through utility regulation and reform; and improving rural access to energy and telecommunications while exploring opportunities for rural income-generation, supported by overall capacity-building assistance to the government in economic management and financial sector reform, including pension reform.

- **Tonga.** Tonga is currently the only monarchy in the Pacific, and the scope for reform is vast. The Bank's engagement in Tonga is likely to focus on improving public expenditure efficiency in infrastructure asset management, increasing resilience to natural hazards, as well as tackling concerns in social sectors over health and education quality (particularly since Tonga enjoys some labor mobility into New Zealand and improved health and education outcomes would allow it to access overseas jobs effectively). At the same time, Tonga needs to set a level playing field for private business; hence the Bank would focus on addressing the regulatory constraints that impeded private investment, such as reducing the regulatory and administrative barriers to business development.
- **Vanuatu.** The challenges of growth and job creation in Vanuatu are compounded by political instability, which has impacted the commitment to reform. The Bank is looking to engage with Vanuatu. Dialogue thus far has pointed to addressing concerns regarding poor education outcomes and improving the environment for private business.

V. PARTNERSHIPS

A. Internal Coordination

62. Within the World Bank, important institutional knowledge and experience has been gathered in dealing with the small states that will be tapped into on a thematic basis, notably through the work of the Commonwealth Secretariat/World Bank Joint Task Force on Small States and the ongoing programs in other regions in the Bank. Relevant and effective policy advice to the Pacific region will be aided by constant adaptation of the lessons emerging from other regions of the world and re-examination of their relevance for the small island states of the Pacific. In this context, distilling good practice lessons from within the region, among both Bank member countries and nonmembers from French Polynesia, will be a priority. The World Bank Institute could play an important role by enhancing its contribution to dissemination and capacity building by inviting regional participants to suitable regional and global learning events, and by coordinating access to the institutional knowledge based in Washington for delivery of high-quality policy advice to the region..

63. The IFC's focus on facilitating private investment offers an important avenue for strengthening the policy environment facing the private sector in the Pacific. The FIAS has completed a Strategic Directions 2005-07 paper that highlights the two aspects of the evolving global context for its operations: (a) greater competition among developing countries for foreign domestic investment (FDI) and improved commitment to reform from some governments; and (b) Increased demand for micro-economic focused advisory services and implementation support. In response, the FIAS strategy identifies the need for expanding their products and processes to reflect the following :

- Reduced investment in conducting diagnostics and a correspondingly greater emphasis on relying on Investment Climate assessments and surveys coming out of the World Bank Group;
- Continuing work on attracting and maintaining FDI while adding on new areas of work on maximizing the developmental impact of FDI for countries; and
- Exploiting synergies with the World Bank Group in upstream (policy dialogue on broader private sector development agenda), as well as downstream activities (projects).

64. The objective of the PEDF strategy for the Pacific is to stimulate investment growth focusing on key industry sectors, such as micro finance, tourism, and agribusiness. Selected programs targeted at providing investment support, improving access to markets, and capacity building through training are being planned. These activities would offer the necessary downstream complements to the Bank's focus on upstream policy reforms for the private sector.

B. External Partnerships

65. With the emphasis on leveraging donor resources, the importance of improving aid coordination and management is paramount. The main bilateral donor partners that the World

Bank expects to deepen dialogue with Australia (predominantly in Melanesia and Polynesia); the EU (predominantly in the Solomon Islands); New Zealand (predominantly in Polynesia and Solomon Islands with a focus on the education sector); and the United States (in FSM, Marshall Islands, and Palau). The Bank stands ready to engage substantively with China and Japan (in following up on the Okinawa initiative focusing on a prosperous and safer Pacific region).

66. While the Bank's modest contribution to resource transfers in the Pacific limits the aid coordination role, the Bank will proactively offer its convening power to development partners. The Bank will also focus on outreach and communication to signal its institutional knowledge base to the development partners in the region, as well as engage with civil society and nongovernmental organizations in client countries as appropriate.

67. The Bank will work toward improving development partnerships in the following ways:

- Coordinating strategy development and implementation with the ADB, Australia, EU, Japan, New Zealand, and other partners where possible. Initial rounds of discussions and consultations have been ongoing since June 2004. These partners have agreed to collaborate in the areas of private sector development support, service delivery in social sectors, and infrastructure management. (With the ADB's regional office opening in Sydney, dialogue and coordination is likely to be further enhanced.)
- A deeper management-level engagement in the region will be encouraged through one or two high-level visits to the region per year while fully capitalizing on venues, such as the Annual Meetings, FEMM, AusAID's Pacific 2020 Roundtable, to encourage face-to-face dialogue at the senior level on broader regional development challenges, strategic coordination, and trust funds.
- Working closely with regional organizations, such as the Forum Secretariat, to identify priority development issues and vehicles for capacity building; maintaining dialogue on important regional initiatives, such as the Pacific Plan; coordinating closely with the specialized regional agencies, such as PFTAC, SPREP and Forum Fisheries Agency on thematic issues; and participating in regional economic events, such as the FEMM.
- Participating in donor coordination meetings on national and sectoral topics, including education, climate change, natural hazards, and natural resource management and conservation. In 2005, the Bank took the lead in organizing the pre-FEMM donor coordination meeting.
- Contributing to the development of sector-wide approaches. The experience emerging from the recent Tonga education project with New Zealand could provide a template for a new form of partnership with donor partners and coordinated engagement with clients.
- Supporting joint missions and dialogue with governments with the IMF and ADB where possible. This was done with the ADB in the Solomon Islands re-engagement mission in 2003 in order to provide a platform for timely exchange of information and

views while reducing the burden on the client government. The Bank will continue to support and enhance such efforts.

- Contributing to the implementation of the harmonization agenda in line with the Rome and Paris Declarations,¹⁵ for example, through joint work with the ADB on procurement and financial management, particularly in Samoa and Tonga.

¹⁵ Search “Rome Declaration” and “Paris Declaration” at www.worldbank.org.

VI. RESULTS

68. While it is desirable to have composite measures of success for the region as a whole (e.g., average growth rate of GDP), the scope of the Bank’s engagement and the variation across countries in terms of ownership and capacity for implementation, as well as variation in donor commitments, render it unrealistic at the broad regional level. Guided by the strategic directions of the regional engagement framework, activities will be tailored to fit the demands and capacity of the client members, where success—or lack thereof—of the Bank’s interventions can be gauged. The objectives of the country-level engagement and the instruments to track progress and measure long-term impacts will also be customized to match each intervention.

69. A preliminary overview of the outcomes the Bank expects to influence is contained in Table 8. Corresponding indicators for measurement will be identified at the individual country level where the specific activity is undertaken. The intended long-term impact of these outcomes is also presented here along with some suggested indicators that lend themselves to measurement. However, the time frame for these impacts to eventuate would be considerably beyond that of the current strategy. (The following section VII discusses overall risks.)

70. Given the paucity of data in the region, the Bank would work closely with its donor partners to put tracking mechanisms in place. Efforts to improve the statistical information base through the Pacific Islands Forum Secretariat, South Pacific Commission; and the University of South Pacific would be supported as appropriate.

Table 8. Outcomes of Bank Assistance and their Intended Long-Term Impacts

<i>Thematic Focus</i>	<i>Outcomes the Bank expects to influence during strategy period (specific indicators to be defined at the country-level where the activity is undertaken)</i>	<i>Intended long-term impact (suggested indicators)</i>
Improve Effectiveness of Public Expenditures		
Social sectors	<p>Increased awareness among clients and donors of the mismatch between the inputs and outcomes of social sector financing.</p> <p>Better accountability frameworks in the social sectors.</p> <p>Improvement in the modes of delivery of social services.</p>	<p>Improved quality of health and education services. More equitable distribution of services to outer islands.</p> <p><i>Indicators:</i> Improvement in population-wide education and health outcomes.</p>
Infrastructure	<p>Create conditions for private participation in infrastructure maintenance, improvements in service coverage</p>	<p>Improved public asset management, reduced rebuilding activities, access with reliability</p> <p><i>Indicators:</i> Savings to public budget through efficiency gains and less frequent construction activities; increase in coverage of services</p>
Hazard Management	<p>Mainstreaming risk management into national economic planning</p>	<p>Enhanced resilience to hazards.</p>

Thematic Focus	Outcomes the Bank expects to influence during strategy period <i>(specific indicators to be defined at the country-level where the activity is undertaken)</i>	Intended long-term impact <i>(suggested indicators)</i>
	Increased capacity within key ministries to conduct vulnerability assessments and hazard-proofing.	<i>Indicators:</i> Reduction in damages as a percentage of GDP, proportion of population affected, fatalities.
Improve environment for private sector-led job creation		
Reducing the cost of doing business	Increased awareness of administrative & regulatory barriers to private investment. Facilitate reduction in time and cost of doing business through implementation assistance on reforms. Create conditions for improving access, reduced cost of utilities.	Increased domestic and foreign private sector activity. <i>Indicators:</i> Increase in local business formation, increase in FDI.
Increasing revenues and sustainability of natural resource-based sectors	Increased capacity for conducting economic valuation of natural resources Improved legal and regulatory environment for resource exploitations, framework for optimizing revenue in place.	Improved sustainability & revenue sharing in natural resource based industries <i>Indicators:</i> Reduction in rate of logging, improved revenue-sharing.
Improving access to regional labor markets	Knowledge gaps on the benefits of enhanced labor mobility in the region and measures to mitigate real or perceived costs for both sending and receiving countries would be addressed. Active regional dialogue on labor mobility in the context of closer regional integration.	Stronger regional integration, reduction in unemployment in the PICs, labor shortages addressed in developed markets. <i>Indicators:</i> Number of jobs secured by Pacific Islanders in neighboring developed markets, volume and impact of remittances on migrant-sending communities

VII. RISKS

71. Four main issues are identified that could pose risks to the effective delivery of the regional assistance program. The issues, their direct implication for Bank strategy, and a discussion of actions that would mitigate the risk, as much as possible, are presented in Table 9. These issues represent a mix of exogenous country-specific factors, as well as the systemic risks that emerge from the scope of the Bank's engagement in the region.

Table 9. Risks Faced in Implementing World Bank Strategy and Proposed Mitigation Measures

<i>Issue</i>	<i>Risk for the regional strategy</i>	<i>Actions to mitigate risk</i>
<p>1. National ownership and client-led coordination</p> <p>National ownership of agendas for reform varies considerably across client countries. The small PIC governments are easily overwhelmed by the challenge of managing many donor programs. Yet there is limited support for using the aid coordination frameworks which have been adopted in many other countries (e.g., Poverty Reduction Strategy Papers).</p>	<p>The Bank's engagement and ability to make progress on key aspects of the strategy may vary across client countries, reflecting its ability to align its assistance with receptive counterparts.</p> <p>The assistance provided by the Bank may be poorly coordinated and thus less effective.</p>	<p>Bank will identify and support champions for reform using country commitment as a key factor in selecting its interventions. The Bank will seek to work in ways which minimize the burden of aid coordination, which it and other donors place on client governments.</p> <p>Bank will work with other donors to encourage, support, and build national ownership of reform programs. Where appropriate, it will follow the LICUS approach, as well as the principles set out by the Organization for Economic Cooperation and Development on alignment in fragile states.</p>
<p>2. Vulnerability</p> <p>Several countries in the region are vulnerable to natural disasters and volatility in commodity prices. Risk of political instability and social conflict is also high as many are considered fragile states.</p>	<p>Large shocks present a risk to the country program by necessitating an unpredictable change of course and immediate need to divert attention and resources from previously agreed priorities.</p>	<p>The framework is flexible enough to allow the Bank to tailor its response to special needs, but the priorities outlined in this document may need to be adjusted under these circumstances.</p> <p>Increased access to flexible trust funds will allow the Bank to deliver specialized assistance where necessary.</p>
<p>3. Importance of Partnerships</p> <p>Successful implementation of the strategy depends on partnerships and leveraging resources from other donors.</p>	<p>The Bank's ability to leverage partnerships effectively may be uneven across Australia, the EU, Japan, New Zealand, and the United States.</p>	<p>The Bank will launch steady and continuous efforts to deepen dialogue with major donors.</p> <p>The Bank will signal its</p>

<i>Issue</i>	<i>Risk for the regional strategy</i>	<i>Actions to mitigate risk</i>
		institutional knowledge by proactively disseminating its analytical products with a view to forging strong working partnerships with donors.
<p>4. Cost Country level needs (within the planned regional framework) vary considerably across the nine clients.</p>	<p>Bank assistance will be resource-intensive due to the isolated activities in each country. Limited ability to cluster raises costs relative to activities in other country programs that can benefit from economies of scale</p>	<p>The Bank will attempt to mitigate by identifying common issues pertaining to the creation of regional public goods, promoting a regional approach where possible, including widely disseminating cross-country learning within the region, as well as international lessons through the work of the Small States Task Force. The Bank will enhance its dialogue with regional organizations and seek to link country programs with regional initiatives</p> <p>The Bank will seek to leverage additional resources from key partners.</p>

VIII. COUNTRY CHAPTERS

A. Country Chapter: Fiji

Table 10. Country Summary

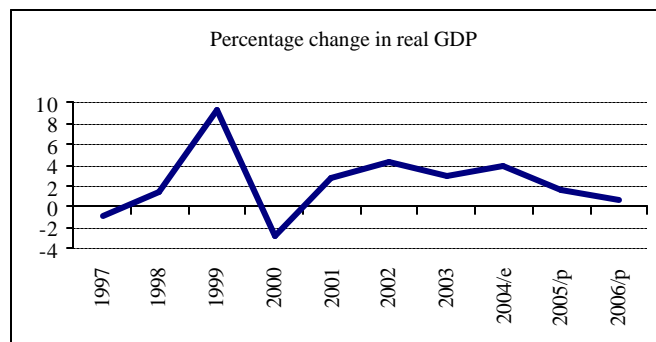
Country	Republic of the Fiji Islands
Prime Minister	Laisenia Qarase (since 10 September 2000)
Head of State	The President, Ratu Josefa ILOILOVATU (appointed by the Great Council of Chiefs, 2000)
Independence	October 10, 1970 (from the UK)
Government	Bicameral parliament comprising an appointed upper house, the Senate (32 members), and an elected lower house, the House of Representatives (71 members). Voting is compulsory and preferential.
Land area	Total land area of 18,270 sq km.
Population	848,000 (2004 est.). Population growth rate is 1.5% (2004 est.).
Cities	Capital: Suva (Viti Levu)
Provinces	4 divisions and 1 dependency: Central, Eastern, Northern, Western and Rotuma.
Languages	English (official), Fijian, and Hindi.
Natural Hazards	Cyclonic storms can occur from November to January.
Natural Resources	Timber, fish, gold, copper, offshore oil potential, hydropower.
Major Products	Sugar and garment exports, and a growing tourist industry are the major sources of foreign exchange.

1. Economic Overview

72. Fiji's economy is the largest of the Bank Pacific Island member countries, and it is the least aid dependent of the Bank's Pacific clients (aid per capita averaging US\$38 over 1999-2002). A coup in 2000 that saw the democratically elected government unseated plunged the country into economic decline. Business confidence collapsed and significant numbers of Indo Fijians emigrated, many of them skilled workers. The political fallout is continuing as charges are brought against those involved.

73. Following the coup-induced contraction of 2.8 percent in 2000, expansionary fiscal activities allowed a quick turnaround in Fiji's real GDP growth in 2001 (Figure 4) and the economy continued to show strong growth in subsequent years. However, growth of less than 2 percent in 2005 and 2006 is forecast, reflecting the expected impact of the loss of preferential trade arrangements in the sugar and garment industries. Inflation declined from 4 percent in 2003 to 2 percent in 2004, as the supply-side effect of Cyclone Ami on food prices subsided.

74. The government's efforts to stimulate economic growth following the coup resulted in a strain on the budget deficit (averaging 7 percent of GDP in 2001-02) and public debt (49 percent of GDP in 2003). The budget deficit is projected to narrow to 4 percent of GDP in 2005, reflecting stronger fiscal discipline.

Figure 4. Growth in Fiji's Real GDP during 1997-2006

75. The current account deficit has been volatile over 2001-03, largely owing to swings in the trade balance. The deficit is estimated to be about 6 percent of GDP in 2004. Foreign reserves stood at just about three months of imports of goods and services in 2003-04.

76. Agriculture, textiles, tourism, construction and mining have been the backbone of Fiji's productive sector. Although sugar has been the most important crop (30 percent of agricultural GDP in 2001), the industry faces several challenges. These include the loss in 2005 of preferential trade arrangements with the EU which have subsidized the industry, deterioration in sugarcane quality and quantity from the effects of drought, the ongoing non-renewal of land leases and the unfavorable trends in world markets. The Fiji Government has committed itself to the reformation of the sugar industry and has a package of measures in place which it hopes will address these challenges.

77. The export garment industry based on tax breaks and concessional access to the Australian and US markets, overtook sugar as the biggest export earner in 2002, accounting for 26 percent of domestic exports. However, the industry faces increasing international competition, particularly with the termination of preferential trade arrangements with the US at the end of 2004 (a preferential agreement with Australia has recently been extended).

78. Tourism (10 percent of GDP), Fiji's main foreign exchange earner, continues to expand. Given the growing supply of tourist accommodation and the entry of an additional airline into the regional market, a growth in tourist arrivals of 7 percent was expected for 2004.

79. Construction activity, contributing 4.3 percent of GDP in 2002, increased by 38 percent in 2003 as a result of government spending on physical infrastructure and the implementation of several large private investment projects in tourism. Higher gold production and strong international gold prices boosted gold export earnings by 18 percentage points to 2 percent of GDP in 2004, compared with the previous year.

80. Forestry, while representing just 0.6 percent of GDP in 2002, has the potential to play an increasing role as Fiji's mahogany plantations reach maturity. Harvesting commenced in 2004 and continues under the management of the Fiji Hardwood Corporation. Issues related to native

land tenure and ethnic Fijian involvement in the industry are sensitive and require careful handling.

2. Outlook

81. Fiji's economy has probably the greatest long-term potential among the Pacific nations, but faces some major challenges in reaching this. The expected slowdown in economic growth and the steady increase in public debt suggests the need for a tighter fiscal policy. The government's program of civil service and related reforms provides an opportunity to reduce the large share of the wage bill in the budget. Structural reforms focusing on lowering costs for business, improving private sector employment prospects, and encouraging sustainable strong economic growth would also boost the medium-term prospects for Fiji's economy. The expiry of trade concessions for the sugar and garment sectors may present social and economic challenges (many thousands are employed in these industries). Fiji has the opportunity to further capitalize on its tourism potential to sustain a strong and vibrant economy, provided that key reforms can be progressed and prudent economic management can be maintained.

4. Key Issues Shaping the World Bank's Involvement

82. As the most populous nation and largest regional economy, Fiji is a key Pacific client for the World Bank. Since it became a Bank member in 1971, 14 projects have been completed, primarily in the infrastructure, telecommunications and electric power sectors. Of these, 13 were IBRD-financed (totaling US\$146.4 million). Since the late 1990s the Bank's program in Fiji has been limited, in part a reflection of the ready availability of support from other development partners, but also of Fiji's status as an IBRD eligible borrower (Fiji does not have access to IDA resources).

83. The Bank is seeking to strengthen its engagement with Fiji over the life of this strategy (2005-08) by identifying, in consultation with the government, a number of specific areas where it can make a contribution in accordance with its comparative advantages. The government has indicated that its immediate demands will be for high quality technical advice and analytical support provided on a grant-financed basis. This is expected to be the focus of the Bank's assistance.

84. The Bank program aims to assist the government to address two key challenges to economic growth: (a) responding to fiscal pressures which dictate an urgent need for the government to deliver services more efficiently and effectively; and (b) identifying opportunities to remove impediments to private sector development.

85. The Bank approach also recognizes that having emerged from the political upheavals surrounding the 2000 coup, promoting national stability is a key concern. While strengthening the preconditions for sustained economic growth is fundamental to Fiji's long-term prosperity, recent history has implications for the way in which economic reform can be undertaken.

86. The Bank's program of assistance to Fiji is set out in Table 11.

Table 11. Summary of World Bank Assistance Program to Fiji

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p>	<p>Increasing efficiency of public expenditure (TA, initiated 10/18/2004). A continuation of the upward trends in fiscal deficit and public debt would pose a risk to economic growth. The government has launched a far-reaching program of public sector reform consisting of financial management reform, civil service reform and public enterprise reform. The Bank is looking to develop a program of targeted assistance for public sector reform to help the government achieve its objectives for fiscal consolidation, in particular a reduction in wages and salaries from 11 to 9 percent of GDP. Such a reduction will be key to the government's ability to provide sufficient resources for key MDG areas in service delivery, maintenance and capital expenditure. The Bank and the government are in discussions on a range of areas where the Bank could potentially contribute to this agenda.</p>	<ul style="list-style-type: none"> • Introduction of an integrated and fiscally sustainable public sector reform program resulting in enhanced capacity of the government to manage public expenditures.
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p>	<p>Developing alternative sources of private sector growth (TA). To cushion the employment and poverty impact of a contraction of the sugar and textiles sectors structural reforms to boost private sector growth and job creation will be important. To contribute to this agenda the Bank is working with FIAS to provide technical assistance for a private sector development program focused on regulatory reform, initially supporting the government's reforms to the foreign investment legislation and approval process (broadening to other 'Doing Business' priorities as this work develops).</p>	<ul style="list-style-type: none"> • Dialogue between Government and the private sector resulting in collaborative action to reduce obstacles to private sector development.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
Strengthening the management and sustainability of the resource-based sectors.	<p>Reducing telecommunications costs (TA, initiated 10/29/2004). Reducing Fiji's high telecommunications costs and improving access could significantly boost private sector investment and growth. There is currently a monopoly arrangement for the provision of telecommunication services with the government, including holdings controlled by the National Provident Fund, being the main shareholder. This arrangement constrains the ability to introduce a more competitive cost regime and improve services. The Bank is providing the government with technical advice to highlight the options possible through a more liberalized sector.</p> <p>Support to small and medium enterprises. The IFC's programme in Fiji will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SMEs). The key focus areas for Fiji will be on SME finance, tourism and IFC investment.</p> <p>Sustainable forest management (AAA; initiated 06/30/2005). Fiji's plantation (mahogany and pine) and indigenous forests resources are substantial. However, the sustainability of current exploitation is of concern – which has implications for Fiji's ability to tap into higher-value overseas markets (many of which rely on the ability to comply with certification regimes). The Bank has offered to develop a modest program of capacity building and technical assistance for the Forestry Department to strengthen its ability to play the policy and management oversight role.</p>	<ul style="list-style-type: none"> • Improved government understanding of the fiscal effects of telecoms liberalization and appreciation of approaches to encourage greater competition in this sector • Improved conditions to enable domestic (and foreign) investment to occur more rapidly. • Improved consideration of the role of forest products in national development and poverty reduction • Improved capacity to implement sustainable forest management practices.
Improving access to regional labor markets.		

4. Donor Coordination

87. Table 12 describes the nature of the assistance provided by Fiji's other development partners.

Table 12. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary Activities</i>
ADB	The Country Strategy and Program Update 2005-2007 (August 2004), identifies the following priority sectors: Transport and communications, energy, agriculture, natural resources, water and sanitation and finance. The ADB has three active lending operations in Fiji with ADB commitments totaling US\$103.8 million (Suva-Nausori Water Supply and Sewerage project, closing 30.06/2009; Third Road Upgrading project, closing 31/12/2005; and; the Fiji Ports Development project, closing 30/06/2006.). Three lending operations are scheduled in 2005 (Rural Electrification, US\$10 million; Airports Rehabilitation and Upgrading, US\$32 million; and Road Upgrading, US\$26 million). Two further lending operations are scheduled in 2006 (Urban Sector Development, US\$22 million) and 2007 (Rural and Outer Islands Development, US\$26 million).
Australia	Australia provides bilateral assistance concentrated in the health, education and justice sectors with an emphasis on improved service delivery of public services to rural and peri-urban areas. Programs include: support to civil society groups; support of the Government's law and order strategy; planning, management, provision of monitoring of education services; Australian Development Scholarship program; training of community health staff, refurbishment of an existing hospital and construction of a new facility; capacity building support to the Fiji Ministry of Health; and a technical assistance program provided by Australian volunteers.
European Union	The European Community's Country Strategy Paper 2003-2007, identifies education as the priority or "focal" area for Euro 21 million assistance with activities proposed to improve the quality and standard of formal and non-formal education programs (especially in rural areas). Fiji is also expected to benefit from support from the European Investment Bank and the Center for the Development of Enterprise. Approximately Euro 525,000 has been set aside to fund related technical assistance and analytical work.
Japan	In FY03 (April 1, 2003-March 31, 2004), JICA provided TA programs equating to US\$10.13 million involving programs in basic education; rural health services; industrial development (volunteer programs in agriculture, livestock management, infectious disease control; marine resources development; vocational training; and SME development); environmental conservation and waste management. During the same period, the Ministry of Foreign Affairs provided grant funding of US\$7.58 million. JBIC has one active lending operation in Fiji with US\$7.08 million in commitments outstanding.
New Zealand	NZAID provides NZ\$4.1 million in bilateral assistance to Fiji with programs providing support to the Government's priorities in law and justice; community and economic development; education; training; and health.
Others	The following UN agencies have activities: FAO, ICAO, IFAD, ILO, IMO, ITU, UNESCO, UPU, WHO, WIPO, WMO, WTO, UNEP, ITC, UNIDO, UNFPA, UNICEF, UNDP

B. Country Chapter: Federated States of Micronesia

Table 13. Country Summary

Country:	Federated States of Micronesia
Prime Minister	President Joseph J. URUSEMAL (since May 11, 2003); the president is both the head of state and government.
Head of State	President Joseph J. URUSEMAL (since May 11, 2003)
Independence	3 November 1986 (from the US-administered UN Trusteeship)
Government	Unicameral Congress (14 seats; one elected from each of the four states to serve 4-year terms and ten elected from single-member districts delineated by population to serve 2-year terms; members elected by popular vote.)
Land area	702 sq km
Population	126,766 (2004 est.). Population growth is 1.8% (2004 est.).
Cities	Capital: Palikir
Provinces	Four states: Chuuk (formerly Truk), Kosrae , Pohnpei , and Yap.
Languages	English (official and common language), Trukese, Pohnpeian, Yapese, Kosrean, Ulithian, Woleaian, Nukuoro, and Kapingamarangi.
Natural Hazards	Typhoons (June to December)
Natural Resources	marine products, deep-seabed minerals.
Major Products	Economic activity consists primarily of subsistence farming and fishing, with fish as the main export.

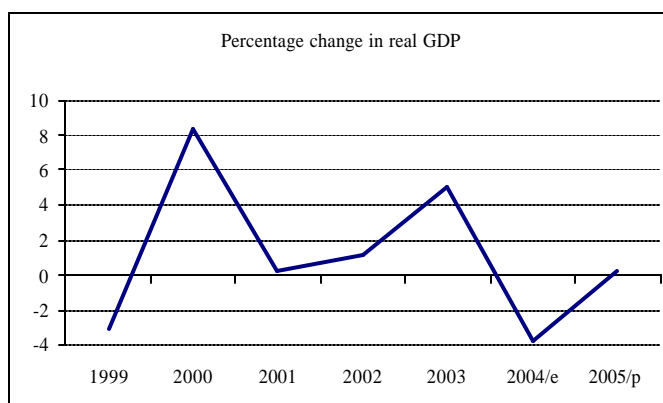
1. Economic Overview

88. The Federated States of Micronesia (FSM) consists of four states—Chuuk, Kosrae, Pohnpei, and Yap—which enjoy a high degree of political and economic autonomy (to date the latter states, particularly Yap, have enjoyed a higher degree of economic success). The FSM receives substantial levels of external assistance (aid per capita averaging US\$963 over 1999-2002), particularly from the United States through the Compact of Free Association. Compact I (1987-2001), provided the FSM with grants of about half of GDP. Compact II (2004-23) includes lower U.S. grant assistance and the creation of a Compact Trust Fund to promote economic self-reliance.

89. Real GDP fluctuated extensively over the period 1999-2004 (see Figure 5), growing at an average of 2 percent. The reduction in Compact transfers to the government budget and the delayed availability of infrastructure grants, contributed to the estimated contraction of 3.8 percent in 2004. However, the latter funds will become available in 2005 and with a slight expansion in private sector activity, growth in real GDP is projected to be 0.3 percent in 2005.

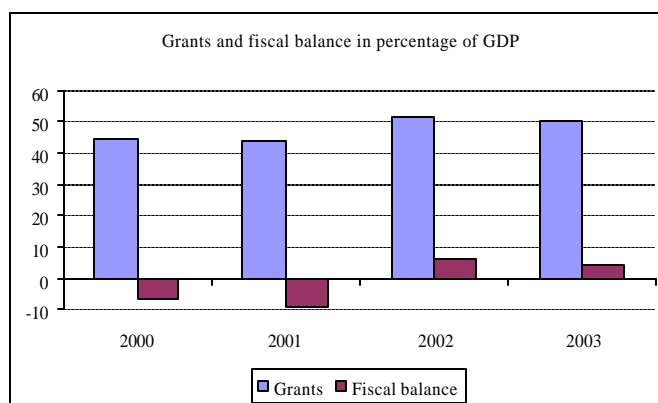
90. A low inflation of 2 percent is projected for 2005, reflecting the use of the U.S. dollar as the domestic currency. Owing to an unfavorable trade balance the current account deficit rose above 10 percent of GDP in 2004.

Figure 5. Growth in the FSM's Real GDP during 1999-2005.



91. Central government finances vary considerably with variations in grant disbursements (see Figure 6). Public debt stood at 26 percent of GDP in 2004.

Figure 6. Compact Grants and Fiscal Balance of the FSM during 2000-03.



92. Economic activity in the FSM is dominated by the public sector. Government expenditure accounted for about 70 percent of GDP in 2000-03. The private sector is steadily increasing in importance, but currently remains mainly a provider of services to the public sector. The latest available official data indicate that commercial agriculture, fisheries, and tourism totaled only 5 percent of GDP in 1996.

