IFC Advisory Services in the Pacific:

EXPERIENCE AND OUTCOMES 1990-2010

In Partnership With:
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**Note**

1. All currency is expressed in USD, unless stated otherwise.
2. No figures have been adjusted for present values.
3. All macro-economic data have been sourced from an amalgam of Asian Development Outlook (various publications since 1996); CIA World Fact Book (various publications since 1990); World Development Indicators September 2009; Ministry of Foreign Affairs and Trade, New Zealand October 2009 (and earlier years); Department of Foreign Affairs and Trade, Australia June 2010 (and earlier years); and United Nations Economic and Social Statistics 2000–2010.
Executive Summary

Introduction

Since 1980, IFC has been instrumental in fostering sustainable economic growth by financing private sector investment, advising businesses and governments, mobilizing capital, and managing assets in the Pacific region. IFC’s Pacific member countries recognize the valuable role that the private sector plays in creating job opportunities, generating tax revenues, and expanding services. They are committed to working with IFC to improve lives, especially for the people who most need the benefits of such growth.

Although the region presents numerous challenges for private sector development, the Pacific islands have experienced steady economic growth over the last twenty years. The pace of growth was slower through the first decade, showing marked improvement from 2000 to 2010. Taken as a whole, the Gross Domestic Product (by dollar value) grew 2.86 times on average across the region, with smaller countries, excluding Papua New Guinea and Fiji, growing faster, at 3.57 times on average.

In all countries except Papua New Guinea, the Gross Domestic Product per capita improved decade after decade; however, large discrepancies remain today. In 2010, Papua New Guinea, together with Kiribati and the Solomon Islands, has the lowest Gross Domestic Product levels per capita (averaging $1,366) while Palau has the highest ($8,911). Meanwhile, economic growth has been strong in recent years in Timor-Leste, the Solomon Islands, Tonga, and Papua New Guinea. Economic growth has been strong in recent years in Timor-Leste, the Solomon Islands, Tonga, and Papua New Guinea. Ethic conflict and dissatisfaction with the slow pace of political and economic reform are among the underlying causes of tension.

The Challenge

In the Pacific, private sector growth is constrained by small, narrowly based economies, a lack of infrastructure linking isolated communities to market hubs, and a high degree of informality. Economies are dominated by the agricultural, tourism, and extractive industries sectors, and the islands’ small size, remoteness, and low population density—approximately 10 million people spread across an area twice the size of continental Europe—present serious investment challenges and high transaction costs. In the Melanesian countries in particular, many businesses operate unregistered and transactions are often based on trust and relationships rather than formal legal arrangements.

Given the relatively small private sectors in all of the countries, employment opportunities are limited, particularly for youth. In 2010, the average age for a Pacific Islander is 23.5 years; with the 52 percent increase in the population growth rate from 5.6 million in 1990 to 8.5 million in 2010, the creation of sustainable employment opportunities for young people is crucial. The fastest growth in 2010 is in the Solomon Islands and Papua New Guinea, at 82 percent and 59 percent respectively, where urbanization is also most pronounced, thereby creating additional issues related to law and order and poverty levels for both countries.

Governments’ efforts to address these challenges have been generally mixed, mainly due to periods of political instability that have manifested into periods of lawlessness. Inadequate policy formulation processes, corruption, and poor service delivery are also evident. Furthermore, many countries have overly complex and antiquated legislative frameworks with regulatory laws dating back to the colonial era in the 1960s or 1970s. In recent times, serious and often violent outbreaks of conflict have occurred in several Pacific states including Timor-Leste, the Solomon Islands, Tonga, and Papua New Guinea. Ethnic conflict and dissatisfaction with the slow pace of political and economic reform are among the underlying causes of tension.

IFC’s Response

1990-2005. Since 1990, Advisory Services has been the cornerstone of IFC’s engagement in the Pacific. Donor funds from the governments of Japan, Australia, and New Zealand have supported IFC Advisory Services operations.

During this period, IFC primarily helped businesses in the region obtain funds from commercial banks to start or expand their operations. These projects are known as funded projects. In these instances, IFC helped clients determine the cost of the project, often working with them to design their business plan and funding proposal as well as assess which bank could provide the best deal. IFC would then work with the client and the commercial bank to structure the project in order to help generate the necessary finances, which were largely debt finances.

Several projects that requested IFC’s help in sourcing funds were classified as first requiring IFC’s technical assistance to strengthen and streamline their operations before seeking additional funds. IFC’s assistance improved operations, re-focused goals to achieve more productive activity, and—in some cases—provided necessary information for the business to move into exporting. Often this work saved jobs by preventing companies from closing down and prepared them for subsequent growth or improved processes.

During this period, IFC also expanded its regional presence...
by opening offices in Papua New Guinea and Timor-Leste. Job creation and the amount of funding raised were the central modes of measuring project performance.

From 1995 onwards, the Investment Climate Advisory Services branch of IFC initiated work with governments throughout the Pacific to improve investment policy and support agencies tasked with attracting foreign investment. Investment Climate Advisory Services is a joint initiative of IFC, the World Bank, and the Multilateral Investment Guarantee Agency that assists governments of developing countries and transition economies in reforming their business environments, with an emphasis on regulatory simplification and investment generation. In the Pacific region, the Investment Climate department was under IFC’s umbrella, with the governments of Australia and New Zealand providing the core donor funding.

2006-2010. In seeking to enhance its development impact and extend its reach, IFC revised its strategic approach and program structure in 2006. From direct firm-level interventions, IFC shifted to a multi-country and multi-product approach focused on core program areas. Leveraging the work the Investment Climate team has been doing, IFC broadened its mandate to work with government partners to promote private sector reform, particularly to improve the region’s investment climate, access to finance, and infrastructure service delivery.

IFC is currently working on fewer—but bigger—projects in comparison to the past. All of the various arms of IFC’s operations have been seamlessly integrated into a single team, including IFC Advisory Services in Public Private Partnerships, which focuses on the infrastructure sector. Monitoring and evaluation of project operations and outcomes have been enhanced, and the development impacts of all IFC projects are more effectively measured. In addition, IFC Investment Services has significantly scaled up efforts; in doing so, the team has sought to leverage the networks and achievements of IFC Advisory Services while increasingly bringing Investment Services to bear to help catalyze a private sector response. Where possible, IFC Advisory Services maintains the capacity to deliver firm-level assistance where investment linkages exist. For these reasons, the following report also captures the transformational impact IFC’s investments have had to date.

Results Summary: Four Key Areas

Overall progress. During the last 20 years, IFC’s successes have paralleled the steady economic growth experienced by the region. IFC’s performance in the region from 1990 to 2010 is summarized in two distinct phases, 1990-2005 and 2006-2010.

1990-2005. During this period, IFC’s assistance helped create and save 10,246 jobs in 449 businesses spread across Fiji, Papua New Guinea, the Solomon Islands, Tonga, Vanuatu, Samoa, Kiribati, Timor-Leste, the Marshall Islands, and the Federated States of Micronesia. This result exceeded the documented target of 4,580 by 124 percent.

From 1990 to 2005, IFC completed 195 projects costing a total of $129.5 million, raising $95.17 million in funds from local financial institutions. Removing the distortion of one very large project in Fiji, the average project cost was $544,000 while the average amount of funds raised from commercial banks was $393,000. No fund-raising projects were completed in Palau or Timor-Leste, whereas two were completed in Niue and the Cook Islands at the request of a donor (New Zealand).

IFC also provided advisory services to 369 projects covering Fiji, Papua New Guinea, the Solomon Islands, Tonga, Vanuatu, Samoa, Kiribati, Timor-Leste, the Marshall Islands, Palau, and the Federated States of Micronesia, including 15 regional projects.

In summary, for a donor investment of $1.5 million each year for 15 years, IFC obtained funds from commercial banks for 13 projects and provided assistance to 24 advisory projects, creating or saving an estimated 683 jobs each year. Each job cost approximately $2,500. IFC employed, on average, fewer than 10 staff members to achieve these results, with fewer than five staff members working in the field.