93. FSM controls a large ocean area in the Pacific region with significant fish stocks. Most commercial fishing activity is licensed out to foreign vessels. License fees declined by 45 percentage points to 5 percent of GDP in 2004 from the 1994 level, owing to unfavorable weather conditions and restrictive policies faced by foreign vessels.

2. Outlook

94. In the near term, the FSM economy should recover from the initial shock of the lower Compact grant disbursement in 2004, and the fiscal deficit should narrow. Beyond that, however, some significant challenges suggest the need for decisive action. Considering that more than 60 percent of total government revenue consists of external grants, of which more than half are Compact funds, the progressive declines in Compact grants imply that the combination of a large public sector and undersized private sector is unsustainable. There is pressing need to address the fiscal and structural problems that contribute to budgetary strains and slow growth.

95. To maximize the potential of agriculture, fishing, and tourism, structural reforms are required in land tenure, human capital investment, the public enterprise sector, and the legal and institutional framework to foster private sector activity. The relative success of Yap and Pohnpei in comparison to the other states shows that the right directions can produce the desired results.

3. Key Issues Shaping the World Bank's Involvement

96. The FSM became a World Bank member in 1993. Since that time the Bank's involvement in the FSM consisted of a range of regional initiatives and focused technical assistance, particularly in the fisheries sector. With GNI per capita of US\$2,090 in 2003, the FSM is an IBRD-eligible country.

97. The Bank stands ready to build its relationship with the FSM over 2005-08. The Bank recognizes that the FSM has access to substantial grant assistance from other development partners, particularly the US and Japan. Any potential Bank involvement will hinge on our ability to effectively leverage the key donor resources and build local capacity.

98. The Bank has held initial consultations with the government on areas of possible support and expects an agreement on these to be concluded in the near future. Tentatively, the discussions encompass two broad areas: (a) to assist in encouraging the growth of the private sector through targeted interventions (for example through support for tax, public enterprise or regulatory reforms), and (b) to progress the public expenditure management reform agenda, such as enhancing the government's ability to maintain key assets, particularly as the FSM strives to adapt to scheduled reductions in direct U.S. Compact funding.

4. Donor Coordination

99. Table 14 describes the nature of the assistance provided by the FSM's other development partners.

Table 14. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary Activities</i>
ADB	The Country Strategy and Program Paper 2005-2006 (Updated, August 2004) identifies three areas of strategic priority for ADB activities in the Federated States of Micronesia: support for good governance; inclusive social development; and, pro-poor economic growth. An indicative ADF allocation of US\$8 million has been set for FSM over the coming 2-3 year period. ADB has two active lending operations in FSM totaling US\$33.8 in ADF credits (Basic Social Services Project, US\$9.2 million, closing 30/06/2007 and Private Sector Development Program) the second of which is a program loan. To date, no further lending operations have been identified for 2005 or 2006.
Australia	Australia is expected to provide about approximately A\$1.9 million in bilateral assistance over 2003-04 concentrated in education, training, and support to policy and management reform. In addition, a small grants scheme supports the work of community organizations and some government initiatives.
European Union	FSM has been allocated, Euro 4.8 million under the A-envelope for financial and technical co-operation and Euro 1.4 million under the B-envelope for the period 2002-2007 (the 9 th EDF). The program aims to contribute to outer island development through the identification and use of new and renewable sources of energy, and support to the work of non-state actors in the areas of conservation and environmental protection.
Japan	JICA supports volunteer-led programs in the areas of primary and secondary education, industrial development, development planning, environment, and regional health. In addition, the Ministry of Foreign Affairs provided US\$3.62 million in grant funding. The Government of Japan has no active lending operations in the Federated States of Micronesia at this time.
New Zealand	Support to the FSM is included within NZAID's program to other Micronesian states, with an allocation of NZ\$835,000 in 2003-04. The focus is on education and with limited grant funds for self-standing community development initiatives.
United States	A revision to the original Compact of Free Association (1986) was passed into law in December 2003. This compact is structured in terms of a sector grant (providing approximately US\$76 million per annum, decreasing by US\$0.8 million per annum) and a Trust Fund (providing approximately US\$16 million per annum, rising by US\$0.8 million per annum). Funds provided under the sector grants are allocated to activities in six priority sectors: infrastructure, education; health care; private sector development; environment, and; capacity building. The gradual increase in trust fund contributions are offset by a corresponding annual reduction in the sector grants. Trust funds contributions will not be utilized until the compact concludes in 2023, by which time it is intended that accrued trust funds would replace the annual sector grants.
Other	The following UN agencies have activities: ICAD, ITU, UNCTAD, UNESCO, WHO, WMO, UNEP, ITC, FAO, UNFPA, UNICEF, UNDP

C. Country Chapter: Kiribati

Table 15. Country Summary

Country	Republic of Kiribati
Prime Minister	President Anote TONG (since 10 July 2003); the president is both the head of state and government.
Head of State	President Anote TONG (since 10 July 2003)
Independence	12 July 1979 (from UK)
Government	A 12-member Cabinet appointed by the president from among the members of the House of Parliament. Unicameral House of Parliament or Maneaba Ni Maungatabu (42 seats; 39 elected by popular vote, one ex officio member - the attorney general, one appointed to represent Banaba, and one other; members serve four-year terms).
Land area	811 sq km; includes three island groups - Gilbert Islands, Line Islands, Phoenix Islands
Population	97,813 (2004 est.). Population growth is 1.5 % (2004 est.).
Cities	Capital: Tarawa
Districts	Tarawa, Banaba, Central Gilberts, Line Islands, Northern Gilberts, Southern Gilberts.
Languages	I-Kiribati and English (official).
Natural Hazards	Affected by king tides and periodic drought (related to El Nino). The low level of some of the islands makes them very sensitive to changes in sea level.
Natural Resources	Phosphate (production discontinued in 1979).
Major Products	Copra, seaweed and fish represent the bulk of production and exports.

1. Economic Overview

100. The Republic of Kiribati is one of the most isolated countries in the world, consisting of 33 low-lying atolls spread across 3.5 million sq km of ocean. The population is concentrated on the Gilbert Islands, which include Tarawa, the capital island (a natural disaster on Tarawa would affect the entire economy as a third of the population resides there). Kiribati receives moderate levels of external assistance (aid per capita averaging US\$197 over 1999-2002).

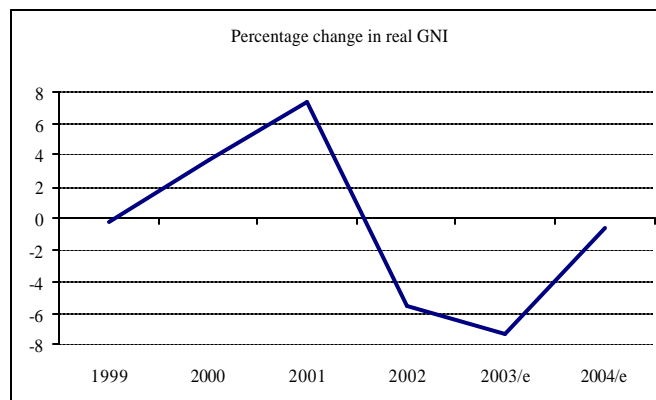
101. The GNI¹⁶ per capita declined from US\$1,040 in 1999 to US\$970 in 2004, reflecting the contraction in GNI in 2002-04 (see Figure 7) due to a decline in fishing license revenues.

102. The fiscal position is largely determined by flows of external grants and fishing license revenues, as well as the use of the Revenue Equalization Reserve Fund (RERF) to finance government expenditure. The RERF, established in 1956, is well diversified with investments in various currencies. The government policy of reinvesting profits made from the investments led to the financial strength of the RERF, with the value increasing from US\$60.5 million in 1979 to

¹⁶ Because seamen's remittances and fishing license revenues are a significant contributor to Kiribati's economy, GNI is a more relevant measure of income than GDP.

US\$335.7 million (six times of GDP) at end-2003. Correspondingly, the public external debt stood at an estimated 19 percent of GNI in 2004 (there is virtually no domestic debt).

Figure 7. Growth in Kiribati's Real GNI during 1999-2003



103. Inflation averaged 2 percent in 2003-04, reflecting Kiribati's use of the Australian dollar as its domestic currency.

104. The external position has been strong with the current account surplus averaging 5 percent of GNI over 2000-02. However, a current account deficit of 14 percent of GNI is estimated for 2003, in line with the higher budget deficit. Official reserves remain substantial at over 4 years of imports of goods and services in 2004.

105. Subsistence agriculture and fishing are Kiribati's main economic activities. The agriculture sector was affected in 2002-03 by a decline in copra and seaweed (the main exports) production. The economy is largely dominated by the public sector which relies on foreign financial aid (averaging 27 percent of GDP over 1996-2000) and non-tax revenue, mainly fishing license fees to distant water fishing nations (38 percent), and remittances from seamen (15 percent).

2. Outlook

106. Kiribati's remoteness (the furthest Pacific Islands country from the nearest major port) and exposure to climate change pose major challenges to economic growth. However, opportunities for development could be fostered by reducing barriers to trade and investment, promoting small-scale manufacturing, tourism and marine development, environmental management and investing in human resources development.

3. Key Issues Shaping the World Bank's Involvement

107. Kiribati became a World Bank member in 1986. Since that time the Bank's assistance has consisted of a range of regional initiatives and the development of a major Global Environment Facility (GEF) program on adaptation to climate change (Kiribati Adaptation Program 2003-2015). Kiribati is an IDA-eligible country.

108. The Bank's main focus in Kiribati is on helping the country to prepare for the effects of climate change and rising sea levels which the government recognizes as having the potential to have major social and economic consequences.

109. Aside from adaptation, the Bank is ready to continue dialogue with the government on its future priorities, as reflected in the National Development Plan for 2004-07.

110. The Bank's program of assistance to Kiribati is described in Table 16. Kiribati's IDA14 allocation over FY2006-08 is expected to be SDR 4.1 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans).

Table 16. Summary of World Bank Assistance Program to Kiribati

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p>	<p>Kiribati Adaptation Program - increasing resilience to natural hazards/climate change. Pilot Implementation Phase (KAP II) – (GEF Project; US\$1.54 million GEF financing, US\$0.68 million Japan PHRD Climate Change Grant; under preparation with estimated approval date FY05; estimated closing in 2009). Comprised of more than 30 low-lying atoll islands, Kiribati is one of the most vulnerable countries in the world to the effects of climate change and sea level rise. The Bank is leading the development of the Kiribati Adaptation Program (KAP) for funding under the GEF. The KAP will pilot adaptation measures and consolidate the mainstreaming of adaptation policies, plans and programs into national economic planning with a view to reducing Kiribati’s overall vulnerability. This program is being developed and implemented in cooperation with the UNDP/GEF-supported National Adaptation Program of Action (NAPA).</p>	<ul style="list-style-type: none"> Adaptation issues mainstreamed and priority measures fully integrated into national economic planning processes.
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p> <p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>		

4. Donor Coordination

111. Table 17 describes the nature of the assistance provided by Kiribati's other development partners.

Table 17. Activities of Other Development Partners

<i>Development Partner</i>	<i>Primary Activities</i>
ADB	The Country Strategy and Program Paper (September 2004), identifies three overarching strategic objectives in Kiribati: pro-poor growth through sustainable development and generation of employment opportunities; inclusive social development; and good governance. ADB has one loan (Sanitation, Public Health and Environment Improvement project; approved in 1999, US\$10.2 million ADF Credit). No lending operations are proposed for 2005, however, one operation (Outer Island Growth Centers) is proposed for 2006.
Australia	Australian support for Kiribati is concentrated in the areas of education and training and public sector management while technical assistance is provided over a wide range of sectors. Bilateral aid for Kiribati for the period 2003-04 was expected to be A\$8.0 million. Activities funded include: development of a management information system to improve government management of financial and economic resources and to enhance revenue collection; improvements to enhance the reliability of South Tarawa's electricity supply; support of basic education; and, specialist skills development.
European Union	Under the 9 th EDF (signed in July 2002), Kiribati was allocated Euro 11.0 million principally targeted to outer island social development (Euro 7.9 million), achieving the MDGs and capacity building initiatives focusing on community health and education initiatives (Euro 0.9 million).
Japan	In FY03 (April 1, 2003 – March 31, 2004) Kiribati received US\$2.22 million in grant assistance from the Japanese Ministry of Foreign Affairs. JICA provided TA (totaling US\$1.48 million) funding the technical training. The Government of Japan has no active lending operations in Kiribati.
New Zealand	NZAID allocated NZ\$3.14 million in bilateral assistance to Kiribati in 2003-04, focused on improving the quality and accessibility to basic education. In addition, Kiribati benefits from a further NZ\$2.8 million per annum through regional and thematic targeting education and health. Other NZAID program activities include: literacy initiatives; combating domestic violence; licensing of foreign fishing interests and industrial fishing ventures; and seafarer training.
Others	The following UN agencies have activities in Kiribati: ICAO, WHO, UNEP, ITC, UNESCO, FAO, ILO, UNFPA, UNICEF, UNDP

D. Country Chapter: Marshall Islands

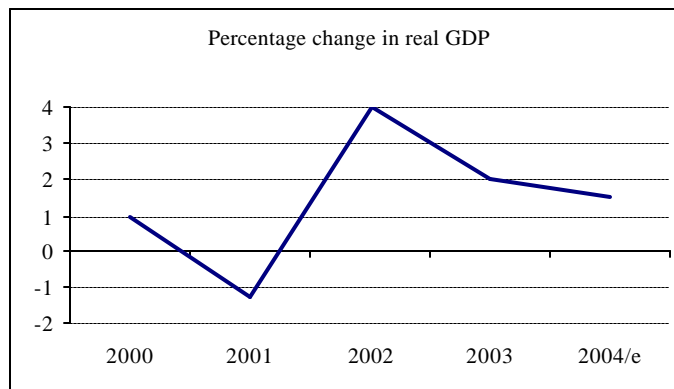
Table 18. Country Summary

Country	Republic of the Marshall Islands
Prime Minister	President Kessai Hesa NOTE (since January 5, 2004); the president is both the head of state and government.
Head of State	President Kessai Hesa NOTE (since January 5, 2004)
Independence	21 October 1986 (from the US-administered UN trusteeship)
Government	Unicameral Parliament or Nitijela (33 seats; members elected by popular vote to serve four-year terms); Cabinet selected by the president from among the members of Parliament.
Land area	181.3 sq km; includes the atolls of Bikini, Enewetak, Kwajalein, Majuro, Rongelap, and Utirik.
Population	53,000 (2004 est.). Population growth is 1% (2004 est.).
Cities	Capital: Majuro
Districts	33 municipalities; Ailinginae, Ailinglaplap, Ailuk, Arno, Aur, Bikar, Bikini, Bokak, Ebon, Enewetak, Erikub, Jabat, Jaluit, Jemo, Kili, Kwajalein, Lae, Lib, Likiep, Majuro, Maloelap, Mejit, Mili, Namorik, Namu, Rongelap, Rongrik, Toke, Ujae, Ujelang, Utirik, Wotho, Wotje.
Languages	English (widely spoken as a second language, both English and Marshallese are official languages), two major Marshallese dialects from the Malayo-Polynesian family, and Japanese.
Natural Hazards	Infrequent typhoons.
Natural Resources	Coconut products, marine products, deep seabed minerals.
Major Products	Small-scale agricultural industry is limited to copra (leading crop export), tuna processing, and handicrafts.

1. Economic Overview

112. The Republic of the Marshall Islands consists of a series of 29 small atolls in the northern Pacific, with the population concentrated in Majuro and Ebeye. It has the second highest aid per capita (averaging US\$1,227 over 1999-2002) of the Pacific Island countries. The Marshall Islands receives substantial assistance from the United States through the Compact of Free Association, with grants accounting for 30 percent of GDP during the Compact I (1987-2001) period. Compact II (2004-23) includes the creation of a Compact Trust Fund to replace grant funding after 2023.

113. The increase in government expenditure financed by higher external assistance contributed to the improvement in real GDP growth (averaging 3 percent in 2002-03), following a contraction in 2001 (see Figure 8). Real GDP is estimated to have grown by 1.5 percent in 2004. Inflation remains below 2 percent in 2004, reflecting the use of the U.S. dollar as the domestic currency.

Figure 8. Growth in Marshall Islands' Real GDP during 2000-04

114. The 2002 budget was in deficit for the first time in seven years owing to the repayment of earlier accumulated debts, and the budget remains in deficit of an estimated 3 percent of GDP in 2004. External debt consequently declined from 102 percent of GDP in 1999 to 83 percent of GDP in 2004.

115. The economy is dominated by the public sector with government expenditure averaging 70 percent of GDP over 2000-04, most of which have been financed by external grants. Agriculture and fishing together contributed an average of 13 percent of GDP over 1997-2001. Agricultural production is primarily subsistence and concentrated on small farms. Small-scale industry is restricted to copra (the leading crop export with 15 percent of total exports in 2000), tuna processing, and handicrafts. In recent years, copra production declined, due to irregular shipping schedules and the lagged effect of weak export prices. On the other hand, there has been some expansion in the operations of the tuna processing plant.

116. The tourist industry, which employs less than 10 percent of the labor force, is slowly increasing its presence in the economy and presents hope for future added income. Total visitor arrivals increased by 20 percent in 2003 from the previous year.

2. Outlook

117. The growth in the economy would be strengthened and sustained by the government's commitment to reform. Areas where improvement can be accelerated include the strengthening of public financial management, that is, to maintain prudence on expenditure and expanding tax revenues, managing infrastructure more efficiently, and developing a growth-stimulating environment for the private sector. Recent private sector developments such as the establishment of a tuna-loining plant, and private investments in black pearl cultivation and niche market tourism, have created employment opportunities. Thus, private investment, particularly in the fisheries and services sectors, offer good prospects for economic growth.

3. Key Issues Shaping the World Bank's Involvement

118. The Marshall Islands became a World Bank member in 1992. Since that time the Bank's assistance has been limited to the involvement in a range of regional initiatives and a few specific technical assistance activities. The Marshall Islands is an IBRD-eligible country (GNI per capita of US\$2,710 in 2003).

119. With the presence of other donors, particularly the United States (under the Compact of Free Association), the Bank will be seeking to play a selective role in the Marshall Islands, focusing on policy advice to leverage donor resources and build local capacity. The Bank has held initial consultations, which will continue, with the government.

4. Donor Coordination

120. Table 19 describes the nature of the assistance provided by the Marshall Islands' other development partners.

Table 19. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary activities</i>
ADB	The Country Strategy and Program Paper 2005-2006, (Update, August 2004), supports the principal objectives of: enhanced public sector performance; increased access to basic services; enhanced environment for private sector development and job creation, and; strengthened public sector governance. ADB has active or planned lending operations in the education (US\$7.6 million ADF Credit), outer island infrastructure (US\$7.9 million ADF Credit), youth social services (US\$6.0 ADF Credit) and urban waste (US\$10.0 million, ADF Credit).
Australia	The Australian aid program (A\$415,000 in 2002-03) is concentrated in the areas of education and training, providing scholarships for study at regional universities. A Small Grants Scheme provides funding for the activities of community organizations.
European Union	The Marshall Islands became eligible for Euro 3.5 million under the 9 th EDF. Of this amount, 65% will be focused on developing cost effective and reliable renewable energy sources – an activity also receiving parallel support from the Government of France and the United Nations Department of Social Affairs. Of the remainder, 20% will be allocated to the area of human resource development and training; and 15% will be used to support civil society initiatives.
Japan	JICA assistance is focused on training and technical assistance and equates to approximately US\$2.48 million. Grant assistance from the Marshall Islands from the Ministry of Foreign Affairs equated to approximately US\$0.96 million over the period April 1, 2003 –March 31, 2004. There are no active lending operations in the Marshall Islands at present.
New Zealand	Support to the Marshall Islands is included within NZAID's program to other Micronesian states, with an allocation of NZ\$835,000 in 2003-04. The focus is on education and with limited grant funds for self-standing community development initiatives. NZAID has funded part of the University of the South Pacific's extension centre in Majuro.
United States	The original 15-year Compact of Free Association, that had accounted for an estimated 70% of GDP, was replaced by a new, amended compact in December 2003. The amended compact for the period 2004-2023, introduces a trust fund that is intended to substitute for US grant financing in 2023. Grant programs have also been restructured in an effort to enhance accountability measures with a shift away from budgetary, to sector, grants. Sector grants will focus on education, health, environment, public sector infrastructure development and maintenance, and public sector capacity building. Oversight for medium-term expenditure plans will be provided by a Joint Economic Management and Accountability Committee in which the US has majority membership. The new 2004-2023 compact is expected to provide financial support totaling approximately US\$1,190 million.
Others	The following UN agencies have activities: IAEA, WHO, UNEP, ITC, UNESCO, FAO, UNFPA, UNICEF, UNDP

E. Country Chapter: Palau

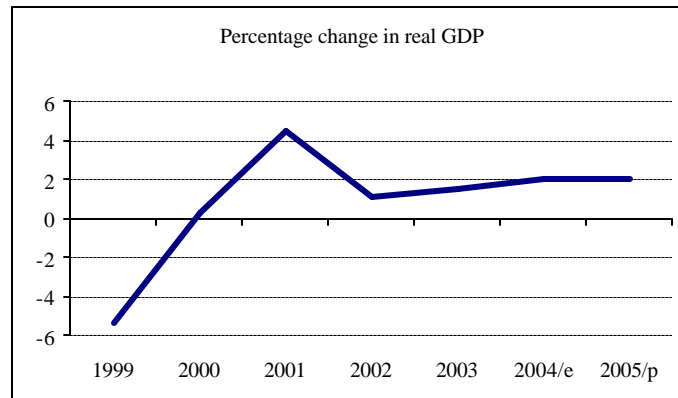
Table 20. Country Summary

Country	Republic of Palau
Prime Minister	President Tommy Esang REMENGESAU, Jr. (since January 19, 2001); the president is both the head of state and government.
Head of State	President Tommy Esang REMENGESAU, Jr. (since January 19, 2001)
Independence	October 1, 1994 (from the US-administered UN Trusteeship)
Government	Bicameral Parliament or Olbiil Era Kelulau (OEK) consists of the Senate (9 seats; members elected by popular vote on a population basis to serve four-year terms) and the House of Delegates (16 seats; members elected by popular vote to serve four-year terms).
Land area	458 sq km
Population	20,000 (2004 est.)
Cities	Capital: Koror; a new capital is being built about 20 km northeast of Koror.
Districts	16 states; Aimeliik, Airai, Angaur, Hatohobei, Kayangel, Koror, Melekeok, Ngaraard, Ngarchelong, Ngardmau, Ngatpang, Ngchesar, Ngeremlengui, Ngiwal, Peleliu, Sonsorol.
Languages	English and Palauan official in all states except Sonsoral (Sonsoralese and English are official), Tobi (Tobi and English are official), and Angaur (Angaur, Japanese, and English are official).
Natural Hazards	Typhoons (June to December)
Natural Resources	Forests, minerals (especially gold), marine products and deep-seabed minerals.
Major Products	The economy consists primarily of tourism, subsistence agriculture and fishing. Tuna is the main export.

1. Economic Overview

121. The republic of Palau has the highest income per capita (US\$7,500 in 2003) and the highest aid per capita (averaging US\$1,712 over 1999-2002) of the Pacific Island countries. Palau receives substantial assistance from the United States through the Compact of Free Association, with total direct payments of about US\$410 million over 1994-2009. In recent years, annual disbursements have averaged about 20 percent of GDP, to create a Compact Trust Fund to enable Palau to become self-sustainable, and to finance government operations.

122. Due to various external shocks that affected tourism (a principal source of income for Palau), economic growth averaged 1.3 percent in 2002-03, down from a strong growth of 4.5 percent in 2001 (see Figure 9). Forecast for real GDP growth in 2005 is slightly higher at 2 percent. The annual inflation rate has been subdued at below 1 percent for the years 2002-04, attributable to the use of the U.S. dollar as the domestic currency.

Figure 9. Growth in Palau's Real GDP during 1999-2005.

123. The budget deficit widened from 2 percent of GDP in 2003 to an estimated 12 percent of GDP in 2004. Public debt in 2004 is estimated to be 14 percent of GDP.

124. The external position has fluctuated extensively, with a widening of the current account deficit in 2002 following the aftermath of September 11, 2001. The current account deficit narrowed to 5 percent of GDP in 2003 as tourist activity picked up, but increased to 18 percent of GDP in 2004, reflecting the growth in imports.

125. Palau's economy is sustained mostly by tourism and external assistance, with the public sector accounting for nearly half of total employment. The tourism sector was adversely affected in 2002 by the sharp appreciation of the U.S. dollar against the Japanese yen early that year, limited air flights, and uncompetitive airfares. However, tourist earnings rebounded by 22 percent in 2003 and another 7 percent in 2004. Efforts have been made recently to introduce competition in air flights and to diversify the tourist base.

2. Outlook

126. In the near-term, economic growth will be sustained, but medium-term prospects face fiscal uncertainties, particularly with the scheduled sharp reduction in grant assistance from the United States after 2009, which would significantly affect government expenditure, domestic consumption, and economic activity. The recovery of tourism and continuing large other donor-financed infrastructure projects should support growth.

127. To limit the potential risks faced by the economy, prudent management of the Compact Trust Fund, as well as public sector reform to limit unproductive public expenditure, including restraint on public sector wages and overall size of public sector in the economy while strengthening the tax revenue, are needed. Other steps include improving the business environment for private sector-led growth and foreign investment attraction, which is vital for economic self-reliance and for absorbing workers from the public sector.

3. Key Issues Shaping the World Bank's Involvement

128. Palau became a Bank member in 1997. Since that time, the Bank's assistance has been limited to the provision of technical assistance in a limited range of areas, principally oil and gas and natural resource management. Palau is an IBRD-eligible country.

129. The Bank's approach in Palau is shaped by an awareness of three major factors. First, Palau has access to large-scale grant resources from other development partners (mainly the Japan, Taiwan Province of China, and the United States). Second, Palau has high per capita GDP relative to other Pacific countries. And third, Palau has the potential to achieve more robust economic growth outcomes given its growing tourism industry—but will need to undertake a strong reform program to achieve such outcomes, particularly to address its fiscal challenges and to enhance the private sector enabling environment. The government has indicated its preparedness to start down this path, and the Bank will seek to support such efforts. In this context, the role of the Bank over 2005-08 will be to focus on the provision of targeted policy advice and analytical support in a few key areas to leverage donor resources and build local capacity. The Bank has held initial consultations with the Palau Government on areas of possible support and expects an agreement on these to be concluded in the near future.

4. Donor Coordination

130. Table 21 describes the nature of the assistance provided by Palau's other development partners.

Table 21. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary activities</i>
ADB	Palau became a member of the ADB on December 31, 2003. ADB's program is currently under development.
Australia	AusAID provided approximately A\$200,000 in bilateral aid in the period 2003-04. This was focused on education, training and community development initiatives mediated through a small grants program.
European Union	Under the 9 th EDF, Palau received an allocation of Euro 2 million the majority of which is to be applied to the energy sector. The principal objectives of the program are to improve the overall efficiency of the energy sector; to increase the production through renewable energy sources; and, to reduce local pollution and environmental risks associated with current energy generation practices.
Japan	JICA supports Palau through a Technical Assistance program staffed by volunteers. In FY03 (April 1, 2003 – March 31, 2004) volunteers were involved in program areas that include: education and human resource development (focusing on primary and pre-school education, vocational training and education for the disabled) Japan has also provided some major infrastructure grants to Palau.
New Zealand	Support to Palau is included within NZAID's program to Micronesia with an allocation of NZ\$835,000 in 2003-04. The focus is on education and with limited grant funds for self-standing community development initiatives.
United States	<p>In 1994, the Republic of Palau Compact of Free Association with the United States of America became law. Under the compact, Palau receives U.S. grant assistance for a period of 15 years in return for furnishing the United States with military facilities.</p> <p>The status of free association recognizes Palau as a sovereign state with the capacity to conduct foreign affairs consistent with the terms of the Compact. The Compact places full responsibility for Palau's defense with the United States. The Compact also provides grant funds and Federal program assistance, principally through the Department of the Interior's Office of Insular Affairs (OIA).</p> <p>In FY04, Palau received US\$14.07 million, and under appropriations endorsed by the U.S. Congress, can expect to receive a total of US\$77.16 million over the period FY04-09. Use of the compact funds is determined through consultations between the OIA and government representatives, however OIA encourages use of the funds in six main areas: health, education public infrastructure, capacity building, private sector development and the environment. Of these, health, education and public infrastructure represent the most significant programs.</p> <p>In addition to the funds received under the compact of free association, Palau is also eligible for federal programs in sectors including health and education.</p>
Others	The following UN agencies have activities: UNEP, ITC, WHO, FAO, UNFPA, UNICEF, UNDP

F. Country Chapter: Samoa

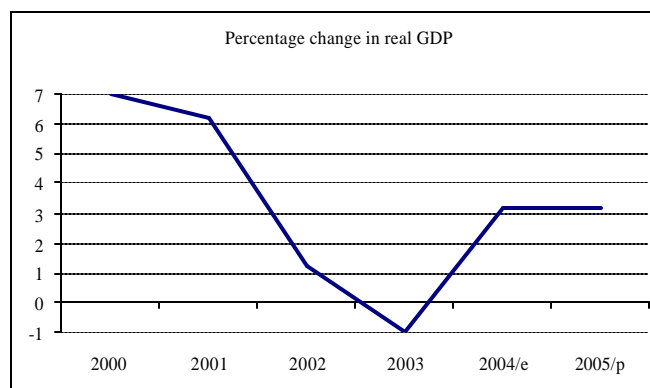
Table 22. Country Summary

Country	Independent State of Samoa
Prime Minister	Sailele Malielegaoi TUILA'EPA (since 1996)
Head of State	Chief Tanumafili II MALIETOA
Independence	January 1, 1962 (from New Zealand-administered UN trusteeship)
Government	Unicameral Legislative Assembly or Fono (49 seats - 47 elected by voters affiliated with traditional village-based electoral districts, 2 elected by independent, mostly Eurasian, voters who cannot, (or choose not to) establish a village affiliation; only chiefs (matai) may stand for election to the Fono; members serve five-year terms).
Land area	2,934 sq km; two main islands (Savaii, Upolu) and several smaller islands and uninhabited islets.
Population	179,000 (2004 est.). Population growth is 0.6% (2004 est.).
Cities	Capital: Apia
Districts	A'ana, Aiga-i-le-Tai, Atua, Fa'asaleleaga, Gaga'emauga, Gagaifomauga, Palauli, Satupa'itea, Tuamasaga, Va'a-o-Fonoti, Vaisigano
Languages	Samoaan (Polynesian) and English.
Natural Hazards	Occasional typhoons and active volcanism.
Natural Resources	Fish, hardwood forests, hydropower.
Major Products	Agriculture employs two-thirds of the labor force, and furnishes 90% of exports, featuring coconut cream, coconut oil, and copra.

1. Economic Overview

131. The Independent State of Samoa consists of two main islands (Savaii, Upolu) located in the Polynesian group of islands in the South Pacific. Samoa receives moderate levels of external assistance (aid per capita averaging US\$189 over 1999-2002). The Government of Samoa has adopted a wide-ranging economic reform program which has transformed the economy into one of the better-performing in the Pacific.

132. Samoa's economic reforms, launched in 1993, resulted in macroeconomic stabilization and comprehensive structural reforms, which contributed to rapid economic growth in the second half of the 1990s. More recently, after two successive years of strong economic growth (over 6 percent), Samoa's real GDP declined in 2002-03 (see Figure 10), owing to a sharp contraction in agriculture (caused by unfavorable weather conditions) and a slowdown in construction activity (due to the completion of several public works projects). Growth improved in 2003, but was then affected by Cyclone Heta at the start of 2004. The forecast for growth in 2005 is 3.2 percent. Inflation spiked to 16 percent in 2004 due to the impact of Cyclone Heta at the start of the year..

Figure 10. Growth in Samoa's Real GDP during 1999-2005.

133. Fiscal performance has been encouraging as the budget deficit declined from 2 percent of GDP in 2002 to an average of 0.8 percent of GDP in 2003-04. Public debt declined from 60 percent of GDP in 2001 to an estimated 50 percent of GDP in 2004.

134. As a result of higher imports and lower net transfers, the current account deficit declined from 0.7 percent of GDP in 2003 to 1.0 percent of GDP in 2004. International reserves stand between four and five months of imports of goods and services.

135. The economy depends mainly on agriculture, fishing, construction, tourism and remittances. The agriculture sector, accounting for 7 percent of GDP in 2003, is regaining its strength from the aftermath of Cyclone Heta. The fisheries sector (15 percent of GDP in 2003) has been in decline for several years due to low catch rates caused by poor weather conditions. The construction industry (value-added construction of 6 percent of GDP in 2003) has recently received a boost from preparation for the 2007 South Pacific Games and other planned private sector projects. Tourism earnings continue to grow, with an increase of 4 percent from 2002 to stand at 17 percent of GDP in 2003. Officially recorded remittances are about 40 percent of GDP and have been increasing over time (unofficial remittances are thought to be of a similar order of magnitude).

2. Outlook

136. Samoa continues to enjoy political stability and demonstrate a commitment to economic management. With the positive results from its reform program in the 1990s, including rationalization of the public sector, Samoa has laid much of the ground work for continued economic performance. The government now faces the challenge of building on its achievements to enhance the environment for private sector-led growth. The government has called for deregulation of the financial sector with continued fiscal discipline, and encouragement of investment, while protecting the environment. Programs are underway which should help to improve the investment climate (such as reform of key utilities and improving the regulatory regime). These and other 'second-generation' challenges, such as improving the capacity to use

land for collateral and investment, may prove to be equally if not more challenging than earlier reforms, but are critical to provide the basis for future economic advances.

3. Key Issues Shaping the World Bank's Involvement

137. The World Bank has a strong historical relationship with the Government of Samoa. Since Samoa became a Bank member in June 1974, 13 IDA credits totaling US\$70.5 million have been made to support the agriculture, telecommunications and power, finance, transportation, and health sectors.

138. The Bank's longstanding partnership with the Government of Samoa is reflected in a substantive program that combines lending, technical assistance, and analytical work. This program will continue to evolve over 2005-08. The Bank will continue to assist the government in consolidating its "first generation" reforms of public expenditure management reforms with a focus on key MDG areas, such as the health and infrastructure sectors. The Bank will continue its assistance in helping the government to manage the risks of Samoa's vulnerability to natural hazards. In addition, the Bank will increasingly seek to inform and advance the government's "second generation" reforms of interventions supporting the domestic business climate and private sector development. Continued support for the liberalization of the telecommunications sector will be an important element.

139. As an IDA recipient, Samoa takes full advantage of this instrument while engaging donor partners in a program of assistance that responds to the increasing sophistication of the country's development needs. The government provides clear direction on the roles to be played by different donors, including the Bank. The Bank activities described in Table 23 have been determined through dialogue with the government, and in accordance with the priorities set out in its *Strategy for the Development of Samoa*.

140. Samoa's IDA14 allocation over FY2006-08 is expected to be SDR 7.5 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, this allocation may be focused on key infrastructure or other public expenditure management priorities.

Table 23. Summary of World Bank Assistance Program to Samoa

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p> <p>Improving the incentives for private sector growth and employment.</p>	<p>Health sector reform - Health Sector Management Project (US\$5.0 m IDA Credit; approved 09/14/2000; closing date 03/31/2006). . The Government of Samoa has made the development of a strong and effective health care service a national priority. While Samoa's human development indicators are good, the country continues to face challenges, such as the increasing prevalence of lifestyle diseases, the need for broader access to services, and the high costs of maintaining expensive overseas health treatment. The Bank, through an IDA Credit, is supporting the government's focus on effective service delivery through its health sector program, which forms part of a coordinated sector approach also involving AusAID.</p> <p>Procurement Reforms and Capacity Development (TA; IDF Grant US\$176,000). Support to implement public procurement reforms and procurement capacity building. The activity will involve the preparation of procurement manuals and standard bidding documents to help Government officials manage public procurement.</p> <p>Maintenance of key economic infrastructure - Second Infrastructure Asset Management Project (US\$12.8 m IDA Credit; approved 12/29/2003; closing date 12/31/2008). Samoa has been successfully implementing an infrastructure asset management reform program in the transport sector since the late-90s with the Bank as its key partner. This program aims to improve urban and rural access to safe, efficient and reliable infrastructure and services, recognizing that the removal of infrastructural impediments is vital to broad-based economic growth. Through a series of IDA Credits, the Bank is helping the government to implement the institutional and management reforms which underpin its ability to ensure that vital transport infrastructure is upgraded and maintained</p> <p>Managing the risk posed by natural hazards - Infrastructure Emergency Recovery Project (US\$4.3 m IDA Credit; approved 04/29/2004; closing date 12/31/2006). . Three destructive and economically disruptive cyclones in the last 15 years have illustrated the extent of Samoa's vulnerability to natural hazards. In addition to providing reconstruction assistance, the Bank is also working with the government to establish a more proactive approach to the management and mitigation of disaster risks. It is estimated that the disaster risk measures that the government has put in place under this approach have helped to reduce the economic impacts of cyclones by as much as \$165 million. The Bank is now supporting Samoa in further strengthening vital coastal infrastructure.</p>	<ul style="list-style-type: none"> • Improved functional and technical quality of health care. • Improved procurement environment which is both more efficient and transparent. • Key infrastructure assets perform satisfactorily with increased resilience to natural risks and are managed through an effective partnership with private sector stakeholders • Resilience of coastal infrastructure assets and livelihoods of inhabitants impacted by Cyclone Heta will be recovered and improved to sustainable levels.

4. Donor Coordination

141. The Government has highlighted the need for improved coordination given the demands arising from its interaction with a large number of donors. The Bank is part of a sector approach in health and is cooperating with other partners in other sectors, particularly private sector development. Table 24 describes the nature of the assistance provided by Samoa's other development partners.

Table 24. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary activities</i>
ADB	The Country Strategy and Program Update 2005-2006 (August 2004) identifies the following priorities for ADB assistance: enhancing access to and quality of education; enhancing the environment and public health of Apia; meeting the growing demand for power; ensure sound fiscal and macroeconomic policies; rationalizing state-owned enterprises and; improving the institutional and policy framework for the private sector. The ADB has two active lending operations in Samoa: Sanitation and Drainage Project (US\$8.3 million ADF Credit; approved 10/27/2003; closing 06/30/2009) and the Small Business Development Project (US\$3.9 million ADF Credit; approved 11/21/2003; closing 08/31/2006. Two lending operations totaling US\$ 15.0 million (ADF Credits) are proposed for 2005: Education Sector Project II (US\$5.0 million) and Savai'i Renewable Energy Project (US\$10.0 million). No lending operations are currently scheduled for 2006.
Australia	In 2003-04 Australia provided bilateral aid (estimated at A\$ 11.8 million for 2003-04 plus supplementary funding of A\$2 million provided through the Policy & Management Reform Fund), concentrated in the areas of economic reform and governance (including assistance to the Public Services Commission, Immigration Division, Samoa Police Force and Treasury Department); education and training (including scholarship programs for Samoans to study in Australia, assistance to the Department of Education); health services, environment and natural resources (including improvements to management of the Ministry of Agriculture, Fisheries, Forestry and Meteorology).
European Union	Samoa receives donor assistance from the following EC institutions and sources: the Center for the Development of Enterprise (CDE), European Investment Bank (EIB), National Indicative Programmes (NIP) and non-programmable aid (STABEX). Under the 9 th European Development Fund, Samoa has been allocated a total of Euro 27.1 million. The focal sector for these grant funds will remain water supply and sanitation projects which represents a continuation of previous EC involvement in the water sector. Euro 4 million of the total will be allocated to "non-focal" micro-project activities supporting village economies.
Japan	In FY03 (April 1, 2003 to March 31, 2004) Samoa received US\$6.08 million in grant funds from the Ministry of Foreign Affairs. In addition, over the same period, JICA provided TA totaling US\$5.4 million in the environment, infrastructure and agriculture sectors. Volunteers were involved in programs that included: livestock management; fish farming; port management; telecommunications; and income generation for women. Total development assistance from Japan amounted to US\$11.48 million. The Government of Japan has no active lending operations in Samoa at present.
New Zealand	The NZAID Samoa program in 2004/05 was \$8.29 million. NZAID's program focuses on education and training (52% of funds) which includes: secondary curriculum policy and resource development, a national assessment framework, NZ and regional tertiary scholarships and short term in-country training/vocational training. In health (14% of the allocation), NZAID has supported child health initiatives, nurse training, outreach service delivery and secondary and tertiary medical treatment. New initiatives include the Public Sector Improvement Facility which is a 5 year harmonized activity with AusAID (NZAID contributes NZ\$1million per year) and a \$1.5 million institutional strengthening project in the justice sector. In addition, NZAID is working with GoS and AusAID to develop a six-year Joint Samoa Program Strategy.
Others	The following UN agencies have activities: FAO, ICAO, IFAD, IMO, ITU, UNCTAD, UNESCO, UPU, WHO, WIPO, WMO, UNEP, ITC, UNFPA, UNICEF, UNDP

G. Country Chapter: Solomon Islands

Table 25. Country Summary

Country	Solomon Islands
Prime Minister	Sir Allan Kemakeza replaced Mannaseh Sogevare as the Prime Minister following national elections in December 2001.
Head of State	Queen Elizabeth II represented by the Governor General, Sir John Ini Lapli.
Independence	July 7, 1978
Government	A Parliamentary Democracy with a single Legislative Assembly, it has its 50 seat parliament in Honiara. Each province is administered by its own elected Premier and provincial government.
Land area	Over 1.35 million sq km of sea and a land area of 29,785 sq km.
Population	470,861 (2004 est.). Population growth rate is 3.1% (2004 est.)
Cities	Capital: Honiara
Provinces	Nine provinces: Guadalcanal, Central, Western, Ysabel, Malaita, Makira, Temotu, Choiseul, and Rennell & Bellona.
Languages	English and Solomon Islands Pidgin, plus 87 listed indigenous languages and 30 dialects.
Natural Hazards	Typhoons, but rarely destructive; geologically active region with frequent earth tremors; and volcanic activity.
Natural Resources	Fish, forests, gold, bauxite, phosphates, lead, zinc, nickel.
Major Products:	Copra, marine products, and timber. Subsistence activities dominate the lives of 80 percent of Solomon Islanders.

1. Economic Overview

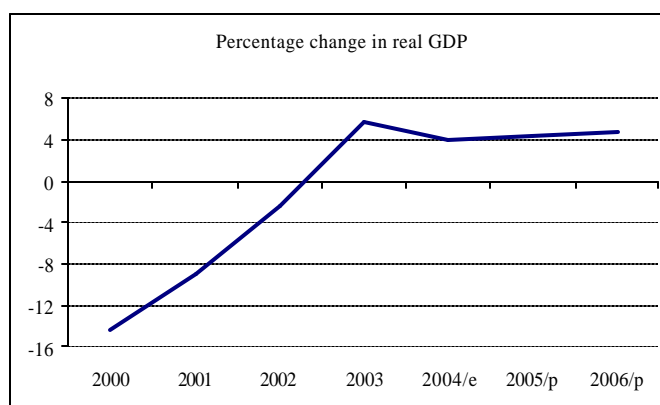
142. The Solomon Islands is the third largest archipelago in the South Pacific, comprising a scattered double chain of 992 islands, of which about one-third are populated. Beginning in late-1999, the Solomon Islands was plunged into political turmoil and civil strife due to ethnic tensions. As the security situation worsened, public administration deteriorated and by mid-2003 had reached a state of near-collapse. Intimidation and extortion of public servants by self-styled “constables,” as well as rampant corruption led to fiscal ruin. The general public was also subjected to this treatment. During this period the Solomon Islands fell into arrears with respect to all its external creditors, including the World Bank, and the Asian Development Bank.

143. In July 2003, an Australian-led regional intervention force, the Regional Assistance Mission to Solomon Islands (RAMSI) was deployed at the invitation of the Solomon Islands Government under the Facilitation of International Assistance Act (2003). Law and order was quickly restored and has been effectively maintained. In addition to the security force, RAMSI has the following components: (a) a police presence, expected to remain in place up to 10 years to maintain order and also rebuild the Solomon Islands police force; (b) technical assistance to support restoration of the budget process and more efficient and accountable public spending, and (c) development assistance to underpin peace and reconciliation. RAMSI-funded advisors and in-

line staff have been placed in the legal and judicial system and in economic and central agencies including the Ministry of Finance.

144. To date, RAMSI has enjoyed public support in the Solomon Islands because it has halted day-to-day violence, intimidation, and abuse of power. Improvements in security have boosted public confidence and reinvigorated formal business activity, particularly in Honiara. As a result of the restoration of law and order, real GDP growth rebounded sharply from an average of negative 8.6 percent over 2000-02 to 5.6 percent in 2003 (see Figure 11), supported by rising export levels, growth in primary production and construction activity. Over the near-term GDP growth is expected to remain buoyant, averaging around 4-5 percent a year during 2004-06.

Figure 11. Growth in Solomon Island's Real GDP during 2000-06.



145. As a result of the improvement in food supply and the stabilization of the nominal exchange rate, inflation has abated to single-digit levels from 10 percent in 2002-03 to an estimated 6 percent in 2004 and 2005.

146. The restoration of fiscal discipline was reflected in the estimated budget surplus of 10 percent of GDP in 2004, a turnaround from a deficit of similar magnitude in 2001-02. This outcome was mainly attributable to the significant improvement of tax collections aided by an amnesty on penalties, the cessation of payments to the ex-militants, a tightening of expenditure controls (particularly the wage bill), and significant grant based budgetary support from the major donors. Total public debt is expected to fall from 100 percent of GDP in 2003 to 87 percent of GDP in 2005.

147. The external position has improved sharply as reflected in the reversal of the current account deficit from an average of about 10 percent of GDP over 2000-02, to a surplus of 1.4 percent of GDP in 2003 and around 6 percent in 2004. As a result of a favorable trade balance, large inflows of foreign aid, and the depreciation of the domestic currency, international reserves have been rebuilt and are estimated to be equivalent to five months of imports of goods and services at end-2004.

148. Fishing, forestry, and agriculture are the principal productive sectors contributing to the Solomon Islands economy. In the fishing sector (9 percent of GDP in 2003) Solomon Taiyo Ltd.

(the only producer for export markets) resumed its operations at about 40 percent of capacity, after its suspension in mid-2000. Fish exports are estimated to be 17 percent of total exports in 2003-04.

149. The forestry sector (7 percent of GDP in 2003) was relatively unaffected by the 1999-2003 unrest. Timber exports accounted for almost 70 percent of total exports in 2003-04.

150. Although agriculture accounted for only 5 percent of GDP in 2003, its economic and social significance is far greater, as more than 80 percent of the population relies on subsistence agriculture for its livelihood. Cocoa represented about 6 percent of total exports in 2004 while copra represented around 3 percent. Overall, agriculture exports as a share of GDP are projected to grow at 3 percent in 2005-06.

2. Outlook

151. The current challenge for the government and donor partners is to successfully progress beyond the initial focus on stabilization, and implement policies and structural reforms to sustain the buoyant recovery in economic growth. RAMSI is now in the second phase of its mission which involves implementing reforms, particularly in the public sector and institutional and legal framework, as well as providing support to the provinces in the sectors of law and justice, financial management and rural service delivery.

152. In the immediate aftermath of the crisis some consideration was given to the adoption of a new constitution based on a federal system, with a significant number of political, financial and legal powers transferred to state governments. Much of the political impetus for this proposal derived from dissatisfaction with the poor reach of government services, especially beyond Honiara. Given major concerns about the availability of skilled administrators, lack of appropriate systems and the potential costs of setting up such a structure, these proposals require careful consideration. However, the underlying service delivery issues remain and need to be addressed.

153. Given the fragility of the economic recovery and looming uncertainties about future prospects, the government's approach to fiscal management has been to maintain the necessary flexibility. For the near term the government's strategy is to maintain a strong fiscal position by continuing to strengthen tax administration and widening the tax base, while working to strengthen public financial management and administrative capacity in the public sector. Considering the one-time nature of the recent revenue increase and the uncertainty about the level of external grants from major donors beyond 2004, tight controls on wages and cost reduction in non priority areas are vital priorities.

154. Besides implementing sector-specific policies to revitalize the main productive sectors, to rebuild infrastructure, and to improve health and education outcomes, structural reforms in the private sector are also vital. The environment supporting private activity could be improved to encourage investment and promote employment, particularly in potential growth sectors such as gold and mining, palm oil production, and tourism. Suitable policies to address the ongoing unsustainable pace of logging need to be designed and implemented. Private sector prospects have been boosted following the sale of the palm oil plantation in Guadalcanal to New Britain Oil Palm

Company which is expected to generate up to 7000 jobs once the rehabilitation commences. Investors from Malaysia, Australia, Papua New Guinea, Japan and Taiwan have also expressed interest in mining, fishing and fish-processing, and hotel projects. Some attention will need to be paid to land ownership issues in order to attract productive foreign investment.

3. Key Issues Shaping the World Bank's Involvement

155. Since becoming a World Bank member in 1978, the Solomon Islands has received eight IDA credits totaling US\$50 million, in the infrastructure, education, health, finance, and agriculture sectors.

156. Considering the strong presence of other partners in virtually all sectors of the economy, the challenge for the World Bank is to define an appropriate role in line with its comparative advantage, and to develop strategic partnerships with other stakeholders. The Solomon Islands exhibits many of the characteristics of a low-income country under stress (LICUS): weak government and institutions, recent conflict, coupled with high levels of poverty, arguing for a non-conventional approach to development support.

157. The aim of the World Bank Group's assistance program is therefore to identify selective entry points for supporting reforms and constituencies for change, capacity-building, tailored policy advice based on global experience and communications/outreach. The Solomon Islands program consists of analytical/advisory services and small grants, working with governments and, where appropriate, at the community level. A key emphasis is on coordination with other development partners to maximize leverage, particularly in key areas for MDG attainment.

158. The Bank's assistance program has been developed in consultation with the government and other development partners and is consistent with the government's own development priorities, articulated in the *National Economic Reform, Recovery and Development Plan* (NERRDP), 2003-2006.

159. It is expected that the Bank's program over 2005-08 will operate primarily in two broad areas which correspond to the first two pillars of the Bank Pacific regional strategy. First, the Bank will assist the government and other donors on public expenditure management issues to improve the delivery of basic services to communities and provide broader sector policy advice (e.g. public expenditure management, experience on the establishment of sectorwide approaches). Second, the Bank will target specific initiatives which seek to improve the climate for the private sector, such as reforms to the energy sector, telecommunications, financial sector management and foreign investment legislation.

160. Beyond these two focal areas the Bank will remain engaged and be prepared to respond flexibly. This would include, in particular, taking advantage of opportunities to contribute to long-term capacity building, tackling the underlying causes of instability and strengthening donor partnerships. In this context, the Bank will look to make a contribution to the productive sectors, recognizing that rural communities need to benefit directly from the recent stability in the Solomon Islands if the government and its development partners are to effectively address the underlying causes of conflict. The Bank is also considering the preparation of an application to

access the LICUS Trust Fund for the Solomon Islands, although further analysis and consultation is required to develop options for this.

161. Further details of the Bank's program to the Solomon Islands are outlined in Table 26. The Solomon Islands is eligible for IDA resources, expected to be grants under IDA14. The IDA14 allocation over FY2006-08 is expected to be SDR 5.3 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, the allocation may be focused on rural development (agriculture/forestry), infrastructure (energy) or public expenditure management priorities.

Table 26. Summary of World Bank Assistance Program to the Solomon Islands

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p> <p>Improving the incentives for private sector growth and employment.</p>	<p>Improve health outcomes, particularly in rural areas - Health Sector Development Project (US\$4.0 million IDA Credit; approved 01/06/2000; closing 12/31/2006). . Health status in the Solomon Islands was affected by the ethnic tensions, the interruptions in services in Guadalcanal Province, and the sudden decline in government financing of the sector in 2000 and after. Important issues in the health sector include: (a) the need to consider moving to a sector-wide integrated expenditure and budget framework; (b) capacity building to create greater diversity in service provision and financing, and to reduce reliance on the government as the major provider, and (c) improved management, including the possibility of contracting out services or support functions and exploring new channels of funding to the community. The IDA-funded Solomon Islands Health Sector Development Project is helping to address some of these challenges through the strengthening of the reproductive health and malaria programs, testing new approaches and through improved planning, management and monitoring.</p> <p>Enhance access to and quality of education (TA). The government has launched a new education strategy and is developing a sector-wide approach to education planning and financing with support from NZAID and the EU. The Bank is providing selected policy inputs into this process, drawing on the lessons of such approaches elsewhere (including in the Pacific).</p> <p>Economic/Structural Reform (TA). The World Bank intends to work closely with other partners, in particular Australia and the ADB on economic analysis and advice, including in the areas of decentralization and intergovernmental fiscal relations. The World Bank will provide technical support to the Economic Reform Unit.</p>	<ul style="list-style-type: none"> • Greater access to improved health care services; improved health care supervision and management resulting in more effective allocation and utilization of resources • Development of an effective and comprehensive sector approach in the education sector. • Pragmatic advice provided to the Government based on international good practice.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
Reducing the costs of doing business.	<p>Improve energy supply (TA). The most recent estimate (1996) suggests that 15 percent of the total, and 5 percent of the rural population have access to electricity. The Solomon Islands Electricity Authority (SIEA) lacks management capacity and is facing a severe liquidity crisis, at least partly due to unpaid electricity accounts. Outside Honiara power supplies are almost entirely off-grid. However, there is considerable potential for development of renewable energy, particularly mini-hydro and solar power. The Bank is providing technical assistance for the financial restructuring of SEIA, regulatory reform and capacity building and to explore options to improve rural access and service delivery in remote areas. It is expected that this work will expand to include the water utility (Solomon Islands Water Authority).</p> <p>Reduce telecommunications costs and improve service (TA, initiated 02/12/2004). The availability of telecommunications services is low in absolute terms, particularly in rural and remote areas. Mobile and internet use are also comparably low. The market structure is monopolistic and the government's capacity to regulate the provider is limited. The Bank is providing technical assistance to the government to look at the ways to introduce a more competitive environment, thereby lowering costs and improving service quality and coverage.</p> <p>Promote rural income generation as the basis for stronger and more inclusive growth (TA). Acute rural poverty is a continuing concern in the Solomon Islands and a contributing factor to underlying social tensions. The challenge is to diversify and increase income-generating opportunities throughout the country so that local communities can begin to see more direct benefits from the restoration of law and order. The Bank is looking to work in partnership with key donors active in the sector, particularly the EU and AusAID to develop overall sector strategy and pilot projects for rural growth. The Bank will also maintain an interest in developments in the forestry sector to identify whether opportunities exist to strengthen the management and sustainability of forest exploitation. There are serious concerns that the current rate of logging is far greater than what can be sustained.</p>	<ul style="list-style-type: none"> • Introduction of comprehensive financial accounting processes; improved service provision. • Pilot approaches to rural energy supply. • Improved regulatory framework and telecommunications sector policy to foster competition. • Identification of sustainable income generating activities in rural areas.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>	<p>Financial sector recovery and development - Central Bank Capacity Building Project (TA, IDF Grant of US\$254,000; initiated December 2003) and National Provident Fund (TA). All financial institutions in the Solomon Islands were under stress due to the breakdown in fiscal discipline which resulted in government defaulting on its debts to both banks and non-bank financial institutions. While the private sector remains constrained by limited access to credit, near term efforts have focused on arrears repayments and financial reconstruction. The Bank has contributed to these efforts through technical assistance and policy support to the National Provident Fund and the Central Bank. The Bank has also mobilized an Institutional Development Fund (IDF) to help strengthen the Central Bank's capacity for effective economic and financial management.</p> <p>Remove impediments to foreign and domestic investment (TA). Prospects for foreign direct investment (FDI) are improving with recent progress in palm oil and gold (restoring facilities destroyed during the ethnic tensions), nickel and tourism development, but potential investors still face numerous administrative barriers. FIAS is providing assistance to the government for the preparation of a new foreign investment legislation and in the review of customs and related laws. A dialogue is underway on issues relating to improving the access to credit.</p>	<ul style="list-style-type: none"> • Enhanced effectiveness in the preparation of national accounts and key analysis. • Improved oversight of the banking and non-banking sectors • Development of comprehensive and effective legislation informed by international good practice.

4. Donor Coordination

162. Official development assistance to the Solomon Islands is substantial and has a major impact on budget planning and development. Aid flows have increased sharply since RAMSI's intervention: about US\$118 million for 2004 alone. This poses a challenge to government and partners alike in ensuring its productive use. The development budget is entirely composed of these donor funds, which are almost entirely grants. Projections of future support are not available but it is likely that the current levels will be maintained for the next 2-3 years.

163. Major donors (using 2004 aid flow data) are Australia (about 37 percent of donor funding), the European Union (about 14 percent); Japan (30 percent); New Zealand (about 5 percent); and Taiwan, China (about 10 percent). Donor support is concentrated in the social and governance sectors, notably, and income-generating activities and agriculture (2 percent) are significantly under-represented in donor programs.

164. Development partners are seeking to ensure their assistance is consistent with the priorities outlined in the NERRDP. The Department of National Reform and Planning is responsible for aid management; Australia is providing advisory assistance.

165. Table 27 describes the nature of the assistance provided by the Solomon Islands' other development partners.

Table 27. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary activities</i>
ADB	Since 2003, ADB has reactivated one lending project in March 2004 (Post-Conflict Emergency Rehabilitation Project) whose objective is to help restore essential services, basic infrastructure, and community facilities affected by civil strife during the period 1999-2000. In view of the present debt situation, and in consideration of the availability of significant external grant funding, the decision has been taken not to pursue further lending in the short- to medium-term. Two nonlending products have been proposed for 2005 (Implementation of Interisland Transport Reforms, US\$500,000; Business Environment Reforms, US\$400,000; and Economic Development Report, US\$300,000). In 2006, 3 further nonlending activities are proposed: Ministry of Infrastructure Development Reform Program (US\$400,000); Private Sector Participation Program (US\$400,000); and, Secured Transactions Reforms (US\$700,000).
Australia	In 2004-05 Australia is providing an estimated total official development assistance to the Solomon Islands of A\$201.6 million reflecting its commitment to the RAMSI initiative (see above). Of this, around A\$93 million is provided under AusAID country program and the remainder by other agencies involved in RAMSI. In 2004-05, the priority will be for the governments of Solomon Islands, Australia and regional partners to consolidate and build on the gains made to date through RAMSI and Australia's bilateral development cooperation program. The focus will be on supporting Solomon Islands to implement a comprehensive reform agenda to improve the accountability and affordability of government. Priorities for reform are economic governance, rebuilding the machinery of government and strengthening the legal and judicial sector. Substantial support will be provided for continuing peace building, community development and health services programs.

<i>Development partner</i>	<i>Primary activities</i>
European Union	The Solomon Islands received an allocation of Euro 23 million under the 9 th EDF. The majority of this will be targeted to continuing a microprojects program. Other priorities include education and small business development in rural areas. The EU also has available STABEX funding (Euro 60 million) and is considering the potential for involvement in the forestry and rural development sectors. The EU budgetlines provided Euro 2.5 million for a marine conservation project shared with PNG and Indonesia.
Japan	In FY03 (April 1, 2003-March 31, 2004) Japan provided development assistance totaling US\$1.82 million comprising Grant financing (US\$0.73 million), TA (US\$1.09 million). Japan has no active lending operations in the Solomon Islands. TA activities are provided by experts in the field of water and waste water management.
New Zealand	NZAID provided the Solomon Islands with NZ\$16.14 million in bilateral aid (representing the largest single country allocation in its Pacific aid budget). Aid priorities include: education, the restoration of law and order, sustainable livelihoods and support to civil society. NZ\$12 million will be allocated to implement the Solomon Islands Education Strategic Plan (together with the EU) which aims to provide basic education for all children by 2015. Other initiatives include support of Honiara's Small Business Enterprise Center which to date has trained 3,800 potential and existing entrepreneurs.
Others	The following UN agencies have activities: FAO, ICAO, IFAD, ILO, IMO, ITU, UNCTAD, UNESCO, UPU, WHO, WMO, WtrO, UNEP, ITC, UNFPA, UNICEF, UNDP

H. Country Chapter: Tonga

Table 28. Country Summary

Country	Kingdom of Tonga
Prime Minister	Prince Lavaka ata ULUKALALA (since February 2000)
Head of State	King Taufa'ahau TUPOU IV (since 16 December 1965)
Independence	June 4, 1970 (from UK protectorate)
Government	Hereditary constitutional monarchy; prime minister and deputy prime minister appointed for life by the monarch.
Land area	718 sq km; archipelago of 169 islands (36 inhabited)
Population	101,803 (2004 est.). Population growth is 0.3% (2004 est.).
Cities	Capital: Nuku'alofa
Provinces	Eua, Ha'apai, Niua, Tongatapu, and Vava'u.
Languages	Tongan and English.
Natural Hazards	Cyclones (October to April); earthquakes and volcanic activity in Fonuafo'ou.
Natural Resources	Fish and fertile soil.
Major Products	Tonga has a narrow export base in agricultural goods. Squash, coconuts, bananas, and vanilla beans are the main crops.