Table 1. Key Indicators and Results 2006–2010

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Results Calendar Year 2006 to 2008</th>
<th>Results Calendar Year 2009</th>
<th>Results for 2010 (Jan - June)</th>
<th>Cumulative Results</th>
<th>Overall Project Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of participants in workshops, training events, seminars, conferences, etc.</td>
<td>561</td>
<td>2,159</td>
<td>1,618</td>
<td>4,338</td>
<td>2,911</td>
</tr>
<tr>
<td>Percentage of women participants in workshops, training events, seminars, conferences, etc.</td>
<td>35%</td>
<td>44%</td>
<td>27%</td>
<td>37%</td>
<td>43%</td>
</tr>
<tr>
<td>Number of entities implementing recommended changes</td>
<td>58</td>
<td>42</td>
<td>13</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>Number of recommended laws / regulations / amendments / codes enacted</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>9</td>
<td>51</td>
</tr>
<tr>
<td>Number of recommended procedures / policies / practices / standards that were improved / eliminated</td>
<td>8</td>
<td>48</td>
<td>14</td>
<td>70</td>
<td>111</td>
</tr>
<tr>
<td>Value of aggregate private sector savings from recommended changes (US$)</td>
<td>0</td>
<td>430,600</td>
<td>25,883</td>
<td>456,483</td>
<td>7,564,000</td>
</tr>
<tr>
<td>Value of funds released through ADR (US$)</td>
<td>229,505</td>
<td>89,000</td>
<td>414,146</td>
<td>732,651</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Value of all loans disbursed</td>
<td>4,049,330</td>
<td>3,623,289</td>
<td>2,347,003</td>
<td>10,019,622</td>
<td>16,983,799</td>
</tr>
<tr>
<td>Value of IFC financing facilitated by advisory services (US$)</td>
<td>0</td>
<td>0</td>
<td>2,950,000</td>
<td>2,950,000</td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

Four Key Areas. To further showcase IFC’s work, the following sections illustrate IFC’s results according to IFC’s four focus areas; the investment climate, tourism and fisheries, access to finance, and infrastructure service delivery:

1. Investment Climate—Creating the Regulatory Conditions for Private Sector Growth

- 34 significant reforms have been achieved relating to business entry, business operations, investment policy and promotion, alternative dispute resolution, and public private dialogue mechanisms since counting began in January 2009. The Pacific team has generated the most significant reforms across IFC in the East Asia Pacific region to date.
- Nine new laws/regulations/amendments/codes were enacted in Papua New Guinea, the Solomon Islands, Timor-Leste, Tonga, and Vanuatu as a result of IFC’s intervention over the last five years.
- The creation of a public private dialogue group in Timor-Leste resulted in the establishment of a Chamber of Commerce and subsequent improvement of the dialogue between the private sector and the government.
- 71 cases were successfully settled through alternative dispute resolution and 19 mediators have been trained in Tonga and Vanuatu since the beginning of 2009, with a significant number of cases expected to be settled in Papua New Guinea by calendar year end. The alternative dispute resolution process reduces the time to settle disputes, releasing an estimated $700,000 in Tonga.
2. Tourism and Fisheries—Supporting Businesses in Key Sectors

- Between 1990 and 2005, IFC helped to obtain funds from commercial banks for 41 tourism projects and provided advisory assistance to 72 tourism projects.
- In total, IFC obtain $46.29 million in funds from commercial banks for tourism projects between 1990 and 2005.
- Between 1990 and 2005, IFC helped source funds from commercial banks for 78 fisheries projects and provided advisory assistance to 42 projects.
- In total, IFC assisted in obtaining $8.46 million in funds from commercial banks for fisheries projects between 1990 and 2005.
- In 2010, IFC assisted three larger hotels in Samoa to access financing from banks for the rebuilding of their hotels following the September tsunami.
- Today, more than 400 businesses are registered on the World Hotel Link portal for Fiji, Samoa, Vanuatu, Timor-Leste, and the Solomon Islands. The revenues for local accommodations exceed $500,000 in Vanuatu.

3. Access to Finance—Addressing the Financial Gap in the Pacific Region

- Between 1990 and 2005, IFC helped obtain funds from commercial banks for seven financial market projects and provided advisory assistance to 65 financial market projects.
- In total, IFC assisted in sourcing $12.68 million in funds from commercial banks for financial market projects between 1990 and 2005.
- $10 million in additional loans have been provided to microfinance clients since June 2008 due to an IFC-supported intervention in Papua New Guinea.
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4. Infrastructure—Connecting People to Markets

- Between 1990 and 2005, IFC helped obtain funds from commercial banks for four infrastructure projects.
- In total, IFC assisted in sourcing $3.61 million in funds from commercial banks for infrastructure projects between 1990 and 2005.
- IFC served as the lead advisor on the successful public-private partnership between the government of Samoa and Virgin Airlines, which established a new national airline, Polynesian Blue, and restructured the existing flagship carrier. Figures suggest that more than 2,000 new jobs have been created as a result—a significant figure in a country with a population of 180,000.
- IFC’s $100 million in financing to Digicel Limited in Papua New Guinea has helped to increase mobile phone penetration rates to 18 percent in financial year 2009 from 3 percent before Digicel entered the market in 2006. In Papua New Guinea, more than 3.5 million people now have access to mobile phones, up from just 1.2 million in 2007.

Donor Funding

Funding for IFC Advisory Services over the past two decades has consistently included contributions from Japan, Australia, and New Zealand. Others have included Canada, Asian Development Bank, Samoa, Fiji, Kiribati, and Palau.

Funding for IFC Advisory Services totaled $42.68 million from 1990 to 2010, of which $8.64 million came from the government of Japan. Japan has contributed $500,000 towards Papua New Guinea Microfinance Limited.
The Challenge

Unnecessarily complicated and burdensome regulatory environments compound the difficulties of doing business in the Pacific islands. The challenge for IFC Advisory Services is to assist countries to improve their business regulatory environments to encourage private sector development, especially at the small and medium-size enterprise level, which will lead to broad-based employment and income growth. The World Bank Group’s Doing Business Report has helped create an impetus for regulatory reform in the Pacific Islands by measuring the ease of doing business in each country.

IFC’s Response

IFC’s Regional Pacific Investment Climate Advisory Services program is responding to this demand by assisting Pacific Island countries in improving business regulation and lifting their performance in the global Doing Business rankings.

The aim of the program is to create a more conducive environment for business in each country. By identifying and addressing priority issues for government and private sector counterparts, the program seeks to reduce the regulatory burden on businesses and modernize investment promotion initiatives. Targeted program outcomes are to increase formal jobs, incomes, and aggregate costs savings to businesses operating in these countries.

Reforms are implemented in a number of sectors, anchored by an in-country presence, and supported by specialized, best-practice advice from IFC Advisory Services staff members. Close coordination with the World Bank and the Asian Development Bank is a key aspect of the delivery of the program.

Recent efforts have been made to promote women’s participation in business by addressing their specific challenges through the program initiatives. Improving the investment climate in particular sectors such as tourism—a vital industry in the Pacific—remains a key focus of the program going forward.

IFC’s work in the Investment Climate program has been an enduring theme of IFC’s involvement in the Pacific. The program is a joint initiative involving IFC, the World Bank, and the Multilateral Investment Guarantee Agency. From 1990 to 2005, with the support of the Australian and New Zealand governments, IFC’s work in this area involved supporting governments to improve investment policy and agencies tasked with attracting foreign investment. In the post-2005 period, the Japanese government became a donor partner in the program.

Results Highlights

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Creating a Foundation for Reform

1990-2005. Although the majority of IFC’s Advisory Services were already underway in the early 1990s, the focus on improving the investment policy and overall climate began in 1995 and continues today. From 1995 to 2005, IFC’s activities focused on Fiji, with an extensive program to review Fiji’s investment policy and incentives regime as well as develop a duty suspension scheme for exporters. In the rest of the Pacific, IFC advised on foreign investment policy reform and related issues in Palau, Samoa, the Solomon Islands, Tonga, and Vanuatu. IFC’s projects resulted in improved foreign investment laws and processes in all of these...
countries—results that have provided a sound foundation for the wider regulatory reform work undertaken through IFC’s Investment Climate Reform projects in recent years.

Results: Papua New Guinea informality survey

In 2004, the Government of Papua New Guinea introduced the Informal Sector Development and Control Act with the aim of regulating the development of informal enterprises in the interest of health and safety. The government requested assistance from IFC to gather information about the sector and develop practical recommendations to guide development of the policy.

- Conducted in 2007, the survey focused on business enterprises and investigated the nature and characteristics of small business and their obstacles to growth. A further focus was on the factors impeding informal businesses from fully formalizing their operations.

- In early 2008, IFC presented the key findings to the National Consultative Committee on the Informal Economy and provided assistance to the Technical Working Group on the Informal Economy in preparation of a concept paper on informal economy policy. The findings have been used in developing a national informal economy policy.

- The survey established the groundwork for IFC’s current program. Following the survey, IFC initiated discussions with the Papua New Guinea Investment Promotion Authority on a program of advisory assistance under the regional Investment Climate Regulatory Simplification Program aimed at addressing the identified impediments to business formalization.

Easing Doing Business for Small and Medium-sized Enterprises


Enabling business start-up and operations. Starting a business is a time-consuming and costly exercise in the Pacific region, with multiple steps that are often poorly understood even by those who administer them. IFC’s 2010 Doing Business report identified that the average number of days required to start a business in the region is approximately 41, compared to New Zealand’s one day. Moreover, it costs business owners in the region on average approximately 33 percent of the income per capita to start their business whereas in Denmark that cost is zero. IFC Advisory Services has been working with its client countries in the region to streamline processes and help reduce the cost and time required for entrepreneurs to set up and operate their businesses.

Results: Vanuatu—reducing the time and cost of business start-up

- In 2009, IFC helped reduce the cost of complying with business regulations related to business entry by 20 percent, to a cumulative total of 2,545 vatu.

- The team worked to reduce the number of days required for foreign-owned enterprises to comply with business regulations related to business entry by 15 days, bringing the number of days related to business entry down to 47.

- The number of procedures involved in complying with business regulations related to business entry was also reduced from eight to five—a greater than 10 percent reduction.
Establishing alternative dispute resolution mechanisms.