1. Economic Overview

166. The Kingdom of Tonga consists of four main island groups located in the south Pacific (Polynesia sub-region). Tonga receives moderate levels of donor support (aid per capita averaging US\$205 over 1999-2002). Annual real GDP growth averaged slightly over 2 percent in 2001-04 (see Figure 12). The forecast for 2005 is for growth to increase to 2.8 percent, with agriculture as the main driver. Inflation for 2005 is projected to remain in double-digits due to higher commodity and oil prices and pressure on public finances.

167. Adverse external shocks, a sharp rise in public sector wages in 2000-01, and rising difficulties with tax administration and compliance led to a fiscal deficit of 3 percent of GDP in 2003. Smaller deficits of about 0.6 and 0.8 percent of GDP are projected for 2004 and 2005. Public debt declined from 56 percent of GDP in 2003 to an estimated 45 percent of GDP in mid-2004.

Figure 12. Growth in Tonga's Real GDP during 2000-06.

168. A less favorable trade balance led to a turnaround of the current account surplus of 5 percent of GDP in 2002 to a deficit of 3 percent of GDP in 2003. The current account was in surplus again in 2004 attributable to stronger income and transfer receipts. Foreign reserves are estimated to stand at five months of imports of goods and services in 2004.

169. Tonga's economy depends mainly on agriculture (squash being the leading export), fishing, tourism, and remittances. The agricultural sector (27 percent of GDP in 2003) was adversely affected by lower squash export prices and low fish catch rates (caused by poor regional weather conditions), with growth at below 1 percent in 2004. However, a moderate recovery in tuna fishing and higher output and price of squash are expected for 2005. The economy's heavy dependence on squash is evident in that low prices considerably affect the performance of the whole export sector. Consequently, the government has initiated trials of domestic production of various types of vegetables to diversify the export base.

170. Tourist receipts (7 percent of GDP in 2003) increased by 33 percent in the first half of 2004 compared with the corresponding period in the previous year. Officially recorded remittance flows of about 24 percent of GDP in 2003 from the estimated 100,000 Tongans living overseas far outweigh the earnings from commodity exports, tourism and other activities (unofficial remittances are thought to be of a similar order of magnitude).

2. Outlook

171. Although Tonga's small size and isolation present a challenge to economic development, much can still be done to promote a business environment which maximizes economic growth—as evidenced by the experience of other small island states. The government's commitment to economic reform and good governance will provide the basis to capitalize on the economy's medium-term growth prospects. Key steps include strengthening governance and accountability throughout the public sector, focusing government involvement in areas of comparative advantage, and promoting private sector development. Other areas that call for attention include managing the pressure for civil service wage increases, the importance of public enterprise reform to improve the efficiency of these enterprises and significantly reduce their share of the public

budget, improving public expenditure management to bolster education, health and basic infrastructure, and strengthening revenue performance through the reform of the tax system.

3. Key Issues Shaping the World Bank's Involvement

172. Since becoming a World Bank member in 1985, Tonga has received four IDA credits totaling US\$21.8 million, primarily in the health, hazard management, and finance sectors.

173. The World Bank has a growing partnership with the Kingdom of Tonga. With evidence that the government is keen to progress key reforms, the Bank is positioning itself to support these efforts. If Tonga can sustain momentum on its reform agenda, the Bank sees significant scope to provide additional financing, analytical, and technical assistance in the coming years to help the government implement its programs.

174. The Bank currently provides a range of advisory and analytical work, complemented by targeted activities in sectors that the government has identified as priorities. The Bank intends to partner with Tonga to strengthen government capabilities and facilitate MDG attainment as well as to enhance the domestic business climate. This would entail an expansion in the Bank's involvement from the health, natural hazard management and public procurement sectors to include education, transport sector reform and tackling regulatory impediments to private sector growth.

175. Tonga is eligible for IDA resources, likely to be grants under IDA14. The IDA14 allocation over FY2006-08 is expected to be SDR 3.4 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, the allocation is likely to be focused on infrastructure (transport sector) or on public expenditure management priorities. The Bank's program of assistance to Tonga is described in Table 29.

Table 29. Summary of World Bank Assistance Program to Tonga

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p>	<p>Improving health outcomes - Health Sector Support Project (US\$12.1m IDA credit; approved 07/24/2003; closing date 03/31/2009). Tonga spends more on healthcare than most other Pacific countries (about 8 percent of GDP), and has made significant progress in improving the health status of its population over the last two decades. The government sought assistance from the Bank to help address the growing challenge that Tonga faces from the increase in prevalence of noncommunicable conditions – especially diabetes and cardiovascular disease. The Bank is helping the government to improve the quality of health care on the most heavily populated island of Tongatapu. The project is also providing guidance on public expenditure management issues – such as health financing mechanisms and information systems – which support the government’s efforts on cost containment and the consideration of options for revenue-raising.</p> <p>Enhancing the quality and equity of the education system - Education Support Project (US\$1.0m IDA credit; US\$4.1m NZAID trust fund managed by the World Bank, project under preparation with expected Board Date 06/16/2005). While Tonga’s high-level education indicators are on first impressions positive, the government has growing concerns about the equity and quality of education, particularly for the more disadvantaged sections of society. Skills shortages in technical trades are increasingly reported by local businesses. Continuing movement of workers overseas (and the considerable remittances they return) is also focusing attention on the ability of Tonga’s education system to meet demand. The government has asked the Bank to lead on the development of an approach that will help to improve the quality and equity of the education system. Together with NZAID, the Bank is helping to structure a sectorwide approach (SWAp).</p> <p>Procurement Reforms and Capacity Development Grant (TA; IDF Grant US\$200,000). Support to implement public procurement reforms and procurement capacity building through technical assistance activities and in-country training.</p>	<ul style="list-style-type: none"> • Improved healthcare facilities to cope better with growing demands • Improved conditions and incentives for better and more equitable outcomes for year 1-8 students. • Legal framework for public procurement is established; improved capacity of the government officials in managing public procurement.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
Improving the public expenditure management of infrastructural assets.	Transport, infrastructure and asset management reform (TA). Tonga's internal, regional and international transport linkages are critical to its economic development. Institutional arrangements in the transport sector, however, are fragmented and management capacity is weak. The government has committed to policy and institutional reforms in the sector, including possible corporatization or privatization of the international airport, the establishment of a new Ministry of Transport and future infrastructure investment. The Bank is providing analytical assistance in this area and is developing a Transport Sector Review that will provide the government with advice on reform alternatives. The Bank sees considerable potential for developing a longer-term partnership and financing in this sector.	<ul style="list-style-type: none"> • Appropriate institutional structures, financing mechanisms, infrastructure development and maintenance priorities are identified and agreed.
Safeguarding service delivery by improving resilience to natural hazards.	Managing the risks of natural hazards - Infrastructure Emergency Recovery Project (US\$5.85m IDA credit; approved 05/30/2002; closing date 12/21/2005). . Tonga's vulnerability to natural hazards was again highlighted in December, 2001, when Tropical Cyclone Waka caused widespread social, economic and environmental damage. The Bank provided emergency assistance for reconstruction through a US\$5.8 million IDA Credit, particularly for the more than 500 homes and schools which were destroyed or damaged. In addition to replacing and strengthening the resilience of infrastructure, the Bank is helping to upgrade Tonga's emergency and risk management capacity to ensure it can cope better with future disasters and the risk posed by climate change.	<ul style="list-style-type: none"> • Nationwide resilience to natural hazards and the effects of climate change is improved. • Standard of living of those affected by the cyclone is recovered
Improving the incentives for private sector growth and employment. Reducing the costs of doing business.	Tackling regulatory impediments to private sector development (TA, initiated 10/22/2004). . There is growing awareness of the importance of a business environment which is conducive to the private sector for stimulating economic growth and improving living standards. However, further efforts are needed to create such an environment. The government has asked for assistance to identify and remove the main regulatory roadblocks to private investment. A joint public-private task force will be created to oversee this process and facilitate greater dialogue between the private sector and government. The Bank is supporting this initiative by providing technical assistance and analytical support in cooperation with FIAS, building on the Doing Business initiative	<ul style="list-style-type: none"> • Dialogue between Government and the private sector resulting in collaborative action to reduce obstacles to private sector development.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>	<p>Support for small to medium-sized enterprises (TA). The IFC program in Tonga will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SME's), looking to identify opportunities for both IFC investment and advice.</p>	<ul style="list-style-type: none"> Improved conditions to enable domestic (and foreign) investment to occur more rapidly.

5. Donor Coordination

176. Table 30 describes the nature of the assistance provided by Tonga's other development partners.

Table 30. Activities of Other Development Partners

Development partner	Primary activities
ADB	<p>The Country Strategy and Program Paper for Tonga 2005-06 (published August 2004) concentrates on the following thematic areas: strengthening public sector management and public expenditure management; inclusive social development; promoting an enabling environment for private sector development as well as more specific support to sectors including: agriculture and natural resources; education; energy; health, nutrition and social protection; industry and trade and transport.</p> <p>Indicative country allocations for the period 2005-07 have been set at US\$10 million of ADF resources. Tonga also has limited access to the ADB's ordinary capital resources (US\$2 million will be available over the period 2005-07). One loan is proposed for 2006 (Urban Basic Social Infrastructure, US\$5.0 ADF credit). Two nonlending products are scheduled for 2005 (Institutional strengthening of the agricultural sector; and integrated urban development project) with a further three nonlending activities scheduled for 2006 (Implementation of agricultural sector road map; population study and; integrated urban services review).</p>
Australia	<p>Bilateral aid of around A\$9.8 million (2003-4) focused in the areas of: economic and public sector reform; governance; education and training; health management; solid waste management; private sector development, natural resource management; tourism and community development.</p>
European Union	<p>The EU's 9th European Development Fund (EDF) allocation to Tonga (indicative envelope Euro 5.7 million), will be targeted to the improvement of social services in the Vava'u group of islands (including Euro 3 million for the Vava'u Social Services Support Project). Euro 0.3 million will be allocated for a new microprojects program. Euro 2 million will be used for emergency reconstruction in the event of natural disasters, of which Euro 0.89 million of this amount has already been committed for rehabilitation following cyclones Ami and Eseta. Should no further funds be required for emergency activities, undisbursed funds will be added to the Vava'u Social Services Support Project.</p>
Japan	<p>The Ministry of Foreign Affairs (MOFA) provided US\$1.17 million in grant assistance to Tonga in FY03 (April 1, 2003 - March 31, 2004). In addition, JICA provides TA through a network of volunteers contributing to programs focusing on: human resource development, health, public services, natural resource management and economic growth. The Government of Japan has no active lending operations in Tonga at present.</p>
New Zealand	<p>NZAID is providing NZ\$5.66 million in aid to Tonga (representing approximately 4.6% of its total Pacific aid budget). A five-year strategy developed jointly with the Government of Tonga focuses on five areas: education and training; development in the outer islands; community development; support for sustainable livelihoods; support for good governance and public sector reform. Some assistance is also provided in the health sector.</p> <p>Current activities include support for the Tonga Education Support Programme; support for the Public Enterprise Division of the Ministry of Finance to help strengthen the reform of the public sector enterprise sector; judicial assistance; a small-scale community development fund; and a household solar electric power project on Niuafu'ou island. NZAID is also providing assistance in the upgrading of water supplies to three of the largest villages on Tongatapu, as well as upgrading 'Eua's water supply system.</p>
Others	<p>The following UN agencies have activities: FAO, ICAO, IFAD, IMO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WMO, WtrO (applicant), UNEP, ITC, UNFPA, UNICEF, UNDP</p>

I. Country Chapter: Vanuatu

Table 29. Country Summary

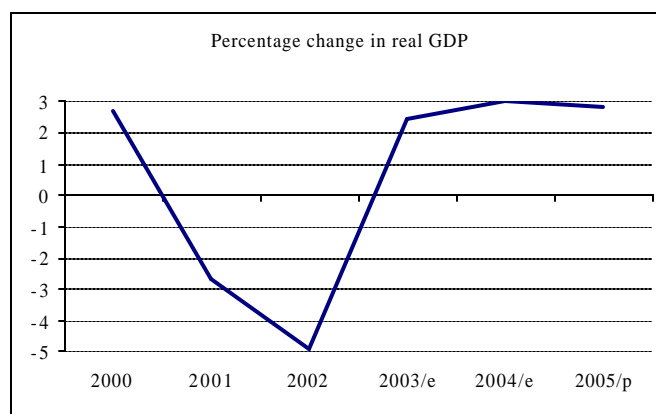
Country	Republic of Vanuatu
Prime Minister	Ham Lini (since December 2004)
Head of State	President Kalkot Matas Kelekele (since June 2004)
Independence	July 30, 1980 (from France and UK)
Government	Unicameral parliament of 52 members, elected for four-year terms on a universal franchise containing an element of proportional representation.
Land area	12,200 sq km; includes more than 80 islands, about 65 of which are inhabited.
Population	214,969 (2004 est.). Population growth is 2.3% (2004 est.).
Cities	Capital: Port-Vila (Efate)
Provinces	Malampa, Penama, Sanma, Shefa, Tafea, and Torba.
Languages	Three official languages: English, French, pidgin (known as Bislama or Bichelama), plus more than 100 local languages.
Natural Hazards	Tropical cyclones or typhoons (January to April); volcanism causes minor earthquakes; and tsunamis.
Natural Resources:	Manganese, hardwood forests, fish.
Major Products	Small-scale agriculture provides a living for 65% of the population. Offshore financial services and tourism are other mainstays of the economy.

1. Economic Overview

177. Vanuatu consists of more than 80 islands stretching for over 800 kilometers in the Melanesian sub-region of the Pacific. Vanuatu receives moderate levels of external assistance (aid per capita averaging US\$179 over 1999-2002).

178. Vanuatu's real GDP rebounded in 2003 after two successive years of contraction, and the recovery is expected to continue, with a growth estimate of 3.0 percent for 2004 (see Figure 13). The growth was driven by improvements in the forestry and beef industries, as well as the services sector. The forecast for growth in 2005 is 2.8 percent.

179. Partly due to a reduction in recurrent expenditures, a small budget surplus was recorded for the first three quarters of 2004, an improvement from a deficit of 2 percent of GDP in 2003. Vanuatu maintains tight controls on its public borrowings and public debt stood at just below the government's debt ceiling of 40 percent of GDP in 2004. Inflation remained below 3 percent in 2004. The discipline of the central bank and Finance Ministry in controlling the inflation rate and fiscal deficits has contributed to Vanuatu's macroeconomic improvement.

Figure 13. Growth in Vanuatu's Real GDP during 2000-05.

180. Due to rising receipts from exports, the current account deficit of 9 percent of GDP in 2003 declined to 4 percent of GDP in 2004. Foreign reserves in 2004 are estimated to stay in the vicinity of four months of imports of goods and services.

181. Agriculture and tourism are the principal productive sectors contributing to Vanuatu's economy. Nearly all domestic exports are primary goods, the main ones being copra and cocoa (26 percent of total exports in 2003) and cocoa (11 percent of total exports in 2003). High prices in the domestic export market contributed to the remarkable performance in copra exports (increased from 7 percent of total exports in 2003 to 12 percent of total exports in 2004). Cocoa exports declined from 7 percent of total exports in 2003 to 3 percent of total exports in 2004, reflecting the damages to tree crops caused by Cyclone Ivy in early 2004.

182. Tourism is an expanding industry in Vanuatu (tourist arrivals increased by 25 percent in 2003 from 1997 levels). The increase in airline capacity in 2004, particularly by Air Vanuatu and Pacific Blue, boosted tourist arrivals by 28 percent in the third quarter of 2004.

183. In May 2004 Vanuatu was one of 16 countries—and the only PIC—selected by the U.S. Millennium Challenge Corporation as eligible to apply for assistance through the Millennium Challenge Account. It is expected that assistance under the Millennium Challenge Account would be closely linked to proposals that support economic growth, policy reform, partnerships, and widespread ownership.

2. Outlook

184. Vanuatu's current relatively healthy economic environment presents an ideal opportunity for the implementation of policies to reduce medium-term risks and to promote sustainable economic growth. In view of high development needs, population growth of around 2.4 percent, and a mounting wage bill, strategic measures need to be considered. These include re-directing spending toward productive infrastructure (including in the outer islands) while maintaining vital social spending, and reducing the size of the public sector. Such measures will be important to

prevent the likelihood of deterioration in the fiscal position, a widening in current account deficits and erosion of foreign reserves.

185. In light of Vanuatu's high costs (in some sectors) relative to its regional comparators, reform to lower the cost structure for business activity, improvements in competition and oversight, and strengthening of the financial sector will be important to fuel private sector activity. A lack of opportunities for younger people and increasing social unrest are at risk when economic growth fails to keep pace with expanding populations, a challenge common to the Bank's other Melanesian client countries. These imperatives provide a strong motivation for Vanuatu and its development partners to work together to address future challenges.

3. Key Issues Shaping the World Bank's Involvement

186. Since joining the World Bank Group in 1981, Vanuatu has received five IDA credits totaling US\$18.9 million (all fully disbursed) in the areas of agricultural extension and training (1983), transportation and education infrastructure (1986), primary and secondary education (1988), affordable housing (1991), and a Learning and Innovation Loan (2001).

187. Vanuatu adopted a *Comprehensive Reform Program (CRP)* in 1997 to pursue improvements in governance and strengthen institutions with ADB support. A Priorities and Action Agenda was subsequently developed to integrate and prioritize actions within the CRP.

188. The World Bank will be seeking to build its relationship with Vanuatu over 2005-08 as the country strives to emerge from a period of high political turnover. Currently the Bank has a modest program of assistance (limited to one grant-financed technical assistance on public utility reform). Vanuatu has experienced several changes in government over recent years, which provides an added challenge to sustaining reform. However, the current government has given positive indications about the directions it intends to take on key governance and reform issues, which suggests the possibility of an expanded demand for Bank services.

189. The Bank will aim to develop a program of assistance which initially targets a few key areas that have the potential to promote growth and job creation. Further dialogue with the government is needed to establish agreed priorities. However, the Bank's initial view is that a focus on two areas may be possible: (a) helping to improve public expenditure management and service delivery outcomes in education, and (b) enhancing the environment for private sector investment. If a solid foundation can be established, the Bank would see scope for building on this to expand its relationship with Vanuatu over the life of this strategy.

190. Vanuatu is eligible for IDA resources. The IDA14 allocation over FY2006-08 is expected to be SDR 5.0 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, the allocation may be focused on rural development, infrastructure or public expenditure management priorities. The Bank's program of assistance to Vanuatu is described in Table 32.

Table 32. Summary of World Bank Assistance Program to Vanuatu

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p>	<p>Increasing the number of school leavers equipped to gain productive employment (TA). Despite Vanuatu's progress towards achieving universal primary education its education sector outcomes remain disappointing and do not seem to be commensurate with the level of funding provided to the education sector from both the government and donors. The World Bank is looking to help introduce a participatory school quality improvement model and support the government's policy of administrative decentralization in Malampa province. The Bank will also seek to facilitate the establishment of a stronger basis for much-needed donor coordination in the education sector, particularly in cooperation with NZAID and the EU.</p>	<ul style="list-style-type: none"> • Greater transparency through stakeholder participation in decision-making about school quality improvements
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p>	<p>Regulatory reform to reduce the costs of doing business (TA). The Bank proposes to facilitate a discussion with the government on its priorities for improving the environment for private sector development, and potential options for the Bank to contribute to this. The recent work on Doing Business indicators will be used to contribute to this, as will FIAS work on the development of Vanuatu's national investment policy statement and possible follow-up.</p> <p>Improving the performance of public utilities - Developing a Multi-sector Utilities Regulatory Body (US\$227,500 PPIAF Grant for TA; approved 12/01/2003). In line with a focus on the business environment, the Bank sees potential for improving the service of key public utilities. Vanuatu has taken significant steps to improve delivery of utility services, approaches which have potential application in other Pacific countries. The Bank has completed an initial analytical assessment focusing on electricity, water and telecommunications, and is willing to work with the government to identify areas where institutional and technical capacity can be strengthened. Subject to further discussions with the government, the Bank will aim to follow up on this work to assist in putting improvements in place. The Bank sees an opportunity to include Vanuatu in its regional focus on telecommunications reform.</p>	<ul style="list-style-type: none"> • Improved dialogue resulting in public-private collaboration to facilitate private sector development • Improved oversight and increased competition in the utility sectors through establishment of a technically capable regulatory body.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>	<p>Foreign Investment Promotion (TA). FIAS has been assisting the Vanuatu Investment Promotion Authority with the drafting of a National Investment Policy Statement, and follow-on involvement is expected.</p> <p>Support for small to medium enterprises (TA). The IFC program in Vanuatu will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SMEs), the tourism sector and looking to identify opportunities for both IFC investment and advice. From 2006/2008 the program will be extended to include agribusiness and urban poor initiatives reflecting the shift in emphasis by PEDF to Melanesia.</p>	<ul style="list-style-type: none"> • Development of clear guidelines governing the promotion of foreign direct investment. • Targeted assistance to private sector service providers resulting in enhanced quality and efficiency of service delivery.

4. Donor Coordination

191. Table 33 describes the nature of the assistance provided by Vanuatu's other development partners.

Table 33. Activities of Other Development Partners

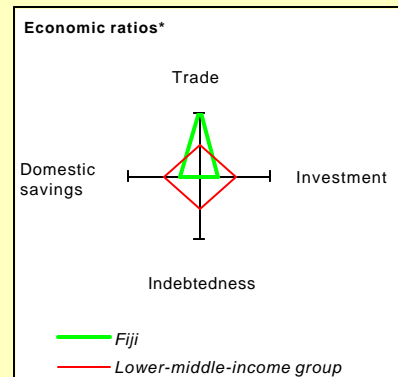
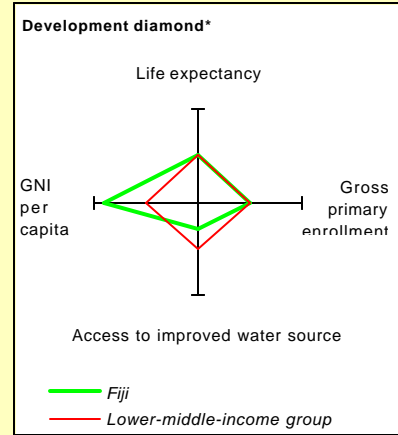
<i>Development partner</i>	<i>Primary activities</i>
ADB	The Country Strategy and Program Paper 2005-06 (prepared October 2004) identifies four thematic priorities: good governance and economic management; private sector development; infrastructure development; and, social development and the environment. An emergency credit of US\$2.0 million was extended to Vanuatu following a cyclone in 1999 and the project was completed in December 2000. As a result, ADB has no active loans in Vanuatu at present with none identified in the pipeline for FY05-06. Two nonlending products are identified for 2005: Corporatization of the Ports Authority; and Rural Productive Skills Development, with three additional products identified for FY06: Technical Vocational Education and Training (TVET); Preparation of Urban Sanitation and Health Project; and, Strengthening Development policies.
Australia	Bilateral aid of A\$15 million (2003-04) – with a further A\$3.5 million in support from the Policy and Management Reform Fund – has been concentrated on areas including: legal assistance (to strengthen the capacity of the legal sector); Education and training (provision of increased secondary school places, renovation and extension of existing secondary schools, support of the Vanuatu Institute of Technology); Health (provision of Australian health specialists and funds to improve health service delivery, training of local health workers) and; land use planning in rural areas. In addition, Vanuatu has access to a series of other TA/Grant schemes including: the Small Grants Scheme (assisting villages in developing basic infrastructure); the Pacific Technical Assistance Facility (providing Australian specialist technical support) and; the Australian Staffing Assistance Scheme (capacity building for officials in the public service)
European Union	The Country Assistance Paper for Vanuatu identifies human resource development as the development priority for which Euro 20 million has been allocated under the 9 th EDF. In addition, projects totaling Euro 1.0 million financed from the EU budgetlines for Tropical Forests, Human Rights and Democracy, as well as Decentralized Cooperation, are presently under implementation.
Japan	JICA assistance focuses on four priorities: basic education; health systems; rural development. In FY2003 (April 1, 2003 – March 31, 2004) the Japanese Ministry of Foreign Affairs provided US\$0.05 million dollars in grant funds. During this period, Vanuatu made loan repayments of US\$100,000 in respect of its outstanding debts to JBIC.
New Zealand	NZAID is providing NZ\$6.36 million in bilateral assistance to Vanuatu. Funds are directed to the priority areas of: basic education (teacher training, development of curricula); law and order (working with AusAID and the Vanuatu Police Force to improve policing and prevent crime); and, work with civil society (raising awareness amongst communities of issues including human rights, the role of government, access to services and voting rights). In addition, NZAID operates a Small Projects Scheme (focusing on basic health, gender issues, and organizational capacity building), supports the Port Vila Youth Drop-In Center and provides essential medical treatment in New Zealand for patients that cannot be treated in Vanuatu.
Others	The following UN agencies have activities: FAO, ICAD, IMO, ITU, UNCTAD, UNESCO, ILO, UNIDO, UPU, WHO, WMO, WtrO (applicant), UNEP, ITC, UNFPA, UNICEF, UNDP

ANNEX A.

Fiji at a Glance

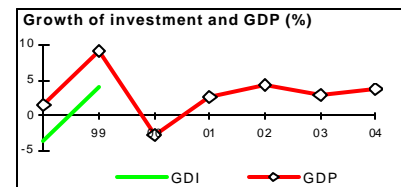
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POVERTY and SOCIAL	Fiji	East Asia & Pacific	Lower-middle-income		
2004					
Population, mid-year (millions)	0.85	1,855	2,655		
GNI per capita (Atlas method, US\$)	2,690	1,080	1,480		
GNI (Atlas method, US\$ billions)	2.3	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	1.2	1.0	0.9		
Labor force (%)	2.2	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	52	40	50		
Life expectancy at birth (years)	70	69	69		
Infant mortality (per 1,000 live births)	16	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	47	76	81		
Illiteracy (% of population age 15+)	7	10	10		
Gross primary enrollment (% of school-age population)	110	111	112		
Male	111	112	113		
Female	110	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	1.2	1.8	2.2	2.6	
Gross domestic investment/GDP	18.9	13.5	
Exports of goods and services/GDP	42.8	56.4	
Gross domestic savings/GDP	17.9	14.2	
Gross national savings/GDP	15.9	14.8	
Current account balance/GDP	-2.3	-3.5	6.0	-5.8	
Interest payments/GDP	2.1	1.1	0.3	..	
Total debt/GDP	35.1	15.6	11.5	..	
Total debt service/exports	10.5	8.5	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
<i>(average annual growth)</i>					
GDP	1.9	2.5	3.0	3.8	..
GDP per capita	0.8	1.5	1.5	2.2	..
Exports of goods and services	..	1.3



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	16.0	20.9	15.4	15.4
Industry	19.5	25.6	25.9	25.9
Manufacturing	10.1	14.9	14.6	14.6
Services	64.5	53.5	58.7	58.7
Private consumption	62.9	73.2	..	..
General government consumption	19.2	16.4	..	..
Imports of goods and services	43.9	59.5	..	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture	2.1	-0.5	3.0	3.8
Industry	3.3	2.6	3.0	3.8
Manufacturing	5.6	2.6	3.0	3.8
Services	1.2	3.4	3.0	3.8
Private consumption	..	..	..	..
General government consumption	..	1.9	..	..
Gross domestic investment	..	-1.7	..	..
Imports of goods and services	..	0.8	..	..

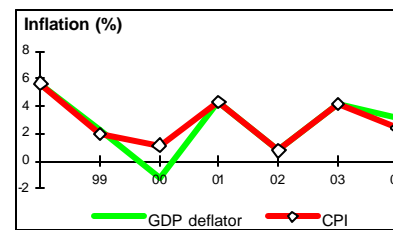


Note: 2004 data are preliminary estimates. Group data are for 2003.

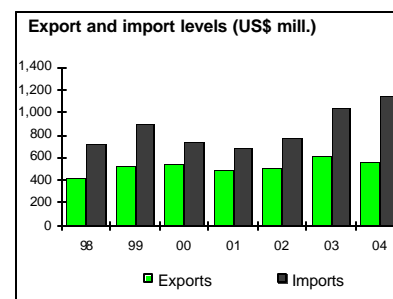
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

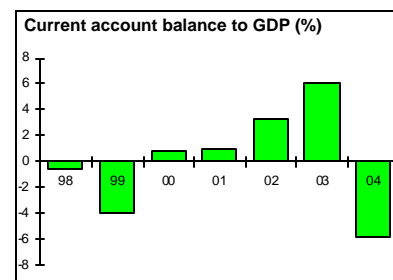
	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	5.3	0.8	4.2	2.4
Implicit GDP deflator	3.0	0.8	4.2	3.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	26.3	26.0	25.1	..
Current budget balance	0.8	-0.1	-3.8	..
Overall surplus/deficit	..	-4.0	-9.5	..

**TRADE**

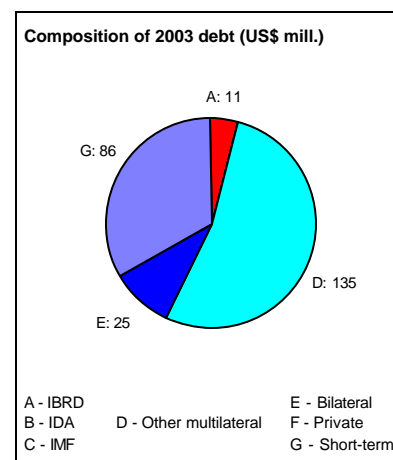
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	228	497	610	555
Sugar	102	172	122	127
Gold	19	43	40	56
Manufactures	..	123	..	..
Total imports (cif)	451	840	1,034	1,150
Food	62	129	195	210
Fuel and energy	99	94	171	167
Capital goods	80	271	350	290
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..

**BALANCE of PAYMENTS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	505	1,061	..	..
Imports of goods and services	519	1,086	..	..
Resource balance	-14	-25	42	..
Net income	-28	-86	-90	..
Net current transfers	15	48	183	..
Current account balance	-27	-63	135	-152
Financing items (net)	34	52	-136	416
Changes in net reserves	-7	11	0	-263
Memo:				
Reserves including gold (US\$ millions)	..	273	424	478
Conversion rate (DEC. local/US\$)	1.1	1.5	1.9	1.7

**EXTERNAL DEBT and RESOURCE FLOWS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	413	284	257	..
IBRD	59	40	11	..
IDA	0	0	0	..
Total debt service	55	92	30	..
IBRD	10	16	3	..
IDA	0	0	0	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	8	-34	0	..
Private creditors	9	4	-6	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	4	6	0	..
Principal repayments	4	13	2	..
Net flows	-1	-7	-2	..
Interest payments	5	3	1	..
Net transfers	-6	-11	-3	..



Fiji - Selected Indicators Table



Base-case (most likely) projection

	Actual			Estimate		Projection		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1989 price data</i>								
GDP (mp) per capita	-4.1	2.1	3.5	1.5	2.2	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	-2.8	2.7	4.3	3.0	3.8	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	2.3	1.2	0.5	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	3.8	3.5	2.6	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	11.1	13.7	..	..	..	..	..	..
of which Government investment	2.9	3.5	..	..	..	..	..	..
Foreign savings	-0.9	-1.0	-3.3	-6.0	5.8	..	..	..
Gross national savings	11.9	14.7	..	..	..	..	..	..
Government savings	-2.8	-4.6	-3.7	-3.8	..	..	..	..
Non government savings	14.8	19.3	..	..	..	..	..	..
Gross domestic savings	6.8	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	-1.2	4.3	0.8	4.2	3.2	..	..	..
Annual average exchange rate (LCU/US\$)	2.1	2.3	2.2	1.9	1.7	..	..	..
Index real average exchange rate (YR89 =100)	100.0	100.3	100.9	106.6	108.6	..	..	..
Terms of trade index (YR89 =100)	143.2	142.4	130.9	..	..	..	..	..
Incremental capital-output ratio (GDI based)	-4.1	..	..	..	..	..	..	..
Import elasticity with respect to GDP	-1.4	1.3	0.6	..	..	..	..	..
Money growth	-2.1	-3.1	7.9	25.2	..	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	25.9	23.9	26.2	25.1	..	..	..	..
Tax revenues	20.3	19.7	19.9	21.9	..	..	..	..
Total expenditures, of which	32.4	33.4	33.9	34.6	..	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	-6.6	-9.5	-7.6	-9.5	..	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	2.0	1.3	0.9	1.8	..	..	..	..
Other domestic	..	..	..	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	50.1	53.1	55.6	57.2	..	..	..	..
Total interest payments/Tax revenues	13.4	13.6	13.4	12.0	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	209.1	188.5	209.6	257.0	..	..	..	..
DOD / GDPmp ratio	12.7	11.4	11.6	11.5	..	..	..	..
TDS (US\$ millions)	32.6	26.3	27.3	30.0	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	..	..	..	..	..	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	..	..	..	..	..	..	..	..
Private investment (net)	50.9	41.9	17.3	16.0	66.8	..	..	..
Net Long term borrowing excl IMF	-15.9	-4.8	-2.0	9.7	11.0	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	32.3	-29.1	-100.1	-135.5	415.9	..	..	..
of which current account deficit	-14.4	-15.9	-59.7	-135.4	152.4	..	..	..

Fiji – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.6	0.7	0.8	1,854.6	2,655.5
Growth rate (% annual average for period)	1.9	1.1	1.1	1.0	0.9
Urban population (% of population)	37.8	41.6	51.7	39.1	49.8
Total fertility rate (births per woman)	3.6	3.1	2.6	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US\$)	1,870	1,910	2,240	1,070	1,490
Consumer price index (1995=100)	43	83	127	..	..
Food price index (1995=100)	42	91	126	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.7	1.9	2.7
Education (% of GDP)	..	..	5.6	3.2	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	100	100	93	93
Male	..	..	100	93	93
Female	..	..	100	94	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	..	78	82
Urban	..	..	..	92	94
Rural	..	..	..	69	71
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	32	84	91	82	86
DPT	68	97	94	86	88
Child malnutrition (% under 5 years)	..	..	..	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	63	67	70	70	69
Male	61	65	68	68	67
Female	65	69	71	71	72
Mortality					
Infant (per 1,000 live births)	34	25	16	32	31
Under 5 (per 1,000 live births)	42	31	20	41	39
Adult (15-59)					
Male (per 1,000 population)	209	220	240	179	213
Female (per 1,000 population)	152	161	180	122	131
Maternal (modeled, per 100,000 live births)	..	..	75	116	121
Births attended by skilled health staff (%)	..	..	100	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

FIJI – KEY ECONOMIC INDICATORS

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	17	16	15	15	15	..	..	..
Industry	26	27	26	26	26	..	..	..
Services	57	57	59	59	59	..	..	..
Total Consumption	93	..	..	..	..	..	..	..
Gross domestic fixed investment	0	0	16	17	16	..	..	..
Government investment	3	4	..	..	..	..	..	..
Private investment	-3	-4	..	..	..	..	..	..
Exports (GNFS) ^b	60	73	..	..	..	..	..	..
Imports (GNFS)	64	66	..	..	..	..	..	..
Gross domestic savings	7	..	..	..	..	..	..	..
Gross national savings ^c	9	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	1653	1655	1811	2243	2627	..	..	..
GNI per capita (US\$, Atlas method)	2050	2000	2040	2280	2690	..	..	..
Real annual growth rates (% , calculated from 1989 prices)								
Gross domestic product at market prices	-2.8	2.7	4.3	3.0	3.8	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1989 prices)								
Gross domestic product at market prices	-4.1	2.1	3.5	1.5	2.2	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	..	..	..	..	..	..	..	..
Merchandise FOB	550	498	509	610	555	..	..	..
Imports (GNFS) ^b	..	..	..	..	..	..	..	..
Merchandise FOB	735	685	777	1034	1150	..	..	..
Resource balance	-28	-39	-48	-144	..	..	..	..
Net current transfers	100	121	143	183	..	..	..	..
Current account balance	14	16	60	135	-152	..	..	..
Net private foreign direct investment	34	41	16	19	-5	..	..	..
Long-term loans (net)	-16	-5	-2	10	11	..	..	..
Official	-10	-7	-1	0	..	..	..	..
Private	-6	2	-1	10	..	..	..	..
Other capital (net, incl. errors & omissions)	15	-65	-114	-164	410	..	..	..
Change in reserves ^d	-47	13	40	0	-263	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-1.7	-2.4	-2.6	-6.4	..	..	..	..
Real annual growth rates (YR89 prices)								
Merchandise exports (FOB)	2.3	1.2	0.5	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	3.8	3.5	2.6	..	..	..	..	..

(Continued)

Fiji – Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	25.4	23.8	24.2	25.1	..	..	..	..
Current expenditures	28.3	28.4	27.8	28.8	..	..	..	..
Current account surplus (+) or deficit (-)	-2.8	-4.6	-3.7	-3.8	..	..	..	..
Capital expenditure	4.2	5.0	6.0	5.7	..	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	43.0	38.9	39.9	46.6	..	..	..	..
Growth of M2 (%)	-2.1	-3.1	7.9	25.2	..	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR89 =100)								
Merchandise export price index	129.5	115.8	117.8	..	..	..	..	..
Merchandise import price index	90.4	81.3	90.0	..	..	..	..	..
Merchandise terms of trade index	143.2	142.4	130.9	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	100.0	100.3	100.9	106.6	108.6	..	..	..
Real interest rates								
Consumer price index (% change)	1.1	4.3	0.8	4.2	..	..	..	..
GDP deflator (% change)	-1.2	4.3	0.8	4.2	3.2	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Fiji – Key Exposure Indicators

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	209	189	210	257	..	..	..	..
Net disbursements (US\$m) ^a	-16	-13	-7	-6	..	..	..	..
Total debt service (TDS) (US\$m) ^a	33	26	27	30	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	12.7	11.4	11.6	11.5	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	36.3	25.4	21.1	14.3	..	..	..	..
Preferred creditor DS/public DS (%) ^c	87.3	91.4	90.6	95.2	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	20	15	12	11	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	0	0	0	0	..	..	..	..
IDA TDO (US\$m) ^d	0	0	0	0	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

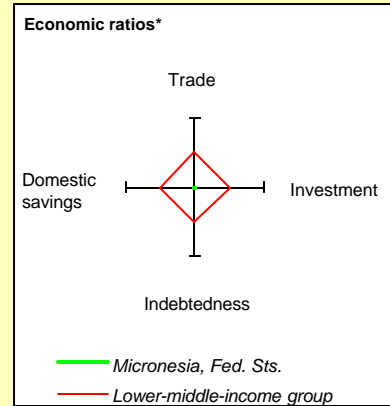
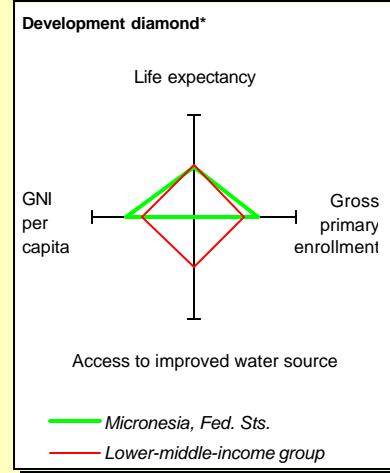
e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX B.

Federated States of Micronesia at a Glance

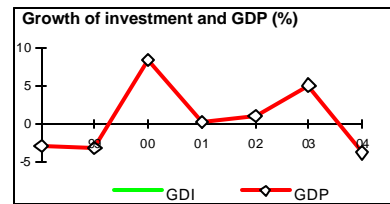
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POVERTY and SOCIAL	Micronesia. Fed. Sts.	East Asia & Pacific	Lower- middle- income		
2004					
Population, mid-year (<i>millions</i>)	0.13	1,855	2,655		
GNI per capita (<i>Atlas method, US\$</i>)	1,990	1,080	1,480		
GNI (<i>Atlas method, US\$ billions</i>)	0.25	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	1.8	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	29	40	50		
Life expectancy at birth (<i>years</i>)	69	69	69		
Infant mortality (<i>per 1,000 live births</i>)	20	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	..	76	81		
Illiteracy (% of population age 15+)	..	10	10		
Gross primary enrollment (% of school-age population)	142	111	112		
Male	136	112	113		
Female	149	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (<i>US\$ billions</i>)	..	0.20	0.24	0.24	
Gross domestic investment/GDP	
Exports of goods and services/GDP	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	..	-6.5	0.9	-10.3	
Interest payments/GDP	
Total debt/GDP	24.7	24.8	
Total debt service/exports	4.1	..	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
<i>(average annual growth)</i>					
GDP	4.3	0.0	5.1	-3.8	..
GDP per capita	2.0	-1.9	2.6	-5.1	..
Exports of goods and services



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Imports of goods and services
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services



Note: 2004 data are preliminary estimates. Group data are for 2003.

* The diamonds show four indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

Domestic prices

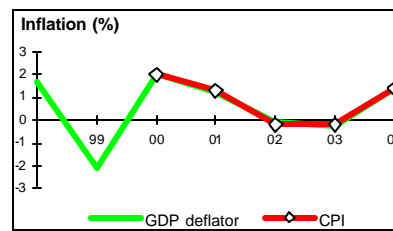
(% change)

	1984	1994	2003	2004
Consumer prices	-0.2	1.4
Implicit GDP deflator	..	2.6	-0.3	1.4

Government finance

(% of GDP, includes current grants)

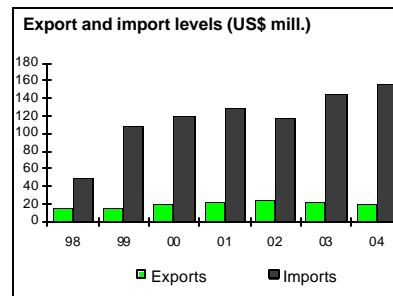
	1984	1994	2003	2004
Current revenue	..	80.2	69.1	52.1
Current budget balance	..	16.9	14.6	-1.1
Overall surplus/deficit	..	-0.2	4.2	-6.7



TRADE

(US\$ millions)

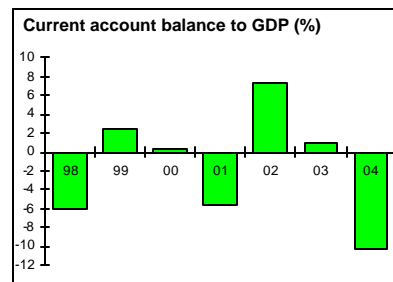
	1984	1994	2003	2004
Total exports (fob)	2	9	22	20
Commodity 1	1	0	..	..
Commodity 2	0	74	..	..
Manufactures	..	..	..	..
Total imports (cif)	38	129	144	157
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..



BALANCE of PAYMENTS

(US\$ millions)

	1984	1994	2003	2004
Exports of goods and services	40	40
Imports of goods and services	172	184
Resource balance	-131	-145
Net income	..	-16	11	14
Net current transfers	..	125	122	107
Current account balance	..	-13	2	-25
Financing items (net)	..	26	-27	49
Changes in net reserves	..	-13	25	-24



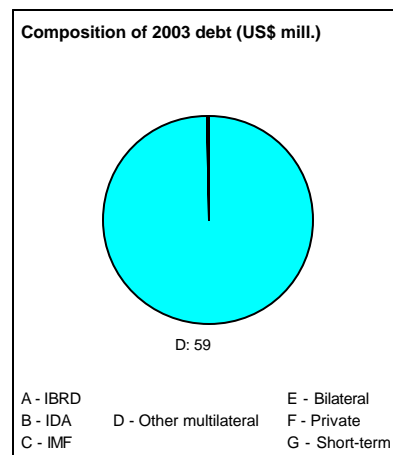
Memo:

Reserves including gold (US\$ millions)	..	..	90	55
Conversion rate (DEC. local/US\$)	1.0	1.0	1.0	1.0

EXTERNAL DEBT and RESOURCE FLOWS

(US\$ millions)

	1984	1994	2003	2004
Total debt outstanding and disbursed	59	59
IBRD
IDA
Total debt service	2	..
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers



Federated States of Micronesia – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1998 price data</i>								
GDP (mp) per capita	6.6	-1.4	-0.6	2.6	-5.1	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	8.4	0.3	1.1	5.1	-3.8	0.3	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDPI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	-0.3	5.6	-7.4	-0.9	10.3	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	7.8	5.2	16.0	14.6	-1.1	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	2.0	1.3	-0.1	-0.3	1.4	..	..	..
Annual average exchange rate (LCU/US\$)	1.0	1.0	1.0	1.0	1.0	..	..	..
Index real average exchange rate (YR98 =100)	..	..	..	..	..	..	..	..
Terms of trade index (YR98 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	-1.0	6.0	-12.0	-3.7	-0.1	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	68.9	64.4	72.4	69.1	52.1	..	..	..
Tax revenues	..	..	..	..	..	..	..	..
Total expenditures, of which	75.7	73.3	66.5	64.9	58.7	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	-6.7	-8.9	5.9	4.2	-6.7	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	-5.3	12.7	-9.4	8.4	12.7	..	..	..
Other domestic	2.1	2.8	-3.3	-5.5	5.8	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	66.6	57.8	57.2	58.5	58.9	..	..	..
DOD / GDPmp ratio	31.2	26.9	26.2	24.7	24.8	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	8.7	7.3	9.2	6.0	3.4	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	29.9	31.0	37.4	37.5	5.2	19.3	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	-17.0	-8.9	-0.6	1.4	0.4	0.4	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	-14.2	4.0	-68.2	-27.3	48.9	54.1	..	..
of which current account deficit	-0.6	12.0	-16.1	-2.2	24.5	36.5	..	..

Federated States of Micronesia – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.07	0.10	0.1	1,854.6	2,655.5
Growth rate (% annual average for period)	..	2.2	1.9	1.0	0.9
Urban population (% of population)	25.0	26.4	29.3	39.1	49.8
Total fertility rate (births per woman)	..	4.8	3.4	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNI per capita (US\$)	..	1,760	2,070	1,070	1,490
Consumer price index (1995=100)
Food price index (1995=100)
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	5.7	1.9	2.7
Education (% of GDP)	7.0	3.2	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	93	93
Male	93	93
Female	94	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	87	94	78	82
Urban	..	93	95	92	94
Rural	..	85	94	69	71
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	81	91	82	86
DPT	..	85	92	86	88
Child malnutrition (% under 5 years)	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	..	63	69	70	69
Male	..	62	67	68	67
Female	..	66	71	71	72
Mortality					
Infant (per 1,000 live births)	..	26	19	32	31
Under 5 (per 1,000 live births)	..	31	23	41	39
Adult (15-59)					
Male (per 1,000 population)	..	316	243	179	213
Female (per 1,000 population)	..	256	188	122	131
Maternal (modeled, per 100,000 live births)	116	121
Births attended by skilled health staff (%)	93	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Federated States of Micronesia – Key Economic Indicators

Indicator	Actual			Estimate		Projected		2007
	2000	2001	2002	2003	2004	2005	2006	
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..
Services	..	..	..	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	214	215	218	237	226	..	..	..
GNI per capita (US\$, Atlas method)	1910	1820	1840	1980	1990	..	..	..
Real annual growth rates (% , calculated from 1998 prices)								
Gross domestic product at market prices	8.4	0.3	1.1	5.1	-3.8	0.3	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1998 prices)								
Gross domestic product at market prices	6.6	-1.4	-0.6	2.6	-5.1	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	38	39	43	40	40	38	..	..
Merchandise FOB	19	22	24	22	20	18	..	..
Imports (GNFS) ^b	149	156	148	172	184	188	..	..
Merchandise FOB	102	111	101	122	133	137	..	..
Resource balance	-112	-117	-105	-131	-145	-150	..	..
Net current transfers	93	97	111	122	107	102	..	..
Current account balance	1	-12	16	2	-25	-37	..	..
Net private foreign direct investment	..	..	..	..	..	..	..	..
Long-term loans (net)	-17	-9	-1	1	0	0	..	..
Official	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	14	8	52	25	-24	-18	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-52.2	-54.6	-48.1	-55.4	-63.9	..	..	..
Real annual growth rates (YR98 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Federated States of Micronesia – Key Economic Indicators*(Continued)*

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	68.9	64.4	72.4	69.1	52.1	..	..	..
Current expenditures	61.1	59.2	56.4	54.5	53.2	..	..	..
Current account surplus (+) or deficit (-)	7.8	5.2	16.0	14.6	-1.1	..	..	..
Capital expenditure	14.5	14.1	10.0	10.4	5.6	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	50.4	52.6	45.8	42.1	43.1	..	..	..
Growth of M2 (%)	-1.0	6.0	-12.0	-3.7	-0.1	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR98 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	..	..	..	..	..	..	..	..
Real interest rates								
Consumer price index (% change)	2.0	1.3	-0.2	-0.2	1.4	..	..	..
GDP deflator (% change)	2.0	1.3	-0.1	-0.3	1.4	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Federated States of Micronesia - Key Exposure Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006		2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	67	58	57	59	59	..	..	..
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	103.9	107.0	97.1	100.3	98.8	..	..	..
TDO/GDP	31.2	26.9	26.2	24.7	26.0	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	..	..	..	..	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

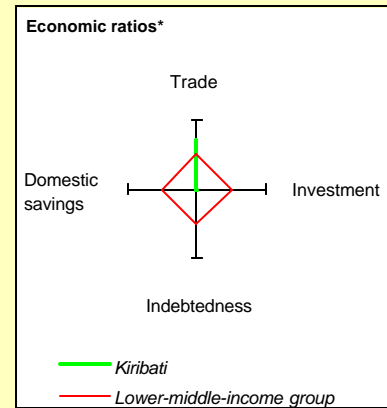
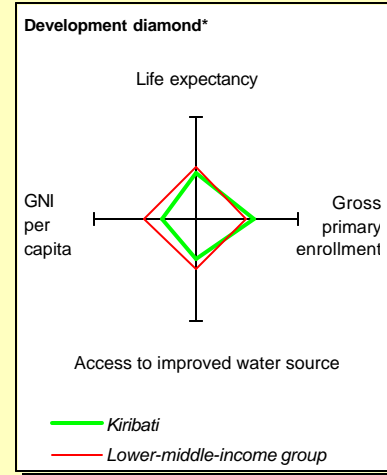
e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX C.

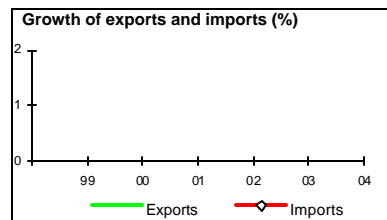
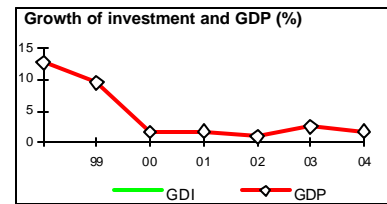
Kiribati at a Glance

4/27/05

POVERTY and SOCIAL	Kiribati	East Asia & Pacific	Lower-middle-income		
2004					
Population, mid-year (<i>millions</i>)	0.10	1,855	2,655		
GNI per capita (<i>Atlas method, US\$</i>)	970	1,080	1,480		
GNI (<i>Atlas method, US\$ billions</i>)	0.10	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	2.1	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	49	40	50		
Life expectancy at birth (<i>years</i>)	63	69	69		
Infant mortality (<i>per 1,000 live births</i>)	49	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	64	76	81		
Illiteracy (% of population age 15+)	..	10	10		
Gross primary enrollment (% of school-age population)	131	111	112		
Male	130	112	113		
Female	132	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (<i>US\$ billions</i>)	0.03	0.04	0.06	0.06	
Gross domestic investment/GDP	48.8	
Exports of goods and services/GDP	39.2	36.9	
Gross domestic savings/GDP	-17.7	
Gross national savings/GDP	
Current account balance/GDP	..	-6.0	-21.6	..	
Interest payments/GDP	0.0	2.5	
Total debt/GDP	31.4	41.0	
Total debt service/exports	0.0	2.5	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
<i>(average annual growth)</i>					
GDP	2.0	4.8	2.5	1.8	..
GDP per capita	-0.1	2.3	0.7	0.3	..
Exports of goods and services



STRUCTURE of the ECONOMY	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	44.3	24.0	..	..
Industry	5.7	5.4	..	..
Manufacturing	0.5	0.9	..	..
Services	50.0	70.5	..	..
Private consumption	91.3	..	..	..
General government consumption	47.1	..	..	..
Imports of goods and services	105.8	84.9	..	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture	-5.2	0.4	..	..
Industry	0.1	17.9	..	..
Manufacturing	7.8	6.1	..	..
Services	4.1	4.5	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	..	..	..

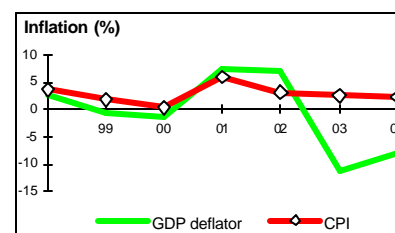


Note: 2004 data are preliminary estimates. Group data are for 2003.

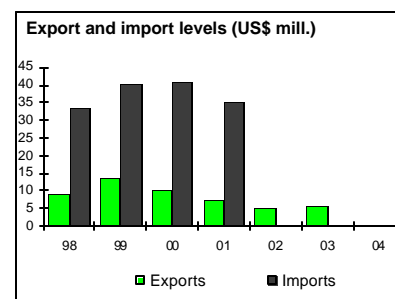
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

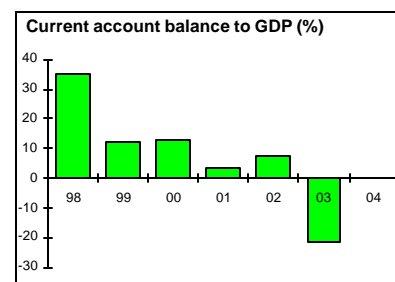
	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	5.4	5.3	2.5	2.3
Implicit GDP deflator	1.2	3.2	-11.3	-8.1
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	48.4	120.8	119.8	..
Current budget balance	0.1	43.8	56.8	..
Overall surplus/deficit	-11.5	21.4	-30.2	..

**TRADE**

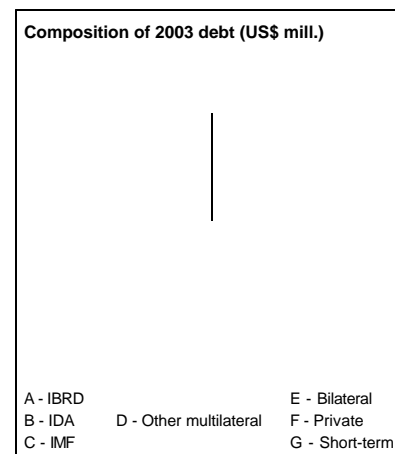
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	6	..
Commodity 1	..	4	..	..
Commodity 2	..	0	..	..
Manufactures
Total imports (cif)
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)

**BALANCE of PAYMENTS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	12	..	..	..
Imports of goods and services	28	..	..	..
Resource balance	-16	..	-77	..
Net income	9	11	38	..
Net current transfers	..	..	26	..
Current account balance	..	-2	-13	..
Financing items (net)	..	12	14	..
Changes in net reserves	-10	-10	-2	..
Memo:				
Reserves including gold (US\$ millions)	..	0	0	..
Conversion rate (DEC, local/US\$)	1.1	1.4	1.5	1.4

**EXTERNAL DEBT and RESOURCE FLOWS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	9	16	..	..
IBRD	0	0	..	..
IDA	0	0	..	..
Total debt service	0	1	..	..
IBRD	0	0	..	..
IDA	0	0	..	..
Composition of net resource flows				
Official grants	8	6	..	..
Official creditors	0	0	..	..
Private creditors	0	0	..	..
Foreign direct investment	0	0	..	..
Portfolio equity	0	0	..	..
World Bank program				
Commitments	0	0	..	..
Disbursements	0	0	..	..
Principal repayments	0	0	..	..
Net flows	0	0	..	..
Interest payments	0	0	..	..
Net transfers	0	0	..	..



Kiribati – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1988 price data</i>								
GDP (mp) per capita	-1.4	-0.5	-1.0	0.7	0.3	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	1.6	1.8	1.0	2.5	1.8	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	-13.2	-3.4	-7.6	21.6	..	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	33.9	37.1	62.8	56.8	..	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	-1.3	7.4	7.2	-11.3	-8.1	..	..	..
Annual average exchange rate (LCU/US\$)	1.7	1.9	1.8	1.5	1.4	..	..	..
Index real average exchange rate (YR88 =100)	100.0	96.3	100.7	108.5	113.1	..	..	..
Terms of trade index (YR88 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	..	..	..	..	..	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	..	..	..	..	..	..	..	..
Tax revenues	..	..	..	..	..	..	..	..
Total expenditures, of which	109.0	139.3	135.7	150.0	..	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	..	..	..	..	..	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	..	..	..	..	..	..	..	..
Other domestic	..	..	..	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	8.3	4.5	3.9	..	..	..	..	..
DOD / GDPmp ratio	17.1	9.5	7.2	..	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	..	..	..	..	..	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	..	..	..	..	..	..	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	..	..	..	..	..	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	-20.3	-7.4	-15.6	14.4	..	..	..	..
of which current account deficit	-6.4	-1.6	-4.1	12.6	..	..	..	..

Kiribati – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.06	0.07	0.10	1,854.6	2,655.5
Growth rate (% annual average for period)	1.8	2.1	2.4	1.0	0.9
Urban population (% of population)	31.7	34.6	39.5	39.1	49.8
Total fertility rate (births per woman)	4.7	4.0	3.6	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNI per capita (US\$)	670	720	860	1,070	1,490
Consumer price index (1995=100)
Food price index (1995=100)
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	7.9	1.9	2.7
Education (% of GDP)	3.2	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	93	93
Male	93	93
Female	94	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	48	64	78	82
Urban	..	76	77	92	94
Rural	..	33	53	69	71
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	75	88	82	86
DPT	43	97	99	86	88
Child malnutrition (% under 5 years)	..	13	..	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	..	57	63	70	69
Male	..	55	60	68	67
Female	..	59	66	71	72
Mortality					
Infant (per 1,000 live births)	..	65	49	32	31
Under 5 (per 1,000 live births)	..	88	66	41	39
Adult (15-59)
Male (per 1,000 population)	269	179	213
Female (per 1,000 population)	208	122	131
Maternal (modeled, per 100,000 live births)	116	121
Births attended by skilled health staff (%)	85	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Kiribati – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	17	15	14	..	..	..	..	..
Industry	10	12	11	..	..	..	..	..
Services	73	73	75	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	27	..	..	..	..	..	..	..
Imports (GNFS)	67	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	49	47	54	58	62	..	..	..
GNI per capita (US\$, Atlas method)	990	990	900	880	970	..	..	..
Real annual growth rates (% , calculated from 1988 prices)								
Gross domestic product at market prices	1.6	1.8	1.0	2.5	1.8	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1988 prices)								
Gross domestic product at market prices	-1.4	-0.5	-1.0	0.7	0.3	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	..	..	..	..	..	..	..	..
Merchandise FOB	4	5	5	6	..	..	..	..
Imports (GNFS) ^b	..	..	..	..	..	..	..	..
Merchandise FOB	40	44	52	65	..	..	..	..
Resource balance	..	..	..	..	..	..	..	..
Net current transfers	..	..	23	26	..	..	..	..
Current account balance	6	2	4	-13	..	..	..	..
Net private foreign direct investment	..	..	..	..	..	..	..	..
Long-term loans (net)	..	..	..	..	..	..	..	..
Official	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	14	6	12	-2	..	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	..	..	..	..	..	..	..	..
Real annual growth rates (YR88 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Kiribati –Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	128.9	121.8	135.1	119.8	..	..	..	..
Current expenditures	94.9	84.7	72.3	63.0	..	..	..	..
Current account surplus (+) or deficit (-)	33.9	37.1	62.8	56.8	..	..	..	..
Capital expenditure	14.0	54.6	63.4	87.0	..	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	..	..	..	..	..	..	..	..
Growth of M2 (%)	..	..	..	..	..	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR88 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	100.0	96.3	100.7	108.5	113.1	..	..	..
Real interest rates								
Consumer price index (% change)	0.4	5.9	3.2	2.5	2.3	..	..	..
GDP deflator (% change)	-1.3	7.4	7.2	-11.3	-8.1	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Kiribati – Key Exposure Indicators

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	8	5	4	..	..	..	..	..
Net disbursements (US\$m) ^a	0	0	0	0	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	17.1	9.5	7.2	..	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)	..	..	..	..	..	..	..	..
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	..	..	..	..	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX D.