Resolving business disputes is expensive and, in many countries in the Pacific region, takes a lengthy period of time. For instance, according to the World Bank Group’s Doing Business 2010 report, in Vanuatu it takes on average 30 procedures and 430 days to resolve a business dispute, at a cost of around 75 percent of the claim amount using standard litigation processes.

IFC Advisory Services has responded by implementing alternative dispute resolution programs in Tonga, the Solomon Islands, Vanuatu and Papua New Guinea. The program assists the Courts and Ministries of Justice to provide parties with the option of resolving their disputes efficiently and on good terms by using court-referred mediation. Mediation is a flexible, non-binding dispute resolution process in which a neutral third party (the mediator) assists two or more disputants to reach a voluntary, negotiated settlement of their differences. The service can greatly reduce the time required to settle a dispute, providing substantial savings in legal costs, freeing up settlements more quickly, and reducing court backlogs.

Results: Tonga—electronic company registry

- In 2009, Parliament adopted a new Companies Act, which IFC worked with the Asian Development Bank to produce in order to streamline and simplify company registration procedures.
- IFC assisted the Tongan government in implementing a new electronic company system, which replaced the paper registry that was burnt down during civil unrest in 2006.
- The new electronic company registry shortens the time required to comply with business regulations related to business entry from seven days to one day. It uses New Zealand’s existing company registry software and has been implemented in cooperation with the New Zealand Companies Office. Tonga has signed a Memorandum of Understanding with New Zealand to ensure that companies are registered in the system quickly. Under previous processes, registration certificates were hand signed by the Minister for Labour, Commerce and Industries. The new registry generates certificates automatically once data is entered into the system and verified, eliminating the exercise of arbitrary ministerial discretions, which had been a significant cause of uncertainty among business investors.
- 538 entities have been registered on the new system.

Results: Tonga—business licenses now easier to obtain

- In 2009, IFC assisted the Tonga government in increasing the transparency of business license processes by creating a series of brochures for the main sector license types outlining and clarifying the steps businesses need to follow to obtain a license.
- To produce the brochures, IFC guided the consultation mechanism—a working group consisting of private sector representatives—to identify areas in which license processes were unclear and non-transparent. The brochures included process maps, which provide information for businesses on the authorized process for obtaining a license, removing uncertainty surrounding the process.

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Results: Tonga—reducing the time and costs involved in resolving disputes among businesses

- IFC contributed to the drafting of mediation rules, including establishing a mediation coordinator position to oversee referrals to mediation at both the Supreme and Magistrates Court levels, in Nuku'alofa and the outer islands.

- In 2008, IFC trained five mediators—two of whom were women—and accredited four mediators to the Australian National Mediation Standard to undertake mediations at the Supreme Court level in Nuku'alofa, Tonga. A public awareness campaign was also conducted while training was provided for lawyers and magistrates.

- IFC funded a Tongan mediator to attend a Federal Court of Australia mediator development course in March 2009 and, in October 2009, provided a one-day workshop with an Australian mediator to refresh mediators’ skills.

- In 2009, the court referred 80 percent of civil cases to mediation, with 75 percent of those cases settling successfully.

- The cost and time for businesses to resolve a dispute have been reduced as a result of the introduction of mediation; 580,000 Pa’anga has been released by court-annexed mediation as settlement amounts rather than remaining tied up in litigation.

- Cases referred to mediation take on average 24 days to settle as opposed to the 350 days to settle a civil dispute through the courts.

- Through an extension in 2009 to the Magistrates Court level and the outer islands of Vava’u and Ha’aapai, IFC helped train and accredit a group of six new mediators at the Magistrates Court level in the outer islands of Vava’u and Ha’aapai.

- From the commencement of mediation in Tonga to December 2009, 85 cases have been referred to mediation.

Results: Vanuatu—improving foreign investment approval time

- In 2009, Vanuatu recorded a 50 percent reduction in the time needed to obtain foreign investment approval after the government implemented new procedures recommended by IFC that enhance the transparency of the existing system and reduce application processing time.

- The government also drafted its first ever set of National Foreign Direct Investment goals, with IFC’s support.

- IFC assisted in the improvement of the Vanuatu Investment Promotion Authority by successfully advocating for the separation of its regulatory and promotion roles as well as identifying key areas of focus in developing its promotion capacity.

IFC Advisory Services has been addressing this issue in Vanuatu by helping to establish an effective legal, policy, and institutional framework for investment—both domestic and foreign. Across the region IFC is strengthening existing institutions and streamlining procedures to ease the path for citizen and foreign investment. Increasing investment, generally and in specific targeted sectors or industries, offers the prospects of growth, jobs, and increased government tax revenues to countries in the region.

Results: Vanuatu—involving women in mediation is vital

- In Vanuatu, IFC assisted in the training of 13 mediators in July 2009; 24 cases have been successfully settled through mediation as of June 30, 2010.

- Three of the accredited mediators are female; these female mediators will be encouraged to mediate disputes in which females are a party. A female master of mediation was also appointed.

- A Gender and Investment Climate Reform Assessment was conducted for Vanuatu, finding that female entrepreneurs are more likely to access mediation than the courts to resolve commercial disputes, and tend to prefer a female mediator to a male mediator. Public awareness and outreach events involved strong participation from women.

- On average, mediated cases take 65 days to settle—a dramatic improvement compared to the estimated average of 430 days through the existing court system.

- IFC also supported the training of the judiciary and lawyers on mediation’s benefits and supported a mediation public awareness campaign conducted throughout Vanuatu in November 2009.
Results: Tonga—strengthening investment promotion institutions

- In 2008, the government created a separate Trade and Investment Unit and transferred foreign investment regulation to the Business Licensing Unit after IFC recommended separating the regulatory and investment promotion functions within the Ministry of Labour, Commerce and Industry.

- IFC aided in the formation and start up of operations of the new Trade and Investment Unit, which is responsible for identifying relevant investment opportunities and guiding new investors through start-up and establishment.

Results: Supporting infrastructure for investment promotion in Papua New Guinea and the Solomon Islands

- In 2009, IFC helped improve the quality of the Investment Promotion Authority’s investment promotion activity by assisting the information technology area to produce an investor-tracking system.

- The system allows the Authority to maintain a record of all previous contact with investors that officers can access when required. Furthermore, it assists the Authority in coordinating and integrating its investment promotion activities among its different departments while ensuring that information on contact with investors flows within the agency.

- IFC supported the upgrading of the Foreign Investment Registrar’s database and the provision of staff training on how to use the enhanced database, resulting in greater efficiency due to staff’s ability to now automatically generate reports required by client ministries (e.g., the Ministry of Finance and Treasury, Central Bank of the Solomon Islands, and the Ministry of Commerce Industry and Employment). Reports contain information such as new, amended, cancelled, and rejected registrations according to a number of search criteria, which are currently generated manually.

Fostering a public private dialogue. In 2010, an IFC-supported public private dialogue group succeeded in helping to establish Timor-Leste’s Chamber of Commerce and Industry. The group assisted in organizing and managing a private sector congress attended by 200 delegates that agreed to create the Chamber of Commerce and Industry Timor-Leste. In the lead-up to the congress, consultants employed under the project developed draft statutes for Chamber of Commerce and Industry Timor-Leste and voting procedures for the congress to follow. During the congress, IFC project staff facilitated discussion while a consultant employed under the project managed and supervised the voting process.

The Chamber’s function is to provide a variety of services for local businesses and represent the business community in dealings with the government. The importance of uniting the private sector was highlighted in a speech that the Prime Minister gave during the opening ceremony of the congress.

“The development of the private sector is critical to the development and economic growth of the country,” said Timor-Leste’s Prime Minister Kay Rala Xanana Gusmão. “We are committed to working with the Chamber to ensure that Timor-Leste has the necessary business and economic conditions to further private sector growth.”

The overarching objective of IFC’s public private dialogue initiative is to ensure that the private sector has a voice and is engaged with the government. IFC Advisory Services has worked to institute public private dialogue groups—consisting of private sector representatives and government counterparts—in Timor-Leste, the Solomon Islands, Vanuatu, and Tonga. The groups have proved effective in generating political will through coalition building and have
served as an umbrella process to carry forward specific policy reform programs, from diagnosis and prioritization to the implementation stage.

**Increasing women’s economic opportunities.** Women are a powerful force for economic growth and development, making important contributions to the economy as entrepreneurs and employees and to the welfare of their families. Studies have demonstrated that, when women are given economic opportunity, the benefits are also significant for their families, their communities, and ultimately for national development efforts. Generating economic options for women puts poverty reduction on a faster track and steps up progress toward the Millennium Development Goals, which include the eradication of poverty and hunger by 2015 as well as the empowerment of women.

Across the Pacific, some obstacles in the business-enabling environment—such as a prevailing culture of informality amongst female entrepreneurs; unequal access to property, credit, and justice; and discrimination by uneducated government officials within business and licensing registries and the labor market—have a disproportionately greater adverse impact on women and hinder them from contributing even more to their country’s growth and development. Furthermore, overly cumbersome regulations can unintentionally hurt women as well as both young and low-skilled workers more than others, raising the risk of excluding them from doing business due to a lack of education and lack of confidence to deal with government authorities and financial institutions. Women are less able to lobby the government to have cumbersome regulations reduced, in part because female political representation in the Pacific is among the lowest in the world. Removing such obstacles can help not only to empower women, but also unlock the full economic potential of Pacific nations.

In this context, IFC Advisory Services in the Pacific analyzed and documented gender-based barriers to female participation in the private sector in Papua New Guinea, Vanuatu, the Solomon Islands, Samoa, and Timor-Leste. Extensive
consultations have been carried out with businesswomen, IFC’s client government ministries and departments, private sector representative organizations, lawyers, civil society, donors, and IFC investment climate and gender experts. The result of the research was the production of six “Gender and Investment Climate Reform Assessments” for Papua New Guinea, Samoa, the Solomon Islands, Timor-Leste, Tonga, and Vanuatu as well as a Pacific Regional Executive Summary.

Four key investment climate areas were considered:

- Public private dialogue;
- The starting and licensing of a business;
- Access to justice, the courts, and mediation; and
- Access to and enforcement of rights over registered land.

Within the reports, solutions are recommended to address gender-based barriers. These solutions are presented in the form of specific targets with associated activities. The reports also provide tools that offer the necessary guidance for implementing the recommended activities and for conducting monitoring and evaluation against the targets. The tools and solutions are being integrated into the existing Pacific Investment Climate projects with the objective of increasing women’s participation in the private sector.

In addition, a case study publication entitled “Economic Opportunities for Women in the Pacific” was produced, profiling 52 businesswomen in 30 case studies. The format for this case study publication was guided by the World Bank’s Gender Action Plan. Women in the case study report share lessons in starting their businesses, describe the obstacles and opportunities they encountered in their pursuit of growth, and outline their planned next steps. Their stories are intended to be a source of inspiration to other Pacific women who are considering starting or growing their businesses. All eight reports are accessible through IFC’s Publications website.

Results: Pacific—creating a platform for Pacific businesswomen’s voices

- Following the IFC and Australian Government sponsored ‘Economic Opportunities for Women in Business in the Pacific’ conference held in Vanuatu in March 2010, participants from Tonga and Vanuatu were inspired to start local business associations to support women in business.

- In April 2010, the Vanuatu Women in Business organization was established, followed by the first-ever Tongan businesswomen’s association, Women in Sustainable Enterprises, in September 2010.

- Both organizations are designed to represent women’s interests in the business community and put forward a gender perspective in discussions with the government on business regulations as well as provide a support network for women in business.

- Fifty eight women from across the Pacific attended the conference and shared their stories and struggles in business.

- The six reports on gender-related investment climate impediments were formally launched during the event.
The Challenge

Although a considerable amount of entrepreneurial activity exists in the Pacific region, the private sector mainly consists of small to medium-size businesses—many of which struggle to access markets or gain finance to start or expand their operations. Furthermore, a lack of business advisory support services makes it difficult for entrepreneurs to improve their business. Without adequate advice, many business owners fail to develop commercially viable and bankable business plans or understand how to transition from micro-enterprise level operations to registered, formal businesses. These challenges have affected the growth of two of the region’s most important sectors – tourism and fisheries – where small to medium-size businesses mainly operate in.

Besides low capacity on the part of small to medium-size businesses to deliver the products and services expected by overseas tourists, tourism growth has been further hampered by a lack of or need to upgrade infrastructure in areas such as transport and other essential services. Additionally, a lack of research to assess the impediments to tourism growth has meant government efforts to attract investment in the sector have been uninformed and uncoordinated. Without effective policy change, progress in the sector has been slow in several countries. This is illustrated in countries which have relatively low income levels from tourism as compared to their more successful neighbors. According to the World Travel & Tourism Council’s 2009 figures, tourism in the Solomon Islands accounts for 7.4 percent of the Gross Domestic Product as compared to Fiji, where it accounts for 25.6 percent*.

Small to medium-size enterprises involved in the fishing sector are further constrained by their inability to participate or add value to the tuna supply chain, which is the main fish species targeted by the fisheries sector in the Pacific region. The majority of Pacific island countries presently derive most of their benefits through fishing access fees. In some cases, countries are involved in onshore processing; however, overall the benefits of the sector are inequitable and unevenly distributed and represent only about four percent of the landed value of the catch of tuna. The total annual catch in the Western and Central Pacific Ocean, which includes Pacific island country waters, is presently around 2.4 million tonnes, representing 55 percent of global tuna production. The value of the Pacific part of this tuna fishery is now around $4 billion per year, and, for countries like Kiribati, fisheries contribute more than 40 percent of their Gross Domestic Product. Added to the challenge of ensuring the benefits of the fisheries resource flow to Pacific Islanders, is the sustainability of tuna fishing industry or making sure that fish species are not overfished and that fishing methods are environmentally friendly. By increasing local participation in the value chain and ensuring the sustainability of the fish stock, the benefits of the fishery sector could grow, creating more jobs and income streams for local businesses and communities in the Pacific region.

IFC’s Response

IFC initially responded to these challenges by providing advice and helping businesses in several sectors access financing from local financial institutions to help start and expand operations. Between 1990 and 2005, IFC supplied a wide range of advisory services to strengthen projects pre- and post-financing. Toward the end of this period, IFC serviced 11 countries in the region, broadening its focus to include regional sector programs such as fisheries and tourism. IFC helped businesses in these two sectors obtain financing from local banks, provided advisory services to strengthen company operations and conducted workshops, seminars, and conferences for investors, bankers, policy makers, and entrepreneurs.

Lessons learned from enterprise-level interventions. During this time, there was great demand for IFC’s services, in part because IFC was the only provider of this type. Furthermore, IFC was able to advise at an enterprise level while bringing other programs, donor initiatives, and sources of finance to whatever activities they were working on. By
being based in Australia, an unexpected benefit for IFC was independence and objectivity—both perceived and real. As IFC worked closely with clients, staff members’ long-term tenure enabled them to build up strong relationships, while developing a deep understanding of small to medium-size businesses in the Pacific. These relationships and knowledge were critical in keeping the project lifecycles short and identifying viable projects, thereby keeping costs low.

In instances where IFC assisted in raising financing and provided advisory support, the businesses were more likely to achieve successful results, such as in the case of the Outrigger Hotel in Fiji. However, working with small businesses involved a number of challenges. Due to limited resources, small businesses required more training and support as well as more frequent informal contact than standard IFC projects. Smaller projects also meant limited capacity for paying reasonable fees and poorer project preparation; generally, project completion required significant resources. IFC’s product of business plans, while a quality product, was often more than what was required for smaller businesses, and staff spent more time on client consultation and training than anticipated. Hence, project completion was a lengthy and costly process, constraining IFC’s reach in the region.

Over time it became clear that a higher-level strategic approach was required to address the needs of the private sector. IFC Advisory Services responded by downscaling direct firm-level assistance and targeting it where IFC investment linkages could be established as well as shifting to a programmatic approach to create a better environment for doing business. Throughout the transformation of IFC Advisory Service’s program, the focus on key sectors has been maintained.

To further drive IFC’s work in the tourism sector and to help focus efforts on promoting investment in the sector, an IFC Pacific Tourism Strategy has been developed. The strategy is based on findings from a series of extensive diagnostic studies completed by IFC focusing on the impediments to the sustainable development of the tourism sector in Papua New Guinea, Samoa, the Solomon Islands, Tonga, and Vanuatu. In the fisheries sector, IFC has initiated a fisheries study, using external expertise, aimed at gaining a detailed understanding of the tuna supply chain from the Pacific Islands and a sound appreciation of the status of the resource to guide IFC’s strategy in the sector going forward.

**Results Highlights**

- Between 1990 and 2005, IFC helped obtain funds from banks for 41 tourism projects and provided advisory assistance to 72 tourism projects.
- In total, IFC raised $46.29 million in funds for tourism projects between 1990 and 2005.
- In 2010, IFC assisted three larger hotels in Samoa to access financing from commercial banks for the rebuilding of their hotels following the September tsunami.
- More than 400 businesses are registered on the World Hotel Link portal for Fiji, Samoa, Vanuatu, Timor-Leste, and the Solomon Islands. The revenues for local accommodation exceed $500,000 in Vanuatu.
- The development of the Tourism Sector Diagnostic Tool, which is a standardized product for identifying the impediments to a country’s tourism development, with a particular focus on investment constraints.
- The completion of the Tourism Sector Diagnostic in Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.
- Between 1990 and 2005, IFC helped source funds from commercial banks for 78 fisheries projects and provided advisory assistance to 42 projects.
- In total, IFC helped obtain $8.46 million in funds from commercial banks for fisheries projects between 1990 and 2005.
Tourism: A Vital Sector in the Pacific Islands region

1990-2005. Between 1990 and 2005 IFC Advisory Services completed many tourism projects—both large and small—in almost all of the Pacific countries. In addition, IFC advised governments on investments in the tourism sector by conducting workshops, seminars, and conferences for investors, bankers, policy makers, and entrepreneurs.