Marshall Islands at a Glance

4/28/05

POVERTY and SOCIAL	Marshall Islands	East Asia & Pacific	Lower-middle-income		
2004					
Population, mid-year (millions)	0.05	1,855	2,655		
GNI per capita (Atlas method, US\$)	2,680	1,080	1,480		
GNI (Atlas method, US\$ billions)	0.14	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	1.0	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	66	40	50		
Life expectancy at birth (years)	65	69	69		
Infant mortality (per 1,000 live births)	30	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	85	76	81		
Illiteracy (% of population age 15+)	..	10	10		
Gross primary enrollment (% of school-age population)	..	111	112		
Male	..	112	113		
Female	..	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	0.04	0.09	0.10	0.11	
Gross domestic investment/GDP	
Exports of goods and services/GDP	3.5	..	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	..	6.8	21.1	13.2	
Interest payments/GDP	
Total debt/GDP	..	167.5	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	5.8	-1.3	2.0	1.5	..
GDP per capita	2.6	-2.3	2.0	0.5	..
Exports of goods and services

Development diamond*

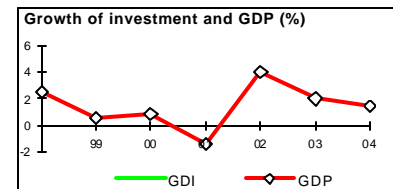
Legend: Marshall Islands (green), Lower-middle-income group (red)

Economic ratios*

Legend: Marshall Islands (green), Lower-middle-income group (red)

STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	..	17.2	..	..
Industry	..	14.1	..	..
Manufacturing	..	1.2	..	..
Services	..	68.7	..	..
Private consumption
General government consumption
Imports of goods and services	71.7	..
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services

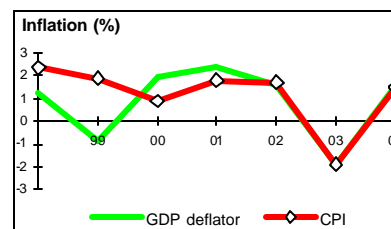


Note: 2004 data are preliminary estimates. Group data are for 2003.

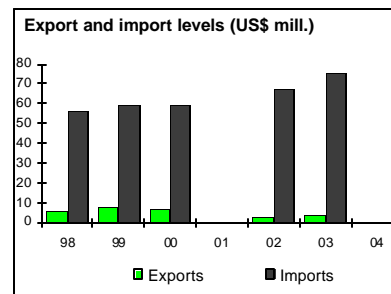
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

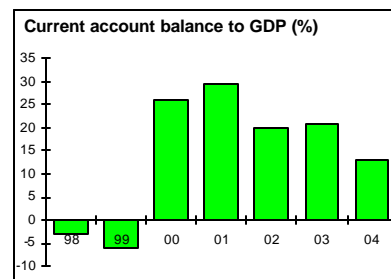
	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	5.7	-1.9	1.5
Implicit GDP deflator	5.3	5.7	-1.9	1.6
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue*	..	75.0	75.4	75.1
Current budget balance	..	12.2	24.1	11.7
Overall surplus/deficit	..	-13.1	8.8	-3.1

**TRADE**

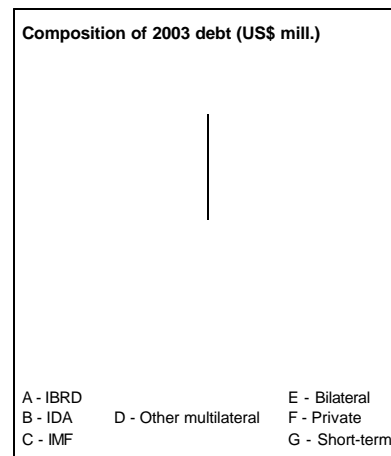
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	19	4	..
Commodity 1
Commodity 2
Manufactures
Total imports (cif)	..	68	75	..
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)

**BALANCE of PAYMENTS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	..	..	4	..
Imports of goods and services	..	..	75	..
Resource balance	..	..	-51	-55
Net income	..	5	33	27
Net current transfers	..	..	40	43
Current account balance	..	6	22	14
Financing items (net)	..	-11	-40	..
Changes in net reserves	..	5	18	..
Memo:				
Reserves including gold (US\$ millions)	..	..	..	..
Conversion rate (DEC. local/US\$)	1.0	1.0	1.0	1.0

**EXTERNAL DEBT and RESOURCE FLOWS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	158	..	..
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers



Marshall Islands – Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.03	0.04	0.05	1,854.5	2,655.2
Growth rate (% annual average for period)	2.5	3.5	1.0	1.0	0.9
Urban population (% of population)	60.7	62.0	66.4	39.7	49.7
Total fertility rate (births per woman)	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNI per capita (US\$)	2,710	1,080	1,480
Consumer price index (1995=100)
Food price index (1995=100)
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP) ^a	5.8	1.9	2.6
Education (% of GDP) ^a	11.3	3.2	4.0
Social security and welfare (% of GDP)
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	92	91
Male	92	92
Female	92	91
Access to an improved water source					
<i>(% of population)</i>					
Total	76	81
Urban	93	94
Rural	67	70
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	80	70	78
DPT	80	78	84
Child malnutrition (% under 5 years)	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	65	69	69
Male	63	68	67
Female	68	71	71
Mortality					
Infant (per 1,000 live births) ^b	30	32	32
Under 5 (per 1,000 live births)	66	42	40
Adult (15-59)
Male (per 1,000 population)	302	184	214
Female (per 1,000 population)	230	129	135
Maternal (modeled, per 100,000 live births)
Births attended by skilled health staff (%)	95	68	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

World Development Indicators database, August 2004, World Bank
a. IMF Article 4, 2004

b. Republic of Marshall Islands, Ministry of Health

Marshall Islands – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1990 price data</i>								
GDP (mp) per capita	-0.7	-2.6	4.0	2.0	0.5	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	0.9	-1.3	4.0	2.0	1.5	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS) ^a	..	..	3.0	3.7	..	..	..	..
of which Goods	..	..	3.0	3.7	..	..	..	..
Imports (GNFS) ^a	..	..	67.5	75.2	..	..	..	..
of which Goods	..	..	67.5	75.2	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	-26.2	-29.7	-19.9	-21.1	-13.2	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	18.0	29.3	11.1	24.1	11.7	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	2.0	2.4	1.6	-1.9	1.6	..	..	..
Annual average exchange rate (LCU/US\$)	1.0	1.0	1.0	1.0	1.0	..	..	..
Index real average exchange rate (YR90=100)	..	..	..	..	..	..	..	..
Terms of trade index (YR90=100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	16.9	37.6	..	..	..	..
Money growth	..	..	..	..	..	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which ^b	75.3	84.6	76.0	75.4	75.1	..	..	..
Tax revenues	..	..	..	..	..	..	..	..
Total expenditures, of which	66.3	66.9	79.5	66.6	78.2	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	9.1	17.7	-3.5	8.8	-3.1	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	..	..	..	..	..	..	..	..
Other domestic	-4.4	-19.9	4.0	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	68.8	67.0	58.0	..	..	..	..	..
DOD / GDPmp ratio	70.1	67.6	55.4	..	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	..	..	..	..	..	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	..	..	..	..	..	..	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	..	..	..	..	..	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	-30.3	-24.3	-35.0	-39.8	..	..	..	..
of which current account deficit	-25.7	-29.5	-20.8	-22.1	-14.3	..	..	..

Note: a. RMI Abstract

b. IMF Article 4, 2004 (for data in 2002 and 2003)

Marshall Islands – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	11	11	..	..	..	..	..	..
Industry	20	21	..	..	..	..	..	..
Services	69	68	..	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	..	..	3	4	..	..	..	..
Imports (GNFS)	..	..	64	72	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	98	99	105	105	108	..	..	..
GNI per capita (US\$, Atlas method)	2370	2200	2400	2700	2680	..	..	..
Real annual growth rates (% , calculated from 1990 prices)								
Gross domestic product at market prices	0.9	-1.3	4.0	2.0	1.5	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1990 prices)								
Gross domestic product at market prices	-0.7	-2.6	4.0	2.0	0.5	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	..	..	3	4	..	..	..	..
Merchandise FOB	8	8	..	..	..	..	..	..
Imports (GNFS) ^b	..	..	68	75	..	..	..	..
Merchandise FOB	59	61	..	..	..	..	..	..
Resource balance	..	..	-65	-72	..	..	..	..
Net current transfers	44	52	40	40	43	..	..	..
Current account balance	26	30	21	22	14	..	..	..
Net private foreign direct investment	-15	-22	..	..	..	..	..	..
Long-term loans (net)	..	..	..	..	..	..	..	..
Official	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	5	-5	14	18	..	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	..	..	-61.6	-68.2	..	..	..	..
Real annual growth rates (YR90 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Marshall Islands – Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	75.3	84.6	76.0	75.4	75.1	..	..	..
Current expenditures	57.3	55.3	64.9	51.4	63.4	..	..	..
Current account surplus (+) or deficit (-)	18.0	29.3	11.1	24.1	11.7	..	..	..
Capital expenditure	9.0	11.6	14.6	15.3	14.8	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	..	..	..	..	..	..	..	..
Growth of M2 (%)	..	..	..	..	..	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR90 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	..	..	..	..	..	..	..	..
Real interest rates								
Consumer price index (% change)	0.9	1.8	1.7	-1.9	1.5	..	..	..
GDP deflator (% change)	2.0	2.4	1.6	-1.9	1.6	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Marshall Islands – Key Exposure Indicators

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	69	67	58	..	..	..	..	..
Net disbursements (US\$m) ^a	0	0	0	0	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	70.1	67.6	55.4	..	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	..	..	..	..	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

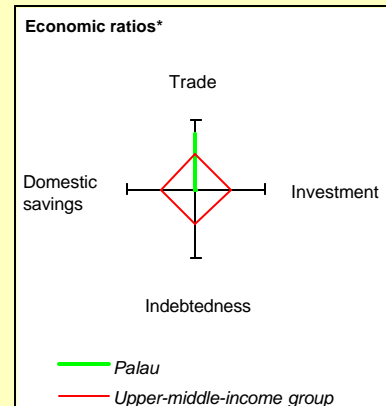
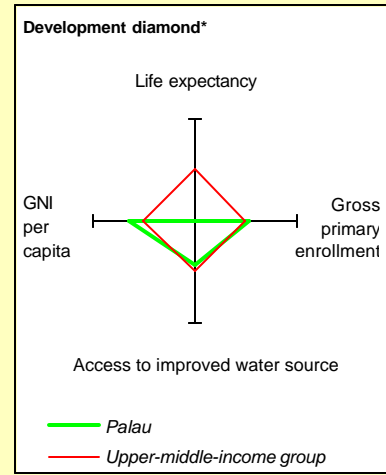
e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX E.

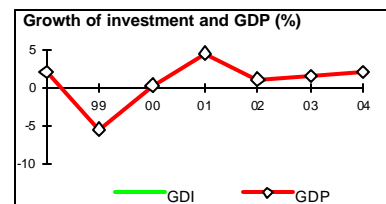
Palau at a Glance

4/27/05

POVERTY and SOCIAL	Palau	East Asia & Pacific	Upper-middle-income		
2004					
Population, mid-year (<i>millions</i>)	0.02	1,855	335		
GNI per capita (<i>Atlas method, US\$</i>)	6,870	1,080	5,340		
GNI (<i>Atlas method, US\$ billions</i>)	0.14	2,011	1,788		
Average annual growth, 1998-04					
Population (%)	0.9	1.0	1.2		
Labor force (%)	..	1.1	1.8		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	69	40	76		
Life expectancy at birth (<i>years</i>)	..	69	73		
Infant mortality (<i>per 1,000 live births</i>)	24	32	19		
Child malnutrition (% of children under 5)	..	15	..		
Access to an improved water source (% of population)	79	76	89		
Illiteracy (% of population age 15+)	..	10	9		
Gross primary enrollment (% of school-age population)	111	111	104		
Male	113	112	104		
Female	109	111	104		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (<i>US\$ billions</i>)	..	0.08	0.12	0.13	
Gross domestic investment/GDP	
Exports of goods and services/GDP	..	15.1	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	..	9.9	-4.3	-17.7	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
<i>(average annual growth)</i>					
GDP	..	2.0	1.5	2.0	..
GDP per capita	..	0.1	1.5	2.0	..
Exports of goods and services



STRUCTURE of the ECONOMY	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	..	8.3	..	..
Industry	..	8.0	..	..
Manufacturing	..	0.9	..	..
Services	..	83.7	..	..
Private consumption
General government consumption
Imports of goods and services	..	52.9	..	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services

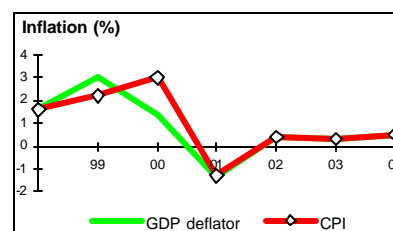


Note: 2004 data are preliminary estimates. Group data are for 2003.

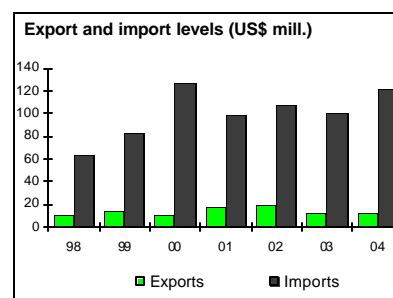
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

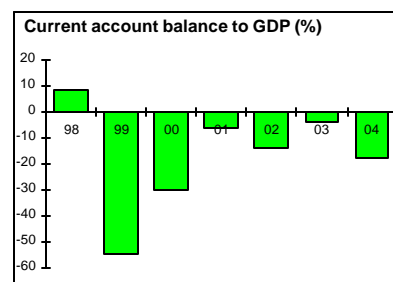
	1984	1994	2003	2004
Domestic prices (% change)				
Consumer prices	0.3	0.5
Implicit GDP deflator	..	2.6	0.3	0.5
Government finance (% of GDP, includes current grants)				
Current revenue	..	59.5	42.1	43.5
Current budget balance	..	2.8	-5.2	-5.7
Overall surplus/deficit	..	0.5	-2.4	-12.4

**TRADE**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	13	12	12
Commodity 1
Commodity 2
Manufactures
Total imports (cif)	..	44	100	122
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)

**BALANCE of PAYMENTS**

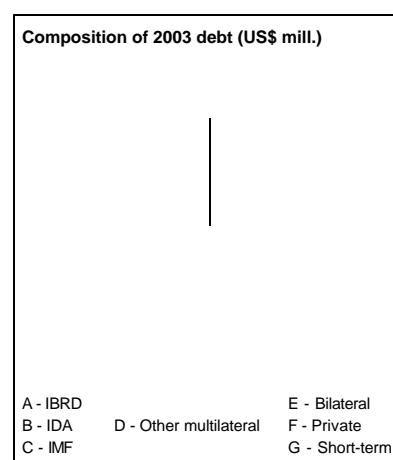
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	..	42	70	75
Imports of goods and services	..	57	102	124
Resource balance	..	-15	-33	-50
Net income	..	0	4	3
Net current transfers	..	23	23	24
Current account balance	..	8	-5	-23
Financing items (net)	..	-8	9	40
Changes in net reserves	..	0	-3	-17

**Memo:**

Reserves including gold (US\$ millions)	..	..	..	..
Conversion rate (DEC, local/US\$)	1.0	1.0	1.0	1.0

EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers



Palau – Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	East Asia & Pacific	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	..	0.01	0.02	1,854.5	334.9
Growth rate (% annual average for period)	..	3.1	1.8	1.0	1.2
Urban population (% of population)	62.0	67.7	68.7	39.7	75.8
Total fertility rate (births per woman)	..	4.0	2.5	2.1	2.4
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNI per capita (US\$)	7,500	1,080	5,340
Consumer price index (1995=100)
Food price index (1995=100)
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	8.5	1.9	3.7
Education (% of GDP)	11.0	3.2	4.4
Social security and welfare (% of GDP)
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	92	93
Male	92	93
Female	92	94
Access to an improved water source					
<i>(% of population)</i>					
Total	79	76	..
Urban	100	93	..
Rural	20	67	77
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	99	70	94
DPT	99	78	90
Child malnutrition (% under 5 years)	15	..
Life expectancy at birth					
<i>(years)</i>					
Total	..	61	70	69	73
Male	..	59	69	68	70
Female	..	63	72	71	77
Mortality					
Infant (per 1,000 live births)	..	32	24	32	19
Under 5 (per 1,000 live births)	..	39	29	42	22
Adult (15-59)
Male (per 1,000 population)	184	197
Female (per 1,000 population)	129	103
Maternal (modeled, per 100,000 live births)
Births attended by skilled health staff (%)	100	68	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Palau – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1993 price data</i>								
GDP (mp) per capita	0.3	-0.7	1.1	1.5	2.0	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	0.3	4.5	1.1	1.5	2.0	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	30.5	6.2	13.9	4.3	17.7	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	-18.7	-9.4	-7.3	-5.2	-5.7	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	1.4	-1.3	0.4	0.3	0.5	..	..	..
Annual average exchange rate (LCU/US\$)	1.0	1.0	1.0	1.0	1.0	..	..	..
Index real average exchange rate (YR93 =100)	96.1	103.8	106.8	104.9	..	..	..	..
Terms of trade index (YR93 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	..	..	..	..	..	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	52.6	44.5	42.1	52.6	56.4	..	..	..
Tax revenues	19.7	20.2	18.2	18.6	21.0	..	..	..
Total expenditures, of which	68.2	65.3	70.2	55.0	68.7	..	..	..
Consumption	51.3	27.3	44.5	43.6	45.1	..	..	..
Deficit(-)/Surplus(+)	-15.6	-20.9	-28.1	-2.4	-12.4	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	..	..	..	..	..	..	..	..
Other domestic	..	..	..	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	10.0	17.0	32.0	..	..	..	..	..
DOD / GDPmp ratio	8.6	14.2	26.3	..	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	0.0	0.0	0.0	0.0	..	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	20.0	22.7	13.8	22.8	26.2	..	..	..
Private investment (net)	2.0	1.0	2.0	1.0	0.1	..	..	..
Net Long term borrowing excl IMF	18.6	0.0	0.0	-0.6	-1.1	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	-5.6	8.9	35.1	-14.5	14.6	..	..	..
Financing Requirements (incl IMF)	35.0	32.6	50.9	8.7	39.8	..	..	..
of which current account deficit	35.5	7.4	16.9	5.3	22.5	..	..	..

Palau – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	4	4	1	..	..	..	..	..
Industry	12	13	16	..	..	..	..	..
Services	84	83	82	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	10	15	18	..	..	..	..	..
Imports (GNFS)	109	83	88	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	116	120	122	124	127	..	..	..
GNI per capita (US\$, Atlas method)	6270	6260	6260	6480	6870	..	..	..
Real annual growth rates (% , calculated from 1993 prices)								
Gross domestic product at market prices	0.3	4.5	1.1	1.5	2.0	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1993 prices)								
Gross domestic product at market prices	0.3	-0.7	1.1	1.5	2.0	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	65	77	68	70	75	..	..	..
Merchandise FOB	12	19	20	12	12	..	..	..
Imports (GNFS) ^b	142	111	113	102	124	..	..	..
Merchandise FOB	127	100	101	94	109	..	..	..
Resource balance	-77	-34	-45	-33	-50	..	..	..
Net current transfers	36	21	23	23	24	..	..	..
Current account balance	-36	-7	-17	-5	-23	..	..	..
Net private foreign direct investment	2	1	2	1	0	..	..	..
Long-term loans (net)	19	0	0	-1	-1	..	..	..
Official	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	14	32	49	8	41	..	..	..
Change in reserves ^d	0	-25	-34	-3	-17	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-66.3	-28.5	-37.1	-26.3	-39.0	..	..	..
Real annual growth rates (YR93 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Palau – Key Economic Indicators*(Continued)*

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	43.3	44.5	41.2	42.1	43.5	..	..	..
Current expenditures	62.0	53.9	48.6	47.3	49.2	..	..	..
Current account surplus (+) or deficit (-)	-18.7	-9.4	-7.3	-5.2	-5.7	..	..	..
Capital expenditure	6.2	11.4	21.6	7.7	19.5	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	..	..	..	..	..	..	..	..
Growth of M2 (%)	..	..	..	..	..	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR93 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	96.1	103.8	106.8	104.9	..	..	..	..
Real interest rates								
Consumer price index (% change)	3.0	-1.3	0.4	0.3	0.5	..	..	..
GDP deflator (% change)	1.4	-1.3	0.4	0.3	0.5	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Palau – Key Exposure Indicators

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	10	17	32	..	..	..	..	..
Net disbursements (US\$m) ^a	0	0	0	0	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	8.6	14.2	26.3	..	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	..	..	..	..	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

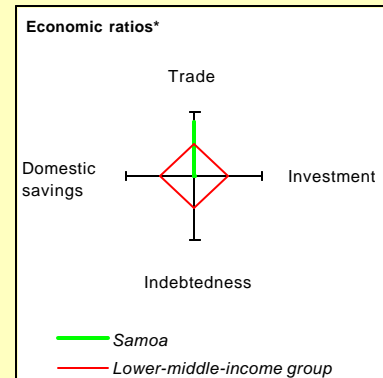
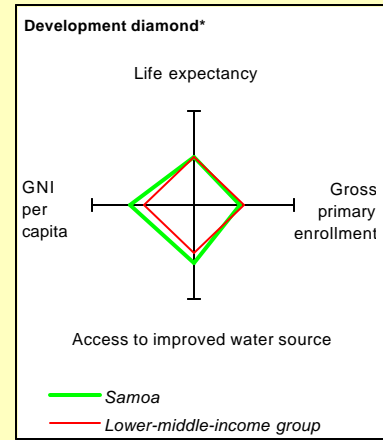
- Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- "XGS" denotes exports of goods and services, including workers' remittances.
- Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- Includes present value of guarantees.
- Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX F.

Samoa at a Glance

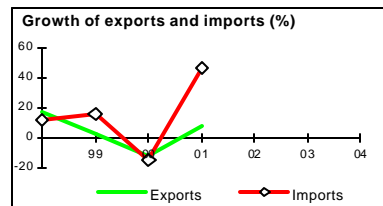
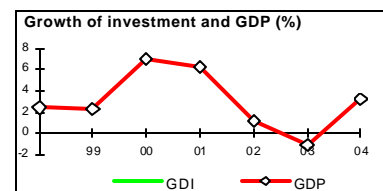
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POVERTY and SOCIAL	Samoa	East Asia & Pacific	Lower-middle-income		
2004					
Population, mid-year (millions)	0.18	1,855	2,655		
GNI per capita (Atlas method, US\$)	1,860	1,080	1,480		
GNI (Atlas method, US\$ billions)	0.33	2.011	3.934		
Average annual growth, 1998-04					
Population (%)	1.0	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	23	40	50		
Life expectancy at birth (years)	69	69	69		
Infant mortality (per 1,000 live births)	20	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	99	76	81		
Illiteracy (% of population age 15+)	1	10	10		
Gross primary enrollment (% of school-age population)	103	111	112		
Male	105	112	113		
Female	101	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	0.13	0.20	0.32	0.36	
Gross domestic investment/GDP	
Exports of goods and services/GDP	..	23.5	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	-9.4	-9.7	-0.7	-1.3	
Interest payments/GDP	1.0	0.7	0.3	..	
Total debt/GDP	56.2	79.6	115.2	..	
Total debt service/exports	9.9	13.0	6.2	..	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
<i>(average annual growth)</i>					
GDP	0.3	3.5	-1.0	3.2	..
GDP per capita	-0.2	2.6	-2.0	2.6	..
Exports of goods and services	..	8.7



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	..	23.0	13.1	14.1
Industry	..	28.8	27.0	26.5
Manufacturing	..	19.6	16.3	16.2
Services	..	48.1	59.9	59.4
Private consumption
General government consumption
Imports of goods and services	..	49.3	..	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture	..	-2.4	-0.6	3.2
Industry	..	3.4	4.5	3.2
Manufacturing	..	2.2	8.5	3.2
Services	..	5.7	-3.6	3.2
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services	..	9.6	..	..



Note: 2004 data are preliminary estimates. Group data are for 2003.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

Domestic prices

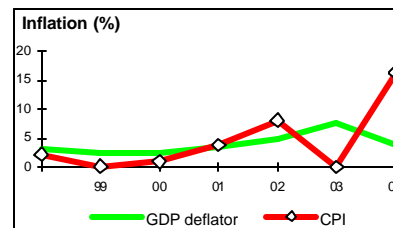
(% change)

	1984	1994	2003	2004
Consumer prices	11.9	12.0	0.1	16.3
Implicit GDP deflator	15.9	19.2	7.8	3.7

Government finance

(% of GDP, includes current grants)

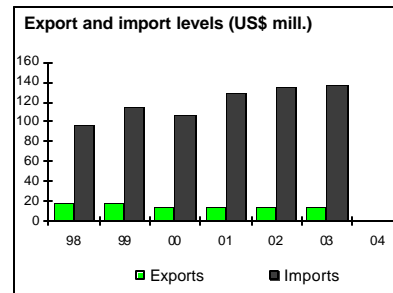
	1984	1994	2003	2004
Current revenue	..	35.7	32.1	31.4
Current budget balance	..	7.9	10.7	11.2
Overall surplus/deficit	..	-7.6	-0.6	-0.9



TRADE

(US\$ millions)

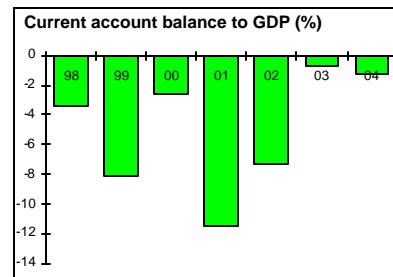
	1984	1994	2003	2004
Total exports (fob)	..	4	15	..
Fish	..	0	5	..
Coconut Cream	..	2	1	..
Manufactures	..	0	6	..
Total imports (cif)	..	80	137	..
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

(US\$ millions)

	1984	1994	2003	2004
Exports of goods and services	27	46	94	..
Imports of goods and services	58	97	159	..
Resource balance	-31	-51	-65	..
Net income	-2	-1	0	..
Net current transfers	20	33	64	..
Current account balance	-13	-19	-2	-5
Financing items (net)	18	25	-6	..
Changes in net reserves	-6	-6	9	..



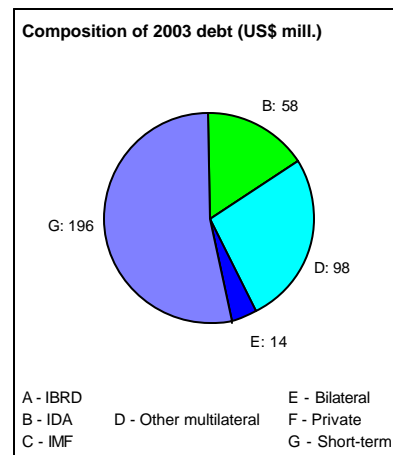
Memo:

	1984	1994	2003	2004
Reserves including gold (US\$ millions)	11	51	84	96
Conversion rate (DEC, local/US\$)	1.9	2.5	3.0	2.8

EXTERNAL DEBT and RESOURCE FLOWS

(US\$ millions)

	1984	1994	2003	2004
Total debt outstanding and disbursed	76	157	366	..
IBRD	0	0	0	..
IDA	10	43	58	..
Total debt service	5	6	10	..
IBRD	0	0	0	..
IDA	0	0	1	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	5	9	1	..
Private creditors	2	-1	0	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	1	2	3	..
Principal repayments	0	0	1	..
Net flows	1	2	2	..
Interest payments	0	0	0	..
Net transfers	0	1	2	..