2006-2010. In 2006, IFC Advisory Services implemented a high-level strategic approach to assist the tourism sector by developing regional projects to increase the sector’s access to markets and to assess the impediments to tourism development. More recently, the tourism team has developed a sector-wide strategy focused on generating tourism investment in the region.

Results: Fiji Outrigger Reef Resort

In 1998, IFC was approached by Coral Coast (Fiji) Limited to assist the group in raising additional equity as well as securing the debt required to build the Outrigger Reef Resort. As a result:

- IFC carried a detailed market and financial feasibility study for the hotel, assisted in a range of technical evaluations including comprehensive environmental appraisals, and helped with negotiations with the Fiji government in relation to the relocation of a highway blocking the project.
- In arranging financing, IFC helped raise approximately $24.1 million for the project, which was a redevelopment of the existing 60 room resort. The Outrigger Reef Fiji Resort created employment for 200 new staff in addition to the 100 existing full-time employees at the reef.
- IFC’s investment arm committed $3.9 million to the project and it was fully disbursed. The loan was repaid in 2006.

Results: Papua New Guinea Milne Bay tourism project

In 1995, the Government of Papua New Guinea identified Milne Bay as an area of potential development for the tourism industry. As a result, IFC received a number of requests for assistance from sponsors in the region who wished to develop tourist facilities.

- IFC assembled a selection of these sponsors into a client group and, on their behalf, carried out a technical assistance project to assess proposals and identify development opportunities. IFC established a regional tourism information database that evaluated the sponsors’ proposals as well as future project proposals. Individual project proposals were also evaluated to assist the sponsors in the formulation and structuring of their projects.
- As a result, three projects obtained funds from commercial banks.

Results: World Hotel Link – linking small businesses to markets

An IFC initiative, World Hotel Link began with a website listing nine guesthouses in the Cambodian town of Siem Reap and now covers hundreds of small hotels in developing countries from St Kitts & Nevis in the Caribbean to Fiji, Vanuatu, Timor-Leste, the Solomon Islands, and Samoa in the Pacific.

IFC’s aim for the project was to improve access to the market for small to medium-size enterprises in the tourism sector through an online marketing and booking portal. The unique hotel information and booking system is a network of country-specific websites maintained by local operators under a franchise agreement with World Hotel Link, which was established by IFC.

Although the sites use IFC-developed technology and are consistent worldwide, the hotel information carried on each is gathered locally by the franchisee that takes a commission on bookings and is free to sell local advertising.

- In the Pacific region, the project started in Fiji, Samoa, and Vanuatu, and soon expanded to include Timor-Leste and the Solomon Islands.
- Today, more than 400 businesses are registered on the portal for those countries, with revenues for local accommodation exceeding $500,000 in Vanuatu.
Table 2. Impact of the World Hotel Link System in Samoa, Fiji, Vanuatu, Timor-Leste, and the Solomon Islands

### a. Value of Bookings Generated

<table>
<thead>
<tr>
<th>Fin Year</th>
<th>Samoa</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Timor-Leste</th>
<th>Solomon Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>N/A</td>
<td>$103,025</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>$147,695</td>
<td>$90,204</td>
<td>$133,538</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$376,053</td>
<td>$242,668</td>
<td>$464,979</td>
<td>$23,843</td>
<td>$8,475</td>
</tr>
<tr>
<td>2010</td>
<td>$381,733</td>
<td>$282,365</td>
<td>$525,785</td>
<td>$87,493</td>
<td>$98,025</td>
</tr>
</tbody>
</table>

### b. Number of Businesses on the Site

<table>
<thead>
<tr>
<th>Date</th>
<th>Samoa</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Timor-Leste</th>
<th>Solomon Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>67</td>
<td>203</td>
<td>61</td>
<td>30</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Data provided to IFC by WHL.
Results: Assisting Samoa’s tourism sector through the tsunami recovery project
The September 2009 tsunami in Samoa impacted the tourism sector with particular severity. More than 50 coastal tourism businesses were directly hit, and many of the hotels and smaller tourism operations that sustained severe damage have yet to reopen. Initial estimates from an internal World Bank document indicated the value of damage and losses in the tourism sector were in the order of $32.8 million. The loss of a large portion of the accommodation inventory will significantly impact an economy relying on direct tourism receipts for approximately 21 percent of its Gross Domestic Product, as noted by the World Bank development indicators. Immediately after the tsunami, the Samoan Minister for Tourism claimed that up to 30 percent of the Gross Domestic Product relies on tourism (this figure presumably includes both indirect and direct aspects of tourism). Therefore, an urgent need exists to rebuild the tourism businesses dislocated by the disaster.

IFC responded by designing a project to assist several affected businesses in recovery planning and refinancing. IFC has since assisted three larger hotels to access financing for the rebuilding of their hotels following the September tsunami. Two of these have secured financing totaling $3.25 million, including support through the New Zealand-funded Concessionary Finance Scheme; one has subsequently reopened. A third financing application lodged by IFC is pending. IFC has also assisted the first group of smaller hotels to raise funds through the Tourism Tsunami Beach Fale Rebuilding Program by providing advice and training in financial management and in the raising of capital.

Results: Papua New Guinea workshop on tuna long-lining operations
In 1995, 40 companies participated in an IFC-designed workshop on developing tuna long-lining operations. No information about long-line tuna fishing was available prior to the workshop, and no locally based firms were active in long-line tuna fishing. As a result:

- One company established a new long-line operation with six vessels.
- Two other companies formed a joint venture to acquire two vessels, in which IFC later invested.
- In total, at least eight locally based vessels became involved in long-line tuna fishing.
- In addition, two other companies purchased vessels, one started a new business providing services for tuna vessels, and two others started promoting tuna processing projects.

A strategic plan for the tourism sector. IFC has undertaken a series of extensive diagnostic studies focusing on the impediments to the sustainable development of the tourism sector in Papua New Guinea, Samoa, the Solomon Islands, Tonga, and Vanuatu. Developed by IFC with client and peer input from all regions, the Tourism Sector Diagnostic tool is a standardized product for identifying the impediments to a country’s tourism development, with a particular focus on investment constraints.

The results of diagnostics have been presented to all partner governments, and solutions-based initiatives are now being mainstreamed into the existing Investment Climate projects in Vanuatu and the Solomon Islands, with Papua New Guinea and Tonga expected to follow. The sector-specific initiatives will focus on administrative and regulatory reforms as well as investment planning and promotion.

These investment climate priorities represent one of three pillars of the Pacific tourism strategy being developed to guide IFC’s medium-term direction in this sector. The second pillar reflects the financing of tourism investments while the third involves sustaining tourism investments through advisory services.

Adding Value to the Fisheries Sector
1990-2005. Since the early 1990s, IFC has been very active across all countries, raising funds for businesses to start up or expand, providing advice on fishery infrastructure, supporting rehabilitation of poorly managed and/or disused facilities, establishing fishery-specific associations, strengthening fishery suppliers, connecting business to export markets, and introducing new fishing techniques and products, such as tuna long-lining.

Results: Samoa workshop on Hazard Analysis and Critical Control Points
In 1997, IFC held a workshop in Samoa to train members of the local fishery industry to meet new US import requirements. Government officers, as well as six local private-sector fish exporting enterprises attended the workshop. As a result:

- Five of the companies succeeded in meeting the new requirements, which enabled them to continue exporting to the US. All five of the companies that submitted plans to meet the new requirements stated they would not have done so had they not attended the IFC workshop.
Results: Solomon Islands Rural Fisheries Enterprise Project

Established in 2002, the Rural Fisheries Enterprise Project promoted the expansion and commercialization of rural fisheries throughout the Solomon Islands. The project set-up included a rural fisheries loan scheme that made monies available to approved applicants who were participants in the rural fishery and who would land their catches to one or another of the Rural Fisheries Enterprise Project fisheries centers for sale.

- IFC assisted the Rural Fisheries Enterprise Project in the implementation of the scheme, including advice on applicant appraisal, administration of the scheme, maintenance of accounting records, handling of monetary transactions, and compliance with taxation, reporting, banking, and other regulatory and statutory requirements. The assistance was extended over a two-year period and included substantial hands-on training and technical assistance.

- In total, 38 loan applications were approved during 2003 and 2004. The Rural Fisheries Enterprise Project then successfully assumed total management of the scheme.

2006-2010. IFC is currently considering the role it might play in supporting private sector participation in the Pacific islands’ tuna fishery sector. This follows approaches from a number of key stakeholders active in this sector requesting IFC financing for various activities.

IFC may be well positioned to partner with potential Pacific islands’ tuna industry investees to positively differentiate tuna sourced from Pacific waters on global markets while at the same time promoting the sustainability of Pacific tuna fisheries and an improved flow of benefits from the fisheries to Pacific Islanders.

IFC is mindful of the aspirations of its Pacific island client countries, in regard to ensuring the sustainability of tuna resources and their determination to participate more fully in the benefits that flow from the fishery sector. IFC believes that—prior to developing an engagement strategy—it is necessary to be consistent with these aims as well as with IFC’s own environmental sustainability and social standards.

To this end, IFC has initiated a study, using external expertise, aimed at gaining a detailed understanding of the tuna supply chain from the Pacific region and a sound appreciation of the status of the resource. The study also will detail a clear map of stakeholders and their views and aspirations as well as an effective strategy for engagement.
The Challenge

Estimates suggest less than 20 percent of the population in the Pacific region has access to financial services. “Due to the geographically dispersed and isolated nature of the countries, traditional banking models have largely failed in delivering services to the wider population. An access to banking services study undertaken in Papua New Guinea estimated that the average number of bank branches available per 100,000 persons is 1.64, placing it at a similar level as Nigeria or Nepal.

The lack of reliable credit information, both nationally and regionally, creates an added barrier for businesses to access financing. For example, Papua New Guinea is ranked 135 out of 183 in terms of the ease of getting credit for business in IFC’s Doing Business 2010 report. Samoa, one of the region’s best performers, also ranked low—127 out of 183 economies—in terms of the ease of getting credit for business.

Reliance on subsistence farming has also created a large ‘missing middle’ population that has limited or no access to financial services. In Vanuatu, 80 percent of the population lives in rural areas, and given the high travel costs required to access bank branches, only 13 percent have bank accounts. “Providing these people with access to financial services is a crucial step in helping them improve their lives.

IFC’s Response

Promoting sustainable and inclusive growth, by expanding access to finance through integrated investment and advisory services, is a priority for IFC in the Pacific region. In the early stages of our program, we worked directly with institutions to strengthen and expand their operations. Nowadays, IFC’s Access to Finance Advisory Services helps micro, small, and midsize businesses obtain financing by improving regional financial infrastructures and strengthening the capacity of local financial institutions to undertake sustainable lending. Furthermore, IFC is helping increase access to financial services for those who need it most by extending the geographic reach, product diversity, and awareness of financial services through technical innovation and the establishment of new partnerships.
In parallel with IFC’s Access to Finance program, IFC’s investments in the financial market sector aim to increase opportunities for small to midsize businesses to gain access to finance in the region. Although these activities are not donor funded, IFC’s investment arm in this sector plays a complimentary role to IFC Advisory Service’s program. The rest of the chapter highlights IFC’s Advisory and Investment Services work in the sector and provides an overview of the results achieved to date.

Results Highlights

- Between 1990 and 2005, IFC generated financing from commercial banks for seven financial markets projects and provided advisory assistance to 65 financial markets projects.
- In total, IFC raised $12.68 million in funds for financial market projects between 1990 and 2005.
- $10 million in additional loans have been provided to microfinance clients since June 2008 as a result of an IFC-supported intervention in Papua New Guinea.
- In 2010, IFC signed a Memorandum of Understanding between two major banks in the Pacific, WestPac and ANZ, to support credit bureau operations in Samoa, Tonga and Vanuatu.
- IFC signed an agreement with the Australian government, and launched the Pacific Microfinance Initiative in June 2010, which aims to increase access to basic financial services in Timor-Leste, Papua New Guinea and the Pacific Islands.
- IFC also completed the country payments system diagnostic for Samoa, Vanuatu and Tonga in May 2010, with reports finalised in December 2010. In addition, a Memorandum of Understanding was signed with the Bank of Papua New Guinea in April 2010 to provide oversight and advisory services to help the bank in its Payments System Reforms.
- In 2010, IFC and IFC Capitalization Fund became shareholders in Bank South Pacific to help expand financial services in Papua New Guinea and bolster the bank’s presence across the Pacific islands. The complete package of around $140 million represents IFC’s largest investment in the Pacific region to date.

Expanding Micro and Small to Medium-sized Enterprises’ Access to Financing

1990-2005. IFC recognizes the need for access to finance for the micro and small business sector, for women in particular, and for people living in rural areas. In 2004, IFC partnered with Bank South Pacific to extend their reach in Papua New Guinea. In doing so, IFC helped upgrade Bank South Pacific’s Credit Scoring System to address the demand for unsecured lending as well as to increase the bank’s efficiency and standardize the credit scoring process.

Results: Bank South Pacific’s credit scoring system

IFC managed all phases of this project in Papua New Guinea over 18 months. The delivery of the end-to-end business model for unsecured credit (500-10,000 Papua New Guinea Kina) involved developing and calibrating an unsecured lending scorecard, creating an application processing system and automated scoring, and reengineering business processes. Training sessions were held for staff in Port Moresby, Lae, Papua New Guinea North, the Highlands, and the Island region.

By improving credit application processes through greater consistency and increased accuracy without using more resources, the system reduced cultural issues and refocused operations. From lending primarily via three urban branches, volumes shifted to almost 80 percent being sourced from rural branches. Cost of credit for borrowers also fell, increasing access to credit to the lower-end segment of the market.

The system generates significant revenues for the bank: In five years, the portfolio grew from 10 million to 150 million Papua New Guinea Kina, with less than eight percent in losses. Bank South Pacific has strengthened the model since its introduction and continues to use it to a great extent as it expands throughout the Pacific region.

2006-2010. More recently, IFC has provided investment and advisory support to Papua New Guinea’s first-ever microfinance entity and, in 2010, IFC partnered with the Australian government to set up the Pacific Microfinance Initiative to increase access to finance in the region.

Results: Papua New Guinea Microfinance Limited

IFC is providing technical services assistance and management support to Papua New Guinea Microfinance Limited, which was established in 2004 as Papua New Guinea’s first commercial microfinance institution, under the sponsorship of Papua New Guinea Sustainable Development Program Limited. However, operations did not start until 2005. Licensed by the central bank of Papua New Guinea as a second-tier financial institution, Papua New Guinea Microfinance Limited specializes in credit and financial services (including savings) to micro and small businesses.

In 2007, IFC made its first investment in microfinance
in the Pacific with an investment in Papua New Guinea Microfinance Limited. In 2008, IFC helped implement a new organizational structure as well as policies and procedures including a business plan and training on credit policies. In addition, the daily monitoring system was revised to ensure the swift resolution of problems in branches. A new group of loan products was designed, along with a policies and procedures manual. Services were extended with the launch of a pilot lending program in the Koki and Poppendetta branches.

- By helping to reduce administrative costs, increase revenues, and decrease the provision for bad debts, IFC has helped Papua New Guinea Microfinance Limited achieve greater financial sustainability.

- Annual operation losses also reduced from 6.8 million to less than 3.8 million Papua New Guinea Kina in the first year of assistance.

- By shifting from consumer lending to more classic micro and small business lending, Papua New Guinea Microfinance Limited records now show 2,507 active loans, and 63,677 active deposit accounts valued at $13.61 million as of June 30, 2010.

- The bank’s gross portfolio as of June 30, 2010, amounts to $3.35 million, surpassing the projected "Pacific Microfinance Initiative. As previously noted, in 2010, IFC, with the support of the Australian government, launched the Pacific Microfinance Initiative, which aims to improve access to basic financial services, particularly for women, rural households, and enterprises in Papua New Guinea, Timor-Leste, and the Pacific Islands. The Australian government is providing 9.5 million Australian dollars toward the total cost of the four-year, $11.3 million initiative. The initiative will improve the ability of microfinance institutions and other financial service providers to efficiently deliver financial services to Pacific Island communities lacking access to money, loans, and business banking services.

IFC will provide performance-based grants and business advice to financial service providers so that they can better reach communities in isolated areas. Additionally, IFC will help participating providers, including banking and microfinance institutions, non-governmental organizations, and non-traditional financial service partners, such as mobile phone and agribusiness companies, develop business plans with measurable expansion targets. Grant disbursement will be contingent upon meeting the pre-agreed performance targets.

The initiative also will work with governments to improve the regulatory, legislative, and financial infrastructure to broaden financial inclusion in the region. Other donor partners are expected to join this program.

IFC’s first partner under the initiative is the South Pacific Business Development Microfinance Network, whose customers are mainly female micro-entrepreneurs. The South Pacific Business Development Microfinance Network anticipates that it will significantly broaden its outreach over the next few years from its current 12,000 member base by developing new products and expanding credit, savings, and insurance services.

**Strengthening Financial Service Providers and Reforming Financial Markets’ Infrastructure**

1990-2005. During this period, IFC specifically raised the majority of its project financing from local banks and worked with many of them to strengthen their lending practices, better manage and expand their portfolios, and introduce new products. IFC recognized the value of providing support where opportunities arose to ensure the financing flow continued and, at the same time, to impart credit and portfolio management skills to bank staff.
With the introduction of a programmatic approach in 2006, IFC’s focus shifted to include an emphasis on strengthening the financial infrastructure within the region to enable the provision of effective and efficient financial services. The four pillars of the program are credit bureaus, company registries, secured transactions, and payment systems.

IFC continues to support the banking sector via direct investment and technical assistance to assist them to expand their portfolios and broaden their customer base. Expanding access to finance to small to medium-size enterprises, rural areas, women, and the underserved remains a priority area for IFC going forward.

### Results: National Bank of Samoa
IFC provided a wide range of support to the National Bank of Samoa, a Samoan-owned private retail bank that was the first of its type in the region.