Samoa – Selected Indicators*
of Bank Portfolio Performance & Management

As of Date 04/18/05

Indicator	2002	2003	2004	2005
Portfolio Assessment				
Number of Projects Under Implementation ^a	2	3	4	4
Average Implementation Period (years) ^b	2.5	2.5	1.5	2.3
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	0.0	0.0	0.0
Disbursement Ratio (%) ^e	17.0	26.3	20.8	25.9
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	7	0
Proj Eval by OED by Amt (US\$ millions)	42.1	0.0
% of OED Projects Rated U or HU by Number	28.6	0.0
% of OED Projects Rated U or HU by Amt	17.8	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Samoa – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1994 price data</i>								
GDP (mp) per capita	5.8	5.0	-0.1	-2.0	2.6	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	7.0	6.2	1.2	-1.0	3.2	3.2	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	-11.6	8.3	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	-14.1	46.5	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	2.6	11.4	7.3	0.7	1.3	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	10.7	11.7	12.1	10.7	11.2	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	2.5	3.5	4.9	7.8	3.7	..	..	..
Annual average exchange rate (LCU/US\$)	3.3	3.5	3.4	3.0	2.8	..	..	..
Index real average exchange rate (YR94 =100)	100.0	101.7	107.9	105.7	120.1	..	..	..
Terms of trade index (YR94 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	16.3	6.1	10.2	14.0	8.3	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	..	..	..	..	..	..	..	..
Tax revenues	..	..	..	..	..	..	..	..
Total expenditures, of which	33.8	33.8	34.9	32.7	32.3	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	..	..	..	..	..	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	0.3	0.2	0.2	1.6	-1.0	..	..	..
Other domestic	0.5	0.7	0.7	0.1	0.9	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	197.4	204.3	234.4	366.0	..	..	..	..
DOD / GDPmp ratio	85.5	85.2	89.4	115.2	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	5.8	4.5	4.7	6.2	..	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	16.7	21.0	24.8	21.1	..	..	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	-0.7	0.0	-0.3	-1.0	..	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	5.1	30.7	17.9	-6.4	..	..	..	..
of which current account deficit	6.1	27.5	19.1	2.1	4.7	2.7	0.1	..

**Samoa – IFC & MIGA Program
FY 2002-2005**

	2002	2003	2004	2005
IFC approvals (US\$m)	0.40	0.00	0.00	
Sector (%)				
Collective Investme	100			
Total	100	0	0	0
Investment instrument(%)				
Loans				
Equity	100			
Quasi-Equity				
Other				
Total	0	0	0	0
MIGA guarantees (US\$m)	0.00	0.00	0.00	

Samoa – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.2	0.2	0.2	1,854.6	2,655.5
Growth rate (% annual average for period)	0.6	0.4	1.0	1.0	0.9
Urban population (% of population)	21.5	21.1	22.8	39.1	49.8
Total fertility rate (births per woman)	..	4.8	4.0	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US\$)	..	1,040	1,440	1,070	1,490
Consumer price index (1995=100)	28	84	131	..	..
Food price index (1995=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	4.7	1.9	2.7
Education (% of GDP)	..	..	4.8	3.2	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	95	93	93
Male	..	..	96	93	93
Female	..	..	94	94	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	91	88	78	82
Urban	..	99	91	92	94
Rural	..	89	88	69	71
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	89	99	82	86
DPT	29	90	94	86	88
Child malnutrition (% under 5 years)	..	..	2	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	63	66	70	70	69
Male	61	65	67	68	67
Female	64	68	73	71	72
Mortality					
Infant (per 1,000 live births)	70	33	19	32	31
Under 5 (per 1,000 live births)	98	42	24	41	39
Adult (15-59)					
Male (per 1,000 population)	..	262	242	179	213
Female (per 1,000 population)	..	202	151	122	131
Maternal (modeled, per 100,000 live births)	..	..	130	116	121
Births attended by skilled health staff (%)	..	76	100	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Samoa – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	17	15	15	13	14	..	..	..
Industry	26	27	26	27	27	..	..	..
Services	57	58	59	60	59	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	34	35	33	..	..	..	..	..
Imports (GNFS)	57	79	76	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	231	240	262	318	364	..	..	..
GNI per capita (US\$, Atlas method)	1390	1410	1390	1540	1860	..	..	..
Real annual growth rates (% , calculated from 1994 prices)								
Gross domestic product at market prices	7.0	6.2	1.2	-1.0	3.2	3.2	..	..
Gross Domestic Income	7.0	6.2	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1994 prices)								
Gross domestic product at market prices	5.8	5.0	-0.1	-2.0	2.6	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	73	78	82	94	..	..	..	..
Merchandise FOB	14	15	14	15	..	..	..	..
Imports (GNFS) ^b	125	147	154	159	..	..	..	..
Merchandise FOB	91	112	125	128	..	..	..	..
Resource balance	-52	-68	-72	-65	..	..	..	..
Net current transfers	..	43	56	64	..	..	..	..
Current account balance	-6	-27	-19	-2	-5	-3	0	..
Net private foreign direct investment	..	..	..	..	..	..	..	..
Long-term loans (net)	-1	0	0	-1	..	..	..	..
Official	3	0	0	1	..	..	..	..
Private	-3	0	0	-2	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	1	-3	1	9	..	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-22.3	-28.6	-27.4	-20.6	..	..	..	..
Real annual growth rates (YR94 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Samoa – Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	33.1	31.5	32.8	32.1	31.4	..	..	..
Current expenditures	22.4	19.7	20.7	21.4	20.2	..	..	..
Current account surplus (+) or deficit (-)	10.7	11.7	12.1	10.7	11.2	..	..	..
Capital expenditure	11.4	14.0	14.2	11.3	12.1	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	38.2	36.9	38.3	40.9	41.4	..	..	..
Growth of M2 (%)	16.3	6.1	10.2	14.0	8.3	..	..	..
Private sector credit growth / total credit growth (%)	84.0	100.2	89.6	68.1	157.0	..	..	..
Price indices(YR94 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	100.0	101.7	107.9	105.7	120.1	..	..	..
Real interest rates								
Consumer price index (% change)	1.0	3.8	8.1	0.1	16.3	..	..	..
GDP deflator (% change)	2.5	3.5	4.9	7.8	3.7	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Samoa – Key Exposure Indicators

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	197	204	234	366	..	..	..	..
Net disbursements (US\$m) ^a	3	0	-1	1	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	249.0	251.2	279.1	377.6	..	..	..	..
TDO/GDP	85.5	85.2	89.4	115.2	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	0.0	0.0	0.0	0.0	..	..	..	..
Preferred creditor DS/public DS (%) ^c	83.6	89.8	87.5	100.0	..	..	..	..
IBRD DS/XGS	0.0	0.0	0.0	0.0	..	..	..	..
IBRD TDO (US\$m) ^d	0	0	0	0	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	0	0	0	0	..	..	..	..
IDA TDO (US\$m) ^d	47	48	51	58	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Samoa
Operations Portfolio (IBRD/IDA and Grants)
As of Date 04/18/05

Closed Projects 9

IBRD/IDA *

Total Disbursed (Active)	7.67
of which has been repaid	0.00
Total Disbursed (Closed)	60.22
of which has been repaid	7.13
Total Disbursed (Active + Closed)	67,886,636.81
of which has been repaid	7,134,146.80
Total Undisbursed (Active)	20.68
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	20,680,891.31

Active Projects

Project ID	Project Name	Last PSR Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Undisb.	Difference Between Expected and Actual Disbursements ^{a/}	
		Development Objectives	Implementation Progress		IBRD	IDA	GRANT	Cancel.		Orig.	Frm Rev'd

Status of Bank Group Operations (B8)

Port Stat	Active
Country	Samoa
Approval FY	
Proj ID (SPN)	

Proj ID (SPN)		Latest DO	Latest IP	pproval F	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P075739	Samoa - Telecommunications & Post Reform	S	S	2003		4.48			4.63	-0.50	
P088246	WS-Cyclone ERP	S	S	2004		4.5			3.84	-0.57	
P064926	WS-Health Sector Management Project	S	S	2001		5			3.66	2.35	0.91
P075523	WS-INFRA ASSET MGMT APL2	S	S	2004		12.8			8.56	-1.18	
Overall Result						26.78			20.68	0.10	0.91

Samoa
Statement of IFC's
Held and Disbursed Portfolio

As of Date 02/28/2005

(In US Dollars Millions)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
	PIIF Wilex Cocoa	0.27	0	0	0	0.27	0	0	0
	Total Portfolio:	0.27	0	0	0	0.27	0	0	0

Approvals Pending Commitment

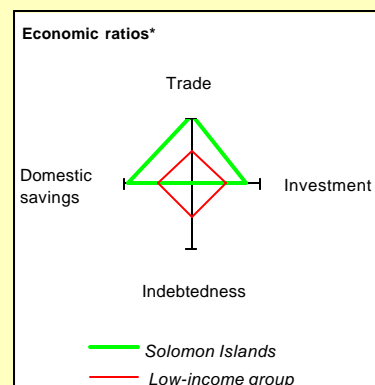
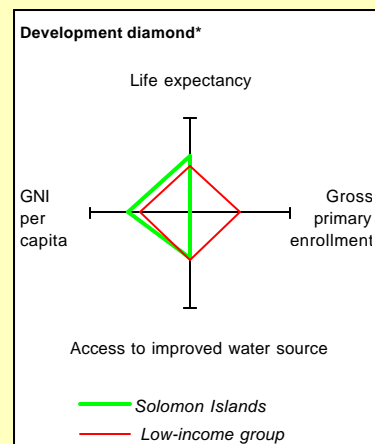
		Loan	Equity	Quasi	Partic
2002	PIIF SamoaVCF	0	0.4	0	0
	Total Pending Commitment:	0	0.4	0	0

ANNEX G.

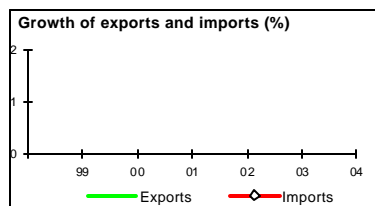
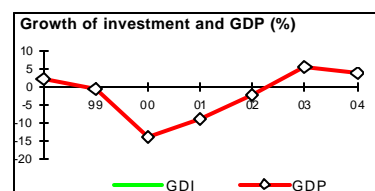
Solomon Islands at a Glance

4/28/05

POVERTY and SOCIAL	Solomon Islands	East Asia & Pacific	Low-income		
2004					
Population, mid-year (millions)	0.47	1,855	2,310		
GNI per capita (Atlas method, US\$)	550	1,080	450		
GNI (Atlas method, US\$ billions)	0.26	2,011	1,038		
Average annual growth, 1998-04					
Population (%)	2.8	1.0	1.9		
Labor force (%)	2.7	1.1	2.3		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	21	40	30		
Life expectancy at birth (years)	69	69	58		
Infant mortality (per 1,000 live births)	20	32	82		
Child malnutrition (% of children under 5)	..	15	44		
Access to an improved water source (% of population)	71	76	75		
Illiteracy (% of population age 15+)	..	10	39		
Gross primary enrollment (% of school-age population)	..	111	92		
Male	..	112	99		
Female	..	111	85		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	0.17	0.30	0.24	0.24	
Gross domestic investment/GDP	23.0	..	32.7	35.3	
Exports of goods and services/GDP	60.2	62.8	40.4	43.2	
Gross domestic savings/GDP	19.2	..	34.2	34.8	
Gross national savings/GDP	
Current account balance/GDP	0.3	0.4	1.4	5.5	
Interest payments/GDP	0.6	1.0	1.6	..	
Total debt/GDP	25.3	52.4	78.7	..	
Total debt service/exports	2.0	9.1	9.4	..	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	5.5	-2.3	5.6	3.8	4.4
GDP per capita	2.3	-5.0	2.4	0.7	..
Exports of goods and services



STRUCTURE of the ECONOMY	1984	1994	2003	2004
(% of GDP)				
Agriculture
Industry
Manufacturing
Services
Private consumption	57.3	..	..	..
General government consumption	23.5	..	..	..
Imports of goods and services	64.0	85.0	42.6	49.7
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services

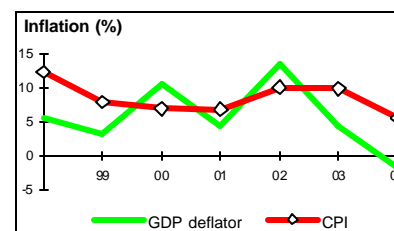


Note: 2004 data are preliminary estimates. Group data are for 2003.

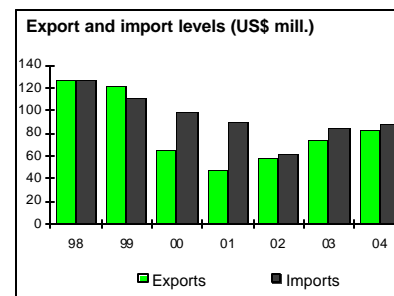
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

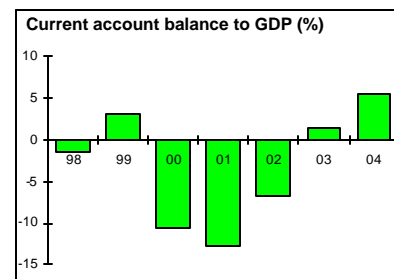
	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	11.0	13.3	10.0	5.6
Implicit GDP deflator	53.8	11.5	4.6	-1.7
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	47.1	25.3	..
Current budget balance	..	15.6	1.5	4.0
Overall surplus/deficit	..	-5.5	-1.2	10.0

**TRADE**

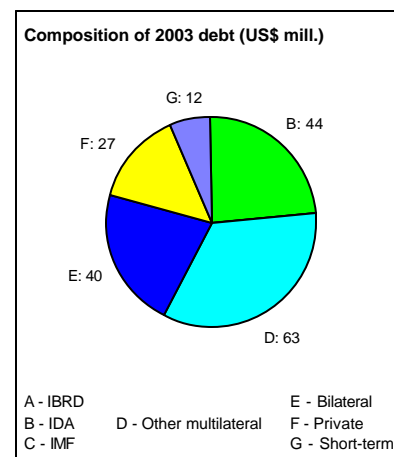
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	144	74	83
Timber	..	81	49	54
Fish	..	30	12	14
Manufactures
Total imports (cif)	..	142	85	88
Food	20	..
Fuel and enerav	15	..
Capital goods	11	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)

**BALANCE of PAYMENTS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	103	184	95	104
Imports of goods and services	106	246	101	120
Resource balance	-4	-62	-5	-16
Net income	-9	-4	-5	-2
Net current transfers	13	67	13	31
Current account balance	0	1	3	13
Financing items (net)	0	-4	-22	-44
Changes in net reserves	-1	2	18	31
Memo:				
Reserves including gold (US\$ millions)	45	17	37	81
Conversion rate (DEC, local/US\$)	1.3	3.3	7.5	7.5

**EXTERNAL DEBT and RESOURCE FLOWS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	44	155	186	..
IBRD	0	0	0	..
IDA	3	22	44	..
Total debt service	2	17	9	..
IBRD	0	0	0	..
IDA	0	0	1	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	6	0	-3	..
Private creditors	5	-3	-3	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	1	2	0	..
Principal repayments	0	0	1	..
Net flows	1	2	0	..
Interest payments	0	0	0	..
Net transfers	1	2	-1	..



Solomon Islands - Selected Indicators*
of Bank Portfolio Performance & Management

As of Date 04/18/2005

Indicator	1	1	1	1
Portfolio Assessment				
Number of Projects Under Implementation ^a	2.48	3.48	4.48	5.28
Average Implementation Period (years) ^b	0.0	100.0	0.0	0.0
Percent of Problem Projects by Number ^{a, c}	0.0	100.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	100.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	100.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	16.2	6.0	16.4	41.2
Disbursement Ratio (%) ^e	0.0	0.0	0.0	0.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	40.4	24.1
Proj Eval by OED by Amt (US\$ millions)	57.1	100.0
% of OED Projects Rated U or HU by Number	67.9	100.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Solomon Islands - Selected Indicators Table



Base-case (most likely) projection

	Actual			Estimate		Projection		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1980 price data</i>								
GDP (mp) per capita	-16.5	-11.5	-4.3	1.9	0.7	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	-14.3	-9.0	-1.6	5.1	3.8	4.2	4.7	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	21.7	23.0	18.1	32.7	35.3	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	10.6	12.8	6.6	-1.4	0.6	..	..	..
Gross national savings	11.1	10.2	11.5	34.1	34.7	..	..	..
Government savings	-6.1	-11.6	-9.8	1.5	4.0	..	..	..
Non government savings	17.2	21.8	21.3	32.6	30.7	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	10.7	4.4	12.7	5.0	-1.7	..	..	..
Annual average exchange rate (LCU/US\$)	5.1	5.3	6.7	7.5	7.5	..	..	..
Index real average exchange rate (YR80 =100)	100.0	109.2	90.8	78.5	77.4	..	..	..
Terms of trade index (YR80 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	0.6	-13.6	6.0	25.4	17.5	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	22.0	23.6	18.9	39.7	48.1	..	..	..
Tax revenues	16.8	14.0	15.5	19.6	21.6	..	..	..
Total expenditures, of which	29.7	36.1	29.7	38.2	44.1	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	-7.7	-12.5	-10.8	1.5	4.0	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	4.3	6.4	-0.2	-2.3	-9.7	..	..	..
Other domestic	0.2	8.3	8.8	7.3	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	23.5	33.2	28.2	26.4	..	..	..	..
Total interest payments/Tax revenues	18.0	1.5	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	155.4	162.6	180.4	185.7	..	..	..	..
DOD / GDPmp ratio	51.9	59.3	75.9	78.7	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	2.7	1.8	2.5	4.1	7.7	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	0.0	0.0	0.0	0.0	0.0	..	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	7.3	18.3	5.8	12.2	17.6	..	..	..
Adjustments to scheduled debt service	2.7	13.0	2.3	3.4	1.5	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	50.7	48.2	16.7	-21.6	-14.6	..	..	..
of which current account deficit	31.7	35.2	15.7	-3.2	1.5	..	..	..

Solomon Islands – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Low-income
POPULATION					
Total population, mid-year (millions)	0.2	0.3	0.5	1,854.6	2,311.9
Growth rate (% annual average for period)	3.4	3.2	2.8	1.0	1.9
Urban population (% of population)	10.5	14.6	21.4	39.1	30.4
Total fertility rate (births per woman)	7.1	5.9	5.3	2.1	3.7
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US\$)	480	730	560	1,070	440
Consumer price index (1995=100)	19	58	203	..	..
Food price index (1995=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	4.5	1.9	1.5
Education (% of GDP)	..	..	3.4	3.2	3.2
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	83	..	93	77
Male	..	89	..	93	82
Female	..	77	..	94	72
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	70	78	75
Urban	..	..	94	92	89
Rural	..	..	65	69	70
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	70	78	82	65
DPT	46	77	71	86	67
Child malnutrition (% under 5 years)	..	21	21	15	44
Life expectancy at birth					
<i>(years)</i>					
Total	58	64	70	70	58
Male	57	64	68	68	57
Female	59	65	71	71	59
Mortality					
Infant (per 1,000 live births)	43	29	19	32	80
Under 5 (per 1,000 live births)	56	36	22	41	123
Adult (15-59)	..	..	221	179	319
Male (per 1,000 population)	..	..	154	122	268
Female (per 1,000 population)	..	..	130	116	689
Maternal (modeled, per 100,000 live births)	..	..	130	116	689
Births attended by skilled health staff (%)	..	..	85	87	38

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Solomon Islands – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..
Services	..	..	..	..	..	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	22	23	18	33	35	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	40	26	31	40	43	..	..	..
Imports (GNFS)	59	44	33	43	50	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	299	274	238	236	242	..	..	..
GNI per capita (US\$, Atlas method)	680	620	560	560	550	..	..	..
Real annual growth rates (% , calculated from 1980 prices)								
Gross domestic product at market prices	-14.3	-9.0	-2.4	5.6	3.8	4.2	4.7	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1980 prices)								
Gross domestic product at market prices	-16.5	-11.5	-5.0	2.4	0.7	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	114	72	75	95	104	..	..	..
Merchandise FOB	65	47	58	74	83	..	..	..
Imports (GNFS) ^b	132	122	79	101	120	..	..	..
Merchandise FOB	98	91	62	85	102	..	..	..
Resource balance	-18	-50	-4	-5	-16	..	..	..
Net current transfers	-13	15	-6	13	31	..	..	..
Current account balance	-32	-35	-16	3	13	..	..	..
Net private foreign direct investment	..	..	..	..	..	..	..	..
Long-term loans (net)	7	18	6	12	18	..	..	..
Official	1	17	10	-3	..	..	..	..
Private	7	2	-4	15	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	-19	-13	-1	18	31	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-6.1	-18.2	-1.9	-2.2	-6.5	..	..	..
Real annual growth rates (YR80 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Solomon Islands – Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	19.0	15.6	16.7	25.3	30.0	..	..	..
Current expenditures	25.1	27.2	26.5	23.8	26.0	..	..	..
Current account surplus (+) or deficit (-)	-6.1	-11.6	-9.8	1.5	4.0	..	..	..
Capital expenditure	4.6	8.9	3.2	15.7	18.1	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	30.4	27.7	26.4	30.0	34.5	..	..	..
Growth of M2 (%)	0.6	-13.6	6.0	25.4	17.5	..	..	..
Private sector credit growth / total credit growth (%)	4.9	-88.3	128.6	2178.6	-14.6	..	..	..
Price indices(YR80 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	100.0	109.2	90.8	78.5	77.4	..	..	..
Real interest rates								
Consumer price index (% change)	7.1	6.9	10.2	10.0	5.6	..	..	..
GDP deflator (% change)	10.7	4.4	13.6	4.6	-1.7	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Solomon Islands – Key Exposure Indicators

Indicator	Actual				Estimate		Projected	
	2000	2001	2002	2003	2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	155	163	180	186	..	..	..	..
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	128.5	208.5	232.5	187.8	..	..	..	..
TDO/GDP	51.9	59.3	75.9	78.7	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	0.0	0.0	0.0	0.0	..	..	..	..
IBRD TDO (US\$m) ^d	0	0	0	0	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	0	0	0	0	..	..	..	..
IDA TDO (US\$m) ^d	38	38	41	44	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

Solomon Islands
Operations Portfolio (IBRD/IDA and Grants)
As of Date 04/18/05

Closed Projects 0

IBRD/IDA *

of which has been repaid	0.00
Total Disbursed (Closed)	40.45
of which has been repaid	3.36
Total Disbursed (Active + Closed)	43,052,535.22
of which has been repaid	3,357,665.90
0.00	0.00
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1,676,351.55
0.00	0.00

Active Projects

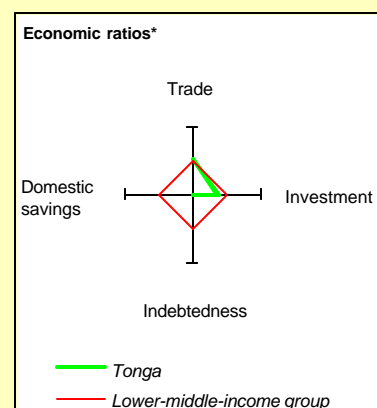
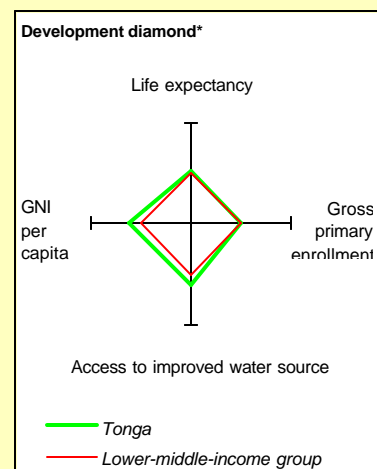
Project ID	Project Name	Last PSR Supervision Rating		Fiscal Year	Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements ^{af}	
		Development Objectives	Implementation Progress		IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
Status of Bank Group Operations (B8)											
Port Stat	Active										
Country	Solomon Islands										
Approval FY											
Proj ID (SPN)											
Proj ID (SPN)		Latest DO	Latest IP	Approval FY	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P058358	SB-HEALTH SECTOR DEVELOPMENT PROJECT	S	S	2000			4		1.68	1.34	0.09

ANNEX H.

Tonga at a Glance

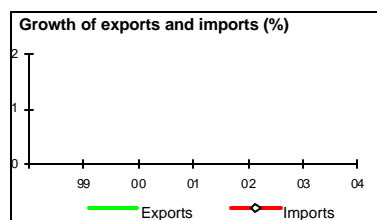
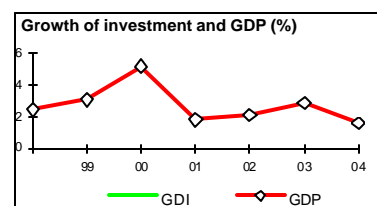
4/27/05

POVERTY and SOCIAL	Tonga	East Asia & Pacific	Lower-middle-income		
2004					
Population, mid-year (millions)	0.10	1,855	2,655		
GNI per capita (Atlas method, US\$)	1,830	1,080	1,480		
GNI (Atlas method, US\$ billions)	0.19	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	0.5	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	34	40	50		
Life expectancy at birth (years)	71	69	69		
Infant mortality (per 1,000 live births)	15	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	100	76	81		
Illiteracy (% of population age 15+)	..	10	10		
Gross primary enrollment (% of school-age population)	112	111	112		
Male	114	112	113		
Female	111	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	0.06	0.16	0.17	0.21	
Gross domestic investment/GDP	23.9	21.7	
Exports of goods and services/GDP	26.6	19.9	
Gross domestic savings/GDP	-12.4	-12.1	
Gross national savings/GDP	-9.2	-8.0	
Current account balance/GDP	0.3	-11.5	-3.0	3.8	
Interest payments/GDP	0.5	0.4	0.5	..	
Total debt/GDP	30.0	36.8	49.8	..	
Total debt service/exports	2.2	4.8	8.2	..	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	5.0	2.3	2.9	1.6	2.6
GDP per capita	4.7	1.7	2.5	1.3	..
Exports of goods and services



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	37.7	33.1	28.9	28.9
Industry	16.3	15.1	15.2	15.2
Manufacturing	6.0	4.6	4.2	4.2
Services	44.9	51.8	55.9	55.9
Private consumption	96.6	87.7	..	..
General government consumption	15.8	17.7	..	..
Imports of goods and services	63.0	53.6	..	..
	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	4.3	0.1	3.6	..
Industry	2.8	4.0	6.4	..
Manufacturing	3.2	4.8	-5.0	..
Services	5.8	0.7	-32.9	..
Private consumption	4.1	0.7	..	..
General government consumption	7.4	4.0	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	..	..	..

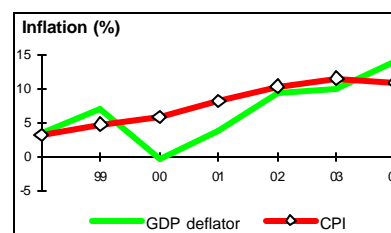


Note: 2004 data are preliminary estimates. Group data are for 2003.

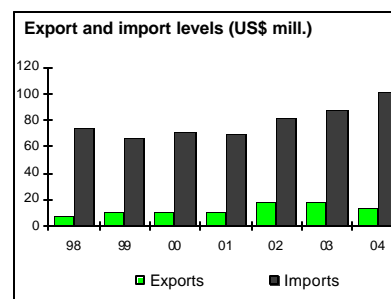
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

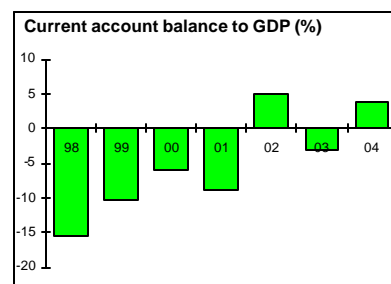
	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	0.1	1.0	11.6	11.0
Implicit GDP deflator	6.5	-48.2	9.9	14.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	42.6	27.7	25.5
Current budget balance	..	20.8	2.2	0.4
Overall surplus/deficit	..	4.7	-3.2	-0.6

**TRADE**

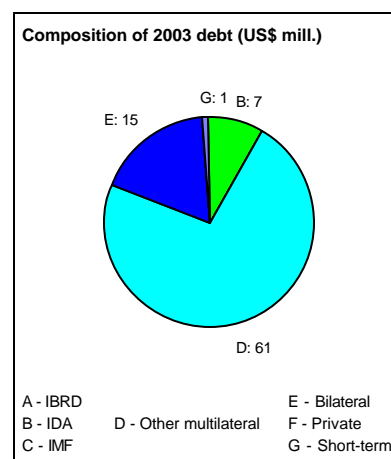
	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	7	16	18	14
Squash	..	7	5	7
Fish	..	2	6	6
Manufactures	1
Total imports (cif)	..	65	88	101
Food	..	18	..	..
Fuel and energy	..	9	..	..
Capital goods	..	12	..	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)

**BALANCE of PAYMENTS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	19	33	44	41
Imports of goods and services	44	88	107	115
Resource balance	-25	-55	-64	-74
Net income	3	3	-2	0
Net current transfers	22	34	60	83
Current account balance	0	-18	-5	8
Financing items (net)	6	-1	6	-9
Changes in net reserves	-6	19	-1	1
Memo:				
Reserves including gold (US\$ millions)	26	36	43	58
Conversion rate (DEC, local/US\$)	1.1	1.3	2.1	2.0

**EXTERNAL DEBT and RESOURCE FLOWS**

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	19	59	84	..
IBRD	0	0	0	..
IDA	0	5	7	..
Total debt service	1	3	4	..
IBRD	0	0	0	..
IDA	0	0	0	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	1	6	7	..
Private creditors	0	0	0	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	0	1	3	..
Principal repayments	0	0	0	..
Net flows	0	1	3	..
Interest payments	0	0	0	..
Net transfers	0	1	3	..