- Apart from raising additional capital in 1999, IFC reviewed its Treasury operations in 1998, working with the bank to implement appropriate systems and processes.
- Post capital raising, customer service, international, and loans areas were reviewed, structures re-designed, and manuals produced, followed by extensive training for all staff.
- In 2000, the bank’s computer systems were reviewed and appropriate hardware and software sourced and installed. Strategic planning also took place and the credit systems were reassessed for robustness.
- In 2003, IFC worked with the board on governance and conducted a complete commercial review of the entire business, establishing plans for better strategic focus. Later that year, IFC undertook a review of the bank’s loan portfolio to determine its compliance with International Accounting Standards and the Central Bank of Samoa’s prudential guidelines.
- Two new loan products were constructed by the National Bank of Samoa using market intelligence and product development information provided by IFC. IFC’s input helped the Bank tailor its financial products to specifically meet local market needs, capture and retain additional customers, and provide important financing tools for small to medium and micro enterprises to access financing.
- National Bank of Samoa, with its predominantly retail and commercial customer base, is a vital part of the finance sector in Samoa. IFC’s work strengthening the bank’s governance from the board level down ensured a reliable source of financing for domestic businesses.

### Results: Setting up credit bureaus in Tonga and Samoa/Vanuatu/the Solomon Islands
In 2010, major banks ANZ and Westpac signed a Memorandum of Understanding with IFC committing to support credit bureaus in the Pacific countries. The central banks in Tonga, Vanuatu, and Samoa have indicated their support for private sector credit bureaus that operate within the laws of the country. IFC has since agreed with ANZ and Westpac that the first initiative will be in Tonga. The objective of the project is to have two bureaus up and running in two countries and, pending the software customization and legal and regulatory issues, IFC will extend the model to a third country.

### Results: Advisory services to Bank of PNG for Payment Systems Reforms Program
Following the signing of a Memorandum of Understanding to provide technical support for quality assurance to the Bank of PNG during the Payment System reform project, IFC conducted a workshop with the Bank of PNG’s Payments Reform Steering Committee.

The objective of the Initiative is to study payments, remittances, and securities settlement systems in the countries of the Pacific, with a view to identifying strategies and action plans to improve their safety, efficiency and integrity. The
project also seeks to promote policies and actions for the harmonization of payment systems throughout the region and in line with international standards and best practices.

IFC also completed the country payments system diagnostic for Samoa, Vanuatu and Tonga in May 2010, with reports finalised in December 2010. Reviews are also being carried out in Fiji and the Solomon Islands. Initial scoping for setting up a regional payments systems initiative in the Pacific was undertaken in parallel with these reviews.

The regional payment systems initiative will include the Pacific countries, Australia and New Zealand. The reserve Banks of Australia and New Zealand have shown support for the initiative in principle.

**IFC Investments Increase Access to Finance**

2006-2010. To complement our advisory work, IFC has strategically made investments in the financial market sector to further increase access to finance for small to midsize businesses in the region. The Kula Fund and a recent investment in Bank South Pacific are two examples of how IFC is assisting in extending access to financing in the Pacific.

**Founding investor in Kula Fund II.** IFC participated as a founding investor in Kula Fund II Limited (“Kula Fund”), a $20 million, 10-year closed-end equity fund that focuses investments in small and medium-sized enterprises in the Pacific Islands. IFC committed an investment of $4 million for the project.

Kula Fund aims to make equity and quasi-equity investments across a variety of industries and sectors, including the key industrial sectors of mining, tourism, and other related sectors. In 2008, Kula Fund completed the following investments:

- 15 percent shareholding in Chemical Limited, a leading wholesaler and retailer of agro-chemical, stock feed, and hardware items in Papua New Guinea.

- 30 percent shareholding in Pacific Retail Group Limited, a holding company for OE Limited (office equipment, stationery, and printing supplies) and PTH Limited (hardware and building construction) in Tonga, along with a $1 million shareholder loan.

- An additional shareholder loan in Pacific Communications Solutions Limited (sells and maintains telephone systems in Fiji and Western Pacific), in which Kula Fund already had a 33 percent shareholding.

**A new partnership with Bank South Pacific.** In 2010, IFC and IFC Capitalization Fund became shareholders in Bank South Pacific to help expand financial services in Papua New Guinea and bolster the bank’s presence across the Pacific islands. In supporting the bank’s long-term growth plans, IFC bought a 5 percent equity stake in Bank South Pacific from the Independent Public Business Corporation of Papua New Guinea, a government-owned investment body, while the IFC Capitalization Fund acquired another 5 percent equity by subscribing to newly issued shares. In addition, IFC is providing a long-term $30 million senior loan, enabling Bank South Pacific to increase its lending to eligible borrowers in Papua New Guinea. The complete package of around $140 million represents IFC’s largest investment in the Pacific region to date.

IFC’s investment and expertise will further build and diversify the bank’s capital and customer base, allowing Bank South Pacific to grow and broaden services to small to midsize businesses and rural clients by expanding innovations such as mobile phone banking. Efforts also will be made to create professional development opportunities for the bank’s staff.

Bank South Pacific is Papua New Guinea’s largest retail and commercial bank, with operations extending to the Pacific islands of Fiji, Niue, and the Solomon Islands.

IFC is currently in discussions with the Bank to develop an advisory services program that will assist the bank in expanding its small and medium-size business banking and rural outreach programs. The areas of intervention include capacity building to improve the bank’s internal processes and systems in risk management and credit, staff training, market research, alternate distribution channels, and technological innovations to enhance outreach of financial services, including a mobile phone banking initiative.
Infrastructure - Connecting People to Markets

The Challenge

Given the isolation and sparse populations spread out across wide swaths of ocean in the Pacific, infrastructure service delivery in the region is difficult and costly. Economies of scale are hard to achieve, contributing to the high cost of travel, communications, and logistics. State-owned enterprises dominate the landscape, and while competition has been introduced—namely in telecommunications and aviation—large gaps in infrastructure service delivery remain. More development is needed to increase access to infrastructure and connect communities to employment and economic opportunities.

IFC’s Response

From 1990 to 2005, IFC supported infrastructure development by providing advice directly to companies in the sector and by helping to access finance to expand and strengthen their operations. During this period, IFC completed work in key areas such as shipping, power, and aviation. The governments of Australia, New Zealand and Japan supported IFC’s work in these areas.

More recently in the Pacific, IFC has strengthened its response to these challenges and has increased access to basic services by financing infrastructure projects and advising client governments through IFC’s Advisory Services in the Public Private Partnerships department. As a result, IFC has participated in advancing catalytic change in the region, in the area of telecommunications in particular, and has helped narrow the gap in infrastructure service delivery.

Results Highlights

- Between 1990 and 2005, IFC raised funds for four infrastructure projects.
- In total, IFC raised $3.61 million in funds for infrastructure projects between 1990 and 2005.
- IFC served as the lead advisor on the successful public-private partnership between the government of Samoa and Virgin Airlines, which established a new national airline, Polynesian Blue, and restructured the existing flagship carrier. Figures suggest that more than 2,000 new jobs have been created as a result—a significant figure in a country with a population of 180,000.
- IFC’s $100 million in financing to Digicel Limited in Papua New Guinea has helped to increase mobile phone penetration rates to 18 percent in financial year 2009 from 3 percent before Digicel entered the market in 2006. In Papua New Guinea, more than 3.5 million people now have access to mobile phones, up from just 1.2 million in 2007.

IFC Supports Transport in Papua New Guinea and Fiji

1990-2005. Most infrastructure services in the region were—and continue to be—the purview of governments, but between 1990 and 2005 IFC completed work in key areas such as shipping, power, and aviation. In power, the work ranged from municipal waste to energy production in Fiji and Samoa.

Results: Shipping and aviation in Papua New Guinea

- In 1993 IFC helped an established local Papua New Guinea coastal shipping company, Kula Kaiun, by assisting in obtaining financing for the purchase of a 1,000 ton vessel to complement its existing fleet. The project sponsor was the Sharp group of companies, which controlled a group of seven companies that owned 20 ships and employed 162 people, 148 of whom were citizens of Papua New Guinea.

- IFC also helped Massim Expeditions and Tours evaluate an amphibious aircraft service for passengers, light freight, and medivac work between Rabaul, Buka Island, Cartret, Mortlock, and Tasman Islands in Papua New Guinea in 1994. The new service was the only fast and reliable access to the islands for visitors, urgent freight, and medical emergencies. The service was implemented, and IFC also assisted with route, cargo, and equipment evaluation.
Catalytic Impacts

2006-2010. In line with the revised programmatic and strategic approach in 2006, IFC included expertise from the IFC Advisory Services in the Public Private Partnership’s team. This department advises governments on private sector participation in infrastructure and other public services. By helping to generate investment opportunities that result in long-term economic growth, better living standards for our client countries are achieved. IFC’s infrastructure-related advice balances the needs of investors with public-policy considerations and the needs of the community, while also supporting broader access to public infrastructure and services, including health and education.

Pacific Regional Infrastructure Facility. As a means of enhancing donor coordination in the infrastructure area, IFC and the World Bank in 2008 joined with the Asian Development Bank, the Australian Agency for International Development, and the New Zealand Government’s International Aid and Development Programme to set up the Pacific Regional Infrastructure Facility. The facility is a multi-partner infrastructure coordination and financing mechanism to support infrastructure in the Pacific region. The facility aims to support infrastructure planning, development, and management in Pacific Island countries, with a specific focus on:

- Country-led development—The Facility will respond to requests for support from Pacific island countries based on their plans and priorities.
- Sector-based approaches—The Facility aims to address the long-term challenges of maintaining and managing existing and new infrastructure to improve the efficiency and sustainability of service delivery.
- Harmonized support—The Facility will bring together support from multiple development agencies to make assistance go further and make a bigger difference.

The Pacific Regional Infrastructure Facility aims to help improve infrastructure outcomes in several economic infrastructure sectors, including energy, telecommunications, transport (land, air, sea), waste management, and water and sanitation. The current partner countries are the Cook Islands, the Federated States of Micronesia, Kiribati, Nauru, Niue, Palau, the Republic of the Marshall Islands, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Results: Strengthening Fiji’s aviation sector

- Fiji Air was a privately owned airline in Fiji with a 23 percent government shareholding. In 1992, IFC reviewed the airline’s operations, provided a strategic overview to the formulation of a long-term plan to acquire new aircraft, and raised the requisite financing needed.

- Sunflower Airlines was one of the two private airlines in Fiji providing a network of internal flights on the Suva-Nadi-Labasa routes. In 1993, IFC helped the company access financing from the Fiji Development Bank to acquire an additional Twin Otter aircraft.

Results: Polynesian Blue - public private partnerships in Samoa

In Samoa, IFC has worked with the government of Samoa for a number of years on privatization matters. IFC assisted the government with the privatization of the Samoa Coconut Products Ltd. as well as with Samoa Breweries Ltd. in 1996.

In 2004, IFC won the contract to complete the transaction of the privatization of Polynesian Airlines. As lead transaction advisor to the government, IFC played an instrumental role in turning around the flailing national carrier, spurring tourism, and promoting jobs in the island nation. The joint venture between the government of Samoa and Virgin Blue airlines resulted in the launch of Polynesian Blue Airlines in 2005.

Prior to the partnership, the airline was proving to be a significant burden for the government. In 2004, the government heavily subsidized the airline to the tune of $7.5 million—70 percent of its budget deficit. As a result of the partnership:

- In 2007, the government received a dividend of 3 million from the 16.6 million Western Samoa Tala profits, which was up by 71 percent from the previous year’s profit.
- Polynesian Blue’s low-cost airfares created a new market in Samoa, pushing up tourism numbers by 15 percent annually compared to the historic trend of four percent.
- This had a multiplier effect for employment with estimates that, for every $10,000 earned from tourism, one new job is created. Figures suggest that more than 2,000 new jobs have been created in Samoa as a result of Polynesian Blue Airlines—a significant figure in a country with a population of 180,000.

DevCo, a multi-donor program affiliated with the Private Infrastructure Development Group and supported by the UK’s Department for International Development, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and the Austrian Development Agency, funded the advisory work for this project.
Investing in telecommunications and promoting competition. While IFC Advisory Services played a significant role in improving access to aviation in Samoa, IFC Investment Services has played an equally catalytic role in the telecommunications sector. In 2006, IFC provided more than $100 million in financing to Digicel Limited for the construction and expansion of cellular networks in Papua New Guinea, Fiji, Samoa, Tonga, and Vanuatu. In doing this, IFC helped establish a pan-Pacific mobile service, competing head on with long-established players, lowering costs, and introducing new and improved services, such as roaming between islands. Digicel Pacific is now the biggest telecommunications company across the Pacific Island markets, employing more than 1,200 local staff. In Papua New Guinea, the introduction of Digicel has meant that thousands of people now have access to reliable and affordable mobile phone services. In addition to the loan, IFC has also committed to providing financing and capacity-building support for Digicel’s distribution networks in Papua New Guinea. Research has shown that penetration rates have increased from 3 percent before Digicel’s entry in 2006 to 18 percent in financial year 2009. Today, more than 3.5 million people have access to mobile phones, up from just 1.2 million in 2007. Digicel Papua New Guinea employs 400 people locally and contributes to the livelihoods of some 30,000 people who have become affiliated Digicel sales representatives. According to the Treasury Department, an increase in competition contributed to a 0.7 percent growth in the country’s Gross Domestic Product in financial year 2008.
Looking Forward

Given the many challenges in the region—a volatile and fragile economic and political climate, limited economic diversification, and small, remote, and isolated markets—IFC continues to strengthen its strategy and partnerships in order to produce results. Going forward, IFC envisages continued integration between Investment and Advisory Services, greater synergies with the World Bank, and enhanced partnerships with other key private sector development players and members of the donor community.

IFC’s strategy for the Pacific Region incorporates three themes:

- Diversifying sources of growth and sustainable employment: Focusing on maximizing opportunities in the extractives, tourism, and agribusiness sector as well as labor exports and remittances.
- Expanding the link between communities and markets: Assisting in increasing access to infrastructure, formalization, connectivity, microfinance, and linkages to IFC investments.
- Catalyzing private investment and enhancing competition: Improving the investment climate and facilitating state-owned enterprises privatization, competition, and catalytic investments.

IFC Advisory Services

To further these strategic goals, IFC will concentrate on broad-reaching reform efforts in investment climate, access to finance, and infrastructure, particularly in the poorest Pacific countries classified as International Development Association nations.

Investment Climate: In the Investment Climate Advisory Services program, IFC will sustain a programmatic approach and increase its sector focus to sharpen the investment facilitation impact by developing coordinated investment promotion strategies for priority sectors. Synergies with other business lines will be strengthened, and new products, such as trade logistics and business taxation, will be introduced. The gender mainstreaming and tourism work will be accelerated, and we will continue to seek out regional cooperation opportunities in programs such as alternative dispute resolution. The overarching objective is to make an impact on private sector cost savings by generating employment opportunities.

Access to Finance: In the Access to Finance program, IFC’s goal is to enable more people—particularly the poor—to have access to financial services. By forging institutional partnerships and assisting in the development of new products, services, and technologies in the financial services sector, IFC will promote innovative schemes to respond to the challenges of expanding access to finance. Furthermore, IFC will continue to improve the enabling environment for extending financial access to allow for more choices, more access points, and lower transaction costs. To deliver this outcome, IFC’s focus will remain on strengthening the financial market’s infrastructure in the Pacific, particularly credit bureaus, secured transactions, company registries, and payment systems.

Sustainable Business Advisory: In the area of Sustainable Business Advisory Services, IFC intends to maximize the development impact of the expansion of telecommunications by promoting value-added services and improved distributor network performance. Resources will also be utilized to broaden access to markets to smallholder farmers through lead firms and improved agri-finance systems. Promoting sustainable agriculture, forestry and mining, and oil and gas practices that deliver benefits to local communities will
become a stronger focus. In addition, in an effort to align with our programmatic approach to tourism, increasing the benefits for local communities from possible new tourism investments will be incorporated into our strategy.

Public Private Partnerships: IFC Advisory Services in Public Private Partnerships will continue to pursue work on transaction advisory mandates across most infrastructure sectors, including social infrastructure Public Private Partnerships such as in the health and education sectors. IFC will explore options for the private delivery and operation of infrastructure that is not viable on a purely private basis through pilot transactions using output-based subsidies and/or multi-year capacity/availability payments.

IFC Investment Services

IFC is committed to continuing to deliver catalytic investments in the Pacific that benefit the broader community. Enhancing competition either by privatizing state-owned enterprises or investing in locally owned companies is a key part of our strategy. Furthermore, IFC will continue to help local businesses grow by assisting them to link into supply chains. Integrating IFC’s Investment and Advisory Services remains a key focus that will enhance our impact. Ultimately, IFC will ensure that its investments contribute to the diversification of the private sector, create employment opportunities, and improve services for people who need it most in the Pacific region.
All macro-economic data have been sourced from an amalgam of Asian Development Outlook (various publications since 1996); Central Intelligence Agency (CIA) World Fact Book (various publications since 1999); World Development Indicators September 2009; Ministry of Foreign Affairs and Trade, New Zealand October 2009 (and earlier years); Department of Foreign Affairs and Trade, Australia June 2010 (and earlier years); and United Nations Economic and Social Statistics 2000–2010.

In this case, IFC raised the funds for 13 businesses to start up, expand operations, buy equipment, upgrade manufacturing lines, install new product lines, etc. The 24 advisory projects initially requested help in raising funds; however, these projects required technical assistance as a primary means of support. Donor funds were used for all project activities. IFC paid for administration costs.


Tourism refers to the ‘Travel & Tourism Economy’ which includes the direct (industry) and indirect (flow on) economic contribution of tourism.

Long-line fishing is a commercial fishing technique that uses a long line, called the main line, with baited hooks attached at intervals by means of branch lines, called “snoods.” A snood is a short length of line attached to the main line using a clip or swivel, with the hook at the other end. Long-lines are classified primarily by where they are placed in the water column—namely, at the surface or at the bottom. Lines can also be set by means of an anchor or left to drift. Hundreds or even thousands of baited hooks can hang from a single line. Long-liners commonly target swordfish, tuna, halibut, sablefish, and many other species.

Source: Internal IFC Documents.


Source: Digicel.

Source: Digicel.

Source: Papua New Guinea Treasury Department.