Tonga - Selected Indicators*
of Bank Portfolio Performance & Management

As of Date 04/18/05

Indicator	1	1	2	2
Portfolio Assessment				
Number of Projects Under Implementation ^a	0.08	1.08	1.515	2.305
Average Implementation Period (years) ^b	0.0	0.0	0.0	0.0
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	34.6	20.2	13.2
Disbursement Ratio (%) ^e	0.0	0.0	0.0	0.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	4.3	0
Proj Eval by OED by Amt (US\$ millions)	50.0	0.0
% of OED Projects Rated U or HU by Number	52.2	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Tonga – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1985 price data</i>								
GDP (mp) per capita	5.0	1.3	1.7	2.5	1.3	..	..	..
Total consumption per capita	2.3	..	..	..	..	..	..	..
GDP at market prices	5.2	1.8	2.1	2.9	1.6	2.8	2.5	..
Total consumption	2.5	..	..	..	..	..	..	..
Private consumption	3.3	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	21.0	20.3	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	5.9	8.9	-5.0	3.0	-3.8	..	..	..
Gross national savings	15.1	11.3	..	..	..	..	..	..
Government savings	0.3	2.7	4.0	2.2	0.4	..	..	..
Non government savings	14.8	8.6	..	..	..	..	..	..
Gross domestic savings	-10.9	-20.1	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	-0.4	3.9	9.5	9.9	14.2	..	..	..
Annual average exchange rate (LCU/US\$)	1.8	2.1	2.2	2.1	2.0	..	..	..
Index real average exchange rate (YR85 =100)	100.0	91.6	92.7	91.0	98.9	..	..	..
Terms of trade index (YR85 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	18.8	14.9	7.8	14.4	13.2	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	..	..	..	..	..	..	..	..
Tax revenues	..	..	..	..	..	..	..	..
Total expenditures, of which	26.8	29.1	31.3	30.9	26.1	..	..	..
Consumption	..	..	..	..	..	..	..	..
Deficit(-)/Surplus(+)	..	..	..	..	..	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	0.6	3.4	-3.0	-4.7	-1.5	..	..	..
Other domestic	..	..	..	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	..	..	..	..	..	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	65.6	63.3	73.6	83.9	..	..	..	..
DOD / GDPmp ratio	42.7	47.1	50.6	49.8	..	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	4.3	4.0	4.0	4.6	5.9	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	..	..	..	..	..	..	..	..
Private investment (net)	..	..	..	..	..	..	..	..
Net Long term borrowing excl IMF	2.4	2.9	7.2	8.1	38.3	..	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	..	..	..	..	..	..	..	..
Financing Requirements (incl IMF)	13.6	11.9	-13.5	6.4	-9.2	..	..	..
of which current account deficit	9.1	12.0	-7.2	5.1	-8.0	..	..	..

Tonga – Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	0.09	0.10	0.10	1,854.6	2,655.5
Growth rate (% annual average for period)	0.9	0.2	0.6	1.0	0.9
Urban population (% of population)	27.0	31.2	33.5	39.1	49.8
Total fertility rate (births per woman)	5.1	4.2	3.4	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US\$)	..	1,160	1,490	1,070	1,490
Consumer price index (1995=100)	31	81	161	..	..
Food price index (1995=100)	34	85	178	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	5.1	1.9	2.7
Education (% of GDP)	..	..	4.9	3.2	3.5
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	92	91	93	93
Male	..	94	93	93	93
Female	..	90	89	94	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	100	100	78	82
Urban	..	100	100	92	94
Rural	..	100	100	69	71
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	86	99	82	86
DPT	40	94	98	86	88
Child malnutrition (% under 5 years)	..	..	..	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	..	69	71	70	69
Male	..	67	69	68	67
Female	..	71	74	71	72
Mortality					
Infant (per 1,000 live births)	..	23	15	32	31
Under 5 (per 1,000 live births)	..	27	19	41	39
Adult (15-59)	..	..	..	..	..
Male (per 1,000 population)	..	260	226	179	213
Female (per 1,000 population)	..	194	159	122	131
Maternal (modeled, per 100,000 live births)	..	..	..	116	121
Births attended by skilled health staff (%)	..	..	92	87	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Tonga – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	28	27	28	29	29	..	..	..
Industry	16	16	16	15	15	..	..	..
Services	55	57	56	56	56	..	..	..
Total Consumption	111	120	..	..	..	..	..	..
Gross domestic fixed investment	20	19	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	15	12	..	..	..	..	..	..
Imports (GNFS)	50	57	..	..	..	..	..	..
Gross domestic savings	-11	-20	..	..	..	..	..	..
Gross national savings ^c	17	11	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	153	134	145	169	213	..	..	..
GNI per capita (US\$, Atlas method)	1630	1500	1430	1510	1830	..	..	..
Real annual growth rates (% , calculated from 1985 prices)								
Gross domestic product at market prices	5.2	1.8	2.1	2.9	1.6	2.8	2.5	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1985 prices)								
Gross domestic product at market prices	5.0	1.3	1.7	2.5	1.3	..	..	..
Total consumption	2.3	..	..	..	..	..	..	..
Private consumption	3.1	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	27	22	34	44	41	..	..	..
Merchandise FOB	10	11	18	18	14	..	..	..
Imports (GNFS) ^b	74	75	79	107	115	..	..	..
Merchandise FOB	58	57	61	76	86	..	..	..
Resource balance	-46	-54	-45	-64	-74	..	..	..
Net current transfers	38	42	53	60	83	..	..	..
Current account balance	-9	-12	7	-5	8	..	..	..
Net private foreign direct investment	..	..	..	..	..	..	..	..
Long-term loans (net)	2	3	7	8	38	..	..	..
Official	3	1	3	7	..	..	..	..
Private	-1	2	4	1	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..
Change in reserves ^d	-4	0	6	-1	1	..	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	-30.2	-39.9	-31.0	-37.8	-35.0	..	..	..
Real annual growth rates (YR85 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Tonga – Key Economic Indicators*(Continued)*

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	26.4	27.5	29.8	27.7	25.5	..	..	..
Current expenditures	26.1	24.8	25.8	25.5	25.1	..	..	..
Current account surplus (+) or deficit (-)	0.3	2.7	4.0	2.2	0.4	..	..	..
Capital expenditure	0.7	4.3	5.5	5.4	1.0	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	45.3	49.1	47.4	47.9	46.7	..	..	..
Growth of M2 (%)	18.8	14.9	7.8	14.4	13.2	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR85 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	100.0	91.6	92.7	91.0	98.9	..	..	..
Real interest rates								
Consumer price index (% change)	5.9	8.3	10.4	11.6	11.0	..	..	..
GDP deflator (% change)	-0.4	3.9	9.5	9.9	14.2	..	..	..

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Tonga – Key Exposure Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	66	63	74	84	..	..	..	..
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	42.7	47.1	50.6	49.8	..	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	0	0	0	0	..	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	4	4	4	7	..	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Tonga
Operations Portfolio (IBRD/IDA and Grants)
As of 04/18/05

Closed Projects 2

IBRD/IDA*

Total Disbursed (Active)	5.12
of which has been repaid	0.00
Total Disbursed (Closed)	4.34
of which has been repaid	0.40
Total Disbursed (Active + Closed)	9,463,777.30
of which has been repaid	399,688.44
Total Undisbursed (Active)	13.59
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	13,593,474.72

Active Projects

Project ID	Project Name	Last PSR Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^a	
		Development Objectives	Implementation Progress		IBRD	IDA	GRANT	Cancel.	Undisb.	Orig. Frm Rev'd

Status of Bank Group Operations (B8)

Port Stat	Active
Country	Kingdom of Tonga
Approval FY	
Proj ID (SPN)	

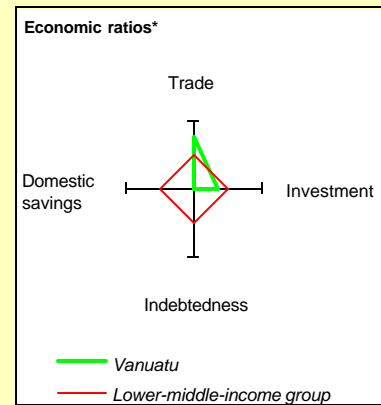
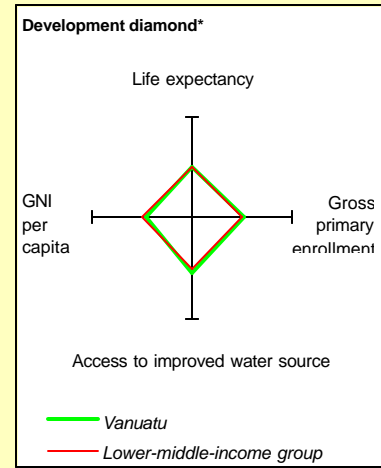
Proj ID (SPN)	Latest DO	Latest IP	Approval F	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P075171	TO-CYCLONE ER & MHS	S	2002		5.85			2.98	1.43	
P075230	TO-HEALTH SECTOR S	S	2004		10.94			10.62	-1.40	
Overall Result					16.79			13.59	0.04	

ANNEX I.

Vanuatu at a Glance

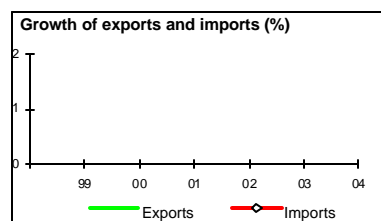
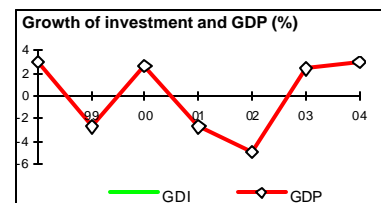
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	Vanuatu	East Asia & Pacific	Lower-middle-income		
POVERTY and SOCIAL					
2004					
Population, mid-year (millions)	0.22	1,855	2,655		
GNI per capita (Atlas method, US\$)	1,340	1,080	1,480		
GNI (Atlas method, US\$ billions)	0.29	2,011	3,934		
Average annual growth, 1998-04					
Population (%)	2.4	1.0	0.9		
Labor force (%)	..	1.1	1.2		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	22	40	50		
Life expectancy at birth (years)	69	69	69		
Infant mortality (per 1,000 live births)	31	32	32		
Child malnutrition (% of children under 5)	..	15	11		
Access to an improved water source (% of population)	88	76	81		
Illiteracy (% of population age 15+)	..	10	10		
Gross primary enrollment (% of school-age population)	117	111	112		
Male	113	112	113		
Female	121	111	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	0.13	0.21	0.28	0.32	
Gross domestic investment/GDP	20.1	23.8	
Exports of goods and services/GDP	58.2	46.5	
Gross domestic savings/GDP	17.1	19.0	
Gross national savings/GDP	28.1	18.0	
Current account balance/GDP	2.3	-7.2	-8.6	-3.6	
Interest payments/GDP	0.1	0.3	0.3	..	
Total debt/GDP	9.7	21.8	34.3	31.6	
Total debt service/exports	1.4	1.5	1.5	..	
Present value of debt/GDP	
Present value of debt/exports	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	2.8	0.3	2.4	3.0	..
GDP per capita	0.2	-2.5	0.2	0.7	..
Exports of goods and services	2.8



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	26.6	15.9	15.0	15.0
Industry	7.5	11.8	8.8	8.8
Manufacturing	3.5	4.9	3.6	3.6
Services	66.0	72.3	76.2	76.2
Private consumption	53.8	57.3	..	..
General government consumption	30.7	27.4	..	..
Imports of goods and services	62.8	55.0	..	..
(average annual growth)				
Agriculture	-1.1	0.9	6.2	3.0
Industry	4.7	-1.9	-0.3	3.0
Manufacturing	5.3	-4.6	0.7	3.0
Services	3.7	0.4	1.8	3.0
Private consumption	1.6	..	..	..
General government consumption	-0.3	..	..	..
Gross domestic investment	3.2	..	..	..
Imports of goods and services	0.1	..	..	..

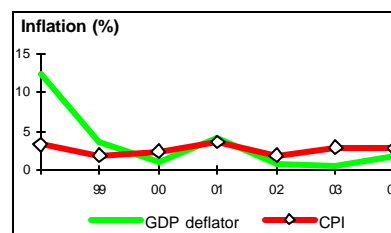


Note: 2004 data are preliminary estimates. Group data are for 2003.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

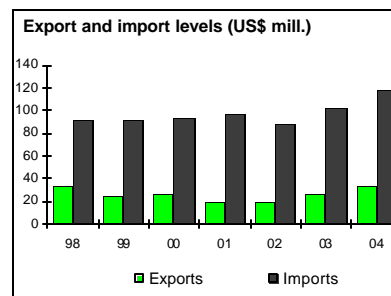
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	5.5	2.3	3.0	2.8
Implicit GDP deflator	13.2	2.2	0.6	1.9
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	37.3	20.9	20.9
Current budget balance	..	..	-0.5	1.8
Overall surplus/deficit	..	-3.0	-1.8	0.9



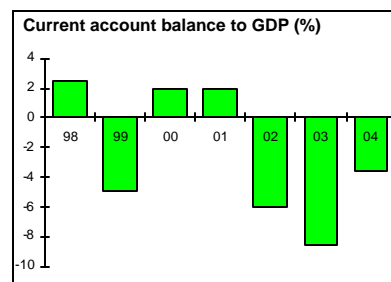
TRADE

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	25	27	34
Copra	..	8	2	4
Cocoa	..	2	2	1
Manufactures
Total imports (cif)	..	89	103	119
Food	12	13	27	27
Fuel and energy	..	6	15	17
Capital goods	..	26	21	27
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



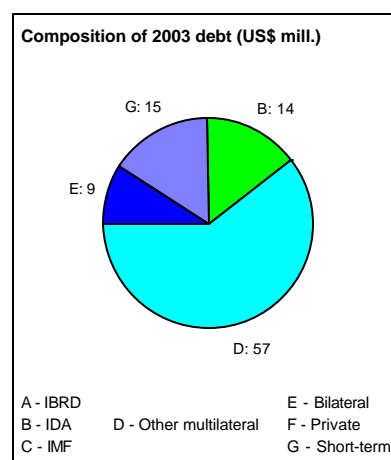
BALANCE of PAYMENTS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	75	103	121	138
Imports of goods and services	72	108	141	150
Resource balance	3	-5	-20	-12
Net income	-19	-32	-12	-11
Net current transfers	19	22	8	12
Current account balance	3	-15	-24	-11
Financing items (net)	-6	13	19	1
Changes in net reserves	3	2	4	11
Memo:				
Reserves including gold (US\$ millions)	8	44	44	62
Conversion rate (DEC, local/US\$)	99.2	116.4	122.2	111.8



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	13	47	95	100
IBRD	0	0	0	0
IDA	0	13	14	14
Total debt service	1	2	2	..
IBRD	0	0	0	..
IDA	0	0	0	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	1	1	-1	..
Private creditors	1	0	0	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	0	1	0	..
Principal repayments	0	0	0	..
Net flows	0	1	0	..
Interest payments	0	0	0	..
Net transfers	0	0	0	..



Vanuatu – Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	East Asia & Pacific	Lower- middle- income
POPULATION					
Total population, mid-year (millions)	0.10	0.13	0.21	1,854.5	2,655.2
Growth rate (% annual average for period)	3.3	2.3	2.7	1.0	0.9
Urban population (% of population)	15.7	18.1	22.9	39.7	49.7
Total fertility rate (births per woman)	6.4	6.0	4.3	2.1	2.1
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNI per capita (US\$)	..	920	1,180	1,080	1,480
Consumer price index (1995=100)	..	56	118	..	..
Food price index (1995=100)	..	56	109	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	2.2	1.9	2.6
Education (% of GDP)	10.5	3.2	4.0
Social security and welfare (% of GDP)	..	0.3	..	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	93	92	91
Male	92	92	92
Female	94	92	91
Access to an improved water source					
<i>(% of population)</i>					
Total	88	76	81
Urban	63	93	94
Rural	94	67	70
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	26	44	70	78
DPT	..	30	54	78	84
Child malnutrition (% under 5 years)	..	20	..	15	11
Life expectancy at birth					
<i>(years)</i>					
Total	..	62	69	69	69
Male	..	60	67	68	67
Female	..	64	70	71	71
Mortality					
Infant (per 1,000 live births)	107	77	34	32	32
Under 5 (per 1,000 live births)	160	110	42	42	40
Adult (15-59)					
Male (per 1,000 population)	240	184	214
Female (per 1,000 population)	185	129	135
Maternal (modeled, per 100,000 live births)	130	..	..
Births attended by skilled health staff (%)	68	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

World Development Indicators database August 2004, World Bank

Vanuatu – Selected Indicators Table



Base-case (most likely) projection

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	2000	2001	2002	2003	2004	2005	2006	2007
Part A: Main Macro Aggregates								
<i>Annual growth rates, calculated from constant 1983 price data</i>								
GDP (mp) per capita	0.6	-4.7	-6.9	0.2	0.7	..	..	..
Total consumption per capita	..	..	..	..	..	..	..	..
GDP at market prices	2.7	-2.7	-4.9	2.4	3.0	2.8	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Gross domestic investment (GDI)	..	..	..	..	..	..	..	..
Gross dom. fixed investment (GDFI)	..	..	..	..	..	..	..	..
Exports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
of which Goods	..	..	..	..	..	..	..	..
<i>Savings-investment balances, as percentage of GDP</i>								
Gross Domestic investment	..	..	..	..	..	..	..	..
of which Government investment	..	..	..	..	..	..	..	..
Foreign savings	-1.9	-2.0	6.0	8.6	3.6	..	..	..
Gross national savings	..	..	..	..	..	..	..	..
Government savings	0.6	0.5	0.2	-0.5	1.8	..	..	..
Non government savings	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
<i>Other</i>								
GDP inflation	1.2	4.1	0.9	0.6	1.9	8.5	..	..
Annual average exchange rate (LCU/US\$)	137.6	145.3	139.2	122.2	111.8	..	..	..
Index real average exchange rate (YR83 =100)	..	..	..	..	..	..	..	..
Terms of trade index (YR83 =100)	..	..	..	..	..	..	..	..
Incremental capital-output ratio (GDI based)	..	..	..	..	..	..	..	..
Import elasticity with respect to GDP	..	..	..	..	..	..	..	..
Money growth	5.4	5.6	-1.7	-0.8	7.8	..	..	..
Part B: Government Finance Indicators								
<i>Percentage of GDP</i>								
Total revenues, of which	22.0	21.6	22.3	20.9	20.9	..	..	..
Tax revenues	17.5	17.0	17.6	17.9	17.4	..	..	..
Total expenditures, of which	29.0	25.3	25.7	22.8	20.0	..	..	..
Consumption	17.7	16.9	18.1	17.1	15.7	..	..	..
Deficit(-)/Surplus(+)	-7.0	-3.7	-3.5	-1.8	0.9	..	..	..
Financing:	..	..	..	..	..	..	..	..
Foreign	..	..	..	..	..	..	..	..
Monetary sector	1.9	-0.6	1.9	-0.6	0.3	..	..	..
Other domestic	..	..	..	..	..	..	..	..
<i>Other</i>								
Total Debt/GDPmp	..	..	..	..	..	..	..	..
Total interest payments/Tax revenues	4.5	4.9	5.5	5.8	5.8	..	..	..
Part C: Debt & Liquidity Indicators								
<i>Total DOD and TDS</i>								
DOD (US\$ millions)	74.5	71.6	90.5	94.8	100.2	..	..	..
DOD / GDPmp ratio	30.5	30.5	38.5	34.3	31.6	..	..	..
TDS (US\$ millions)	..	..	..	..	..	..	..	..
TDS / exports (XGS) ratio	..	..	..	..	..	..	..	..
Total gross reserves (months' imports G&S)	2.6	2.6	3.0	3.0	3.9	..	..	..
Part D: External Financing Plan								
<i>(US\$, millions)</i>								
Official capital grants	10.7	11.8	6.1	4.8	6.0	4.2	..	..
Private investment (net)	21.0	13.7	7.9	16.7	17.0	17.7	..	..
Net Long term borrowing excl IMF	-20.1	-15.9	-2.2	-4.6	-6.0	-7.8	..	..
Adjustments to scheduled debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All other capital flows	-16.7	-11.5	8.8	2.4	-16.4	-5.9	..	..
Financing Requirements (incl IMF)	-5.1	-1.9	20.6	19.3	0.6	8.2	..	..
of which current account deficit	-4.7	-4.7	14.1	23.6	11.3	14.7	..	..

Vanuatu – Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	16	15	15	15	15	..	..	..
Industry	9	9	9	9	9	..	..	..
Services	75	76	76	76	76	..	..	..
Total Consumption	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..
Gross national savings ^c	..	..	..	..	..	..	..	..
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	245	235	235	276	317	..	..	..
GNI per capita (US\$, Atlas method)	1200	1170	1070	1150	1340	..	..	..
Real annual growth rates (% , calculated from 1983 prices)								
Gross domestic product at market prices	2.7	-2.7	-4.9	2.4	3.0	2.8	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 1983 prices)								
Gross domestic product at market prices	0.6	-4.7	-6.9	0.2	0.7	..	..	..
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	157	139	101	121	138	156	..	..
Merchandise FOB	27	20	20	27	34	39	..	..
Imports (GNFS) ^b	148	151	120	141	150	165	..	..
Merchandise FOB	78	78	75	87	92	105	..	..
Resource balance	9	-12	-19	-20	-12	-8	..	..
Net current transfers	9	21	11	8	12	4	..	..
Current account balance	5	5	-14	-24	-11	-15	..	..
Net private foreign direct investment	20	18	8	15	16	17	..	..
Long-term loans (net)	-20	-16	-2	-5	-6	-8	..	..
Official	13	2	0	-1	..	..	..	..
Private	-33	-18	-2	-4	..	..	..	..
Other capital (net, incl. errors & omissions)	-5	-4	15	9	-9	-1	..	..
Change in reserves ^d	0	-3	-6	4	11	7	..	..
<i>Memorandum items</i>								
Resource balance (% of GDP)	3.6	-5.1	-7.9	-7.2	-3.7	..	..	..
Real annual growth rates (YR83 prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

(Continued)

Vanuatu – Key Economic Indicators*(Continued)*

Indicator	Actual			2003	Estimate		Projected	
	2000	2001	2002		2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e								
Current revenues	22.0	21.6	22.3	20.9	20.9	..	..	..
Current expenditures	21.4	21.1	22.1	21.5	19.2	..	..	..
Current account surplus (+) or deficit (-)	0.6	0.5	0.2	-0.5	1.8	..	..	..
Capital expenditure	7.7	4.1	3.6	1.3	0.9	..	..	..
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	100.2	104.4	107.0	103.0	105.8	..	..	..
Growth of M2 (%)	5.4	5.6	-1.7	-0.8	7.8	..	..	..
Private sector credit growth / total credit growth (%)	..	..	..	..	..	..	..	..
Price indices(YR83 =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	..	..	..	..	..	..	..	..
Real interest rates								
Consumer price index (% change)	2.5	3.7	2.0	3.0	2.8	..	..	..
GDP deflator (% change)	1.2	4.1	0.9	0.6	1.9	8.5	..	..

a. GDP at market prices

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Vanuatu – Key Exposure Indicators

Indicator	Actual			Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	75	72	91	95	100	..	..	..
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)								
TDO/XGS ^b	..	..	..	..	..	..	..	..
TDO/GDP	30.5	30.5	38.5	34.3	31.6	..	..	..
TDS/XGS	..	..	..	..	..	..	..	..
Concessional/TDO	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	0	0	0	0	0	..	..	..
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	13	12	13	14	14	..	..	..
IFC (US\$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US\$m)								

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

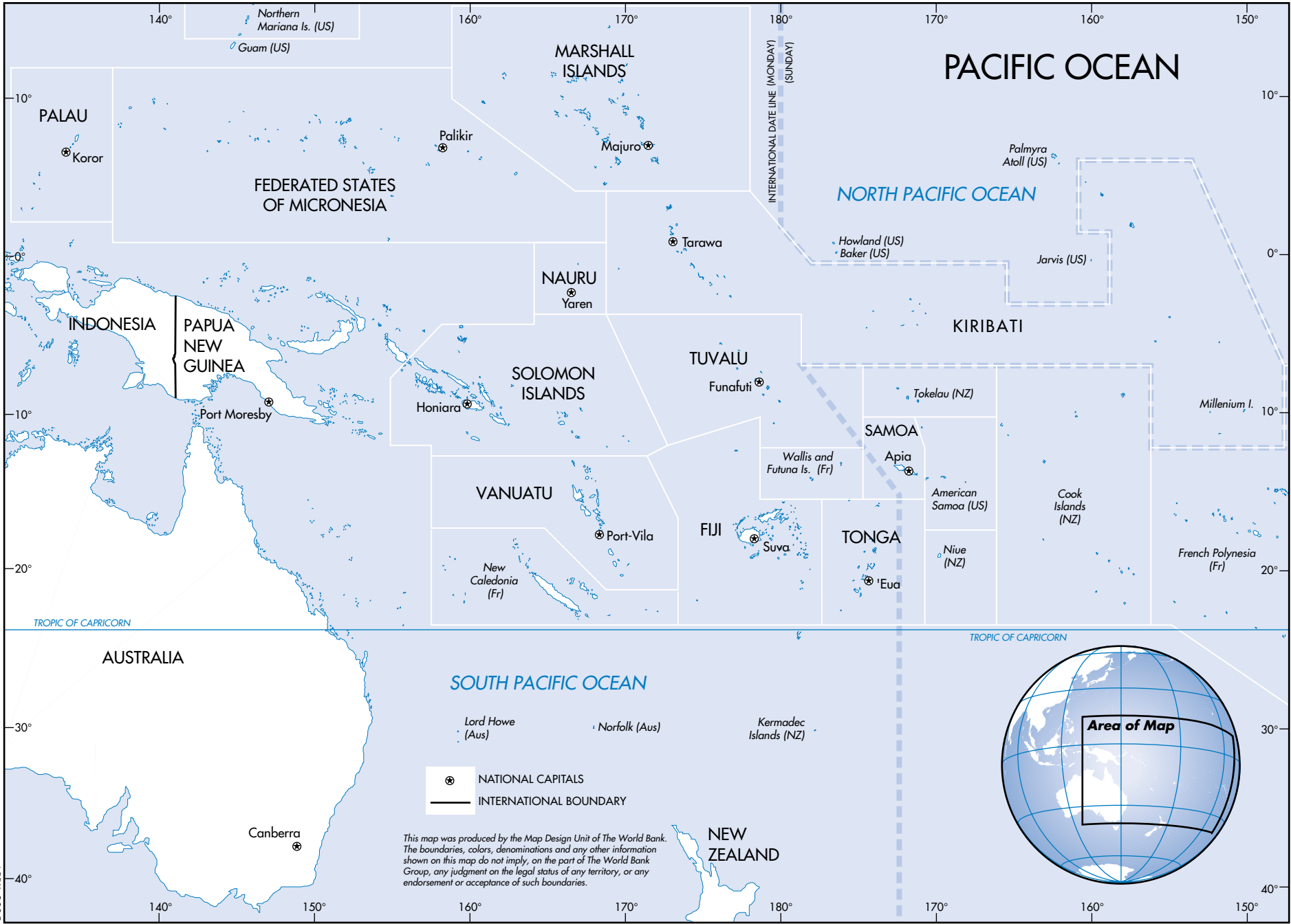
d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX J.
Pacific Islands
Summary of Nonlending Services

Product	Completion FY	Audience	Objective
AAA -Recent completions			
	FY		
Pacific Regional Strategy	FY00	G,D,B, P	KG, PD, PS
Fiji Budget Management TA	FY04	G,D,B	KG, PD
Fiji Telecom Sector Assessment	FY04	G,D,B, P	KG, PD, PS
Fiji Microfinance TAS	FY04	G,D,B, P	KG, PD, PS
Palau El Nino TA (Risk Management)	FY04	G,D,B, P	KG, PD, PS
Tonga OPR	FY03	G,D,B, P	KG, PD, PS
Vanuatu - Public Utilities	FY04	G,D,B	KG, PD, PS
Vanuatu - PPIAF: Regulation	FY04	G,D,B, P	KG, PD, PS
Solomon Islands - Power Utility Reform	FY04	G,D,B, P	KG, PD, PS
RER 2000: Cities, Seas and Storms	FY00	G,D,B, P	KG, PD, PS
Catastrophe Insurance Pilot Study:	FY05	G,D,B, P	KG, PD, PS
Summary "Voices from the Village"	FY00	G,D,B, P	KG, PD, PS
Staying Together or Apart (tuna mgmt)		G,D,B, P	KG, PD, PS
RER 2002: Embarking on a Global Voyage	FY02	G,D,B, P	KG, PD, PS
AAA Underway			
Pacific Islands RER 2004 Human Development Review	FY05	G,D,B, P	KG, PD, PS
Pacific Islands Risk Management & Adaptation	FY05	G,D,B, P	KG, PD, PS
Fiji Telecommunications	FY05	G,D,B, P	KG, PD, PS
Pacific Islands Fishery Analysis	FY05	G,D,B, P	KG, PD, PS
Solomon Islands Power sector Review	FY05	G,D,B, P	KG, PD, PS
Samoa OPR	FY05	G,D,B, P	KG, PD, PS
Vanuatu - Education Policy Note	FY05	G,D,B, P	KG, PD, PS
Pacific Islands Migration Study	FY06	G,D,B, P	KG, PD, PS
Pacific Islands Telecommunications Reform	FY06	G,D,B, P	KG, PD, PS
Solomon Islands Pension Reform: National Provident Fund	FY06	G,D,B	KG, PD, PS
Solomon Islands Telcomm Sector Reform	FY06	G,D,B, P	KG, PD, PS
Pacific Islands PSD Reform	FY07	G,D,B, P	KG, PD, PS
AAA Planned			
Fiji Public Sector Reform TA	FY06	G,D,B, P	KG, PD, PS
Pacific Islands Infrastructure	FY06	G,D,B, P	KG, PD, PS
Pacific Islands RER 2007	FY07	G,D,B, P	KG, PD, PS
Pacific Islands Natural Resources Monitoring	FY06	G,D,B, P	KG, PD, PS
Pacific Islands Social Sectors SWAP	FY06	G,D,B	KG, PD, PS
Pacific Islands: Pacific 2020	FY06	G,D,B, P	KG, PD, PS
Solomon Islands LICUS Trust Fund	FY06	G,D,B, P	KG, PD, PS
Tonga Infrastructure Capacity Building	FY06	G,D,B, P	KG, PD, PS
Fiji Forestry Sector Strategy	FY06	G,D,B, P	KG, PD, PS
Micronesia Tax Reform	FY06	G,D	KG, PD, PS
Pacific Islands Renewable Energy	FY06	G,D,B, P	KG, PD, PS
Palau Oil and Gas TA	FY06	G,D,B, P	KG, PD, PS
Solomon Islands Forestry Sector Strategy	FY07	G,D,B, P	KG, PD, PS
Solomon Islands Rural Sector Strategy	FY06	G,D,B, P	KG, PD, PS

- a. Government, Donor, Bank, Public Dissemination
b. Knowledge generation, public debate, problem-solving



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