# Draft Discussion Paper

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# Financing for Development: Infrastructure Development in the Pacific Islands

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## ESCAP Pacific Office






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# FINANCING FOR DEVELOPMENT: INFRASTRUCTURE DEVELOPMENT IN THE PACIFIC ISLANDS


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## 1. CHALLENGES TO INFRASTRUCTURE FINANCING IN THE PACIFIC ISLANDS

While infrastructure development in the Pacific islands has increased significantly in recent years, challenges remain in accessing sufficient and appropriate financing. However, only limited information is available on the extent of infrastructure needs for most Pacific island countries. A World Bank report in 2006 on the infrastructure challenge in the Pacific alluded to this point providing anecdotal evidence for Fiji, PNG and Solomon Islands to suggest that the infrastructure investment funding required is indeed 'substantial'.

ESCAP (2010) computed a composite measure to get a sense of the infrastructural development levels in Asia and the Pacific for 2007. The composite measure captured aspects of transport infrastructure (roads, railways and air transport density), ICT infrastructure (telephone and internet density), energy availability (intensity of energy use) and banking infrastructure (bank branches density). The report found that Pacific island countries Papua New Guinea (PNG), Solomon Islands, Vanuatu, Samoa, Tonga, and Fiji all ranked in the lower half of infrastructure development (less than 0.15 ) index for Asia Pacific countries in 2007.

Information on funding gaps and needs are more widely available for other regions though. In Asia, a recent report by Price Waterhouse Coopers (2014) stated that between 2010 and 2020, Asia will need to spend approximately US$8 trillion in infrastructure investment in order to maintain current levels of economic growth. Key sectors for investment include power for the growth of manufacturing, water for industry and people and transportation networks for movement of goods and people. In continental Africa, it has been estimated that the total cost of implementing all the projects identified by the Programme of Infrastructure Development in Africa to address projected infrastructure needs by 2040 is US $360 billion. PIDA has identified 51 priority infrastructure projects in its Priority Action Plan (PAP), which comprises 51 priority infrastructure programmes in energy, water, transport and ICT and requires investment of US$68 billion by 2020.

Another serious challenge that Pacific island countries encounter is the high costs of infrastructure maintenance. Most Pacific island countries do not have, or do not plan for, sufficient funding towards maintaining completed infrastructure projects resulting in fast deterioration which often leads to requests for 'major rehabilitation'. Tonga and now Fiji are going through substantial 'road rehabilitation projects'. One report (SPC et al., 2013) termed this behaviour as the 'build-neglect-rebuild paradigm' as countries do not prioritize infrastructure maintenance in their budget allocations. It is estimated that the cost of maintaining existing infrastructure is around 6% of Pacific islands countries GDP equating to around US$1,266 million per annum (PRIF, 2013) – far above what is actually spent.

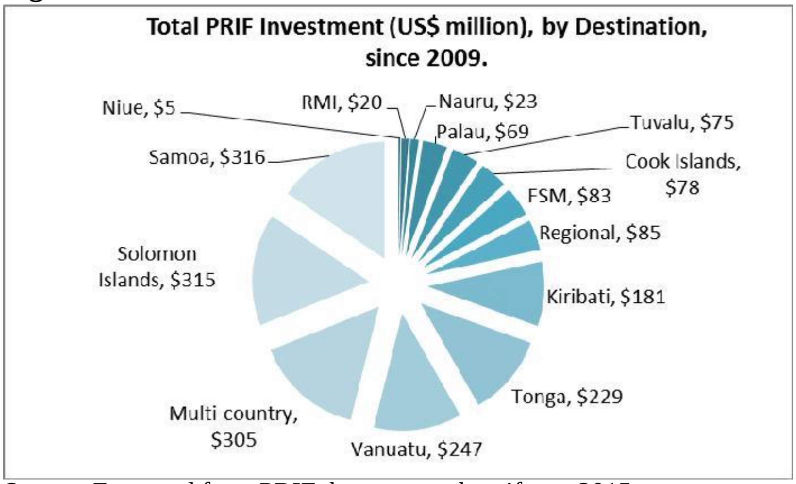
## 2. PACIFIC INFRASTRUCTURE DEVELOPMENT

In recent years, the Pacific Region Infrastructure Facility (PRIF) has played a vital role in assisting its member states in coordinating infrastructure development in the Pacific. PRIF was established in 2008 as a multi-development partnership for better infrastructure in Pacific island countries. PRIF Technical Assistance and Research projects are supported by the Asian Development Bank, Australian Government, European Union, European Investment Bank, Japan International Cooperation Agency, New Zealand Ministry for Foreign Affairs and Trade and the World Bank Group. Its overall goal is to promote and support broad-based growth and improved living standards for all people in 13 Pacific island countries[1] (PICs). PRIF Members support investment in five key economic infrastructure sectors: energy/power; telecommunications; transport (roads and bridges, maritime transport (ports and shipping), aviation); urban development including solid waste management; and water supply and sanitation.

PRIF also offers advisory services for sector planning, policy, regulatory and institutional reforms, capacity development and brokerage of investment activities. In addition, the Facility acts as a knowledge hub for information sharing, benchmarking and sharing of best practices.

Since 2009, PRIF Members have injected a total investment in infrastructure projects of around US$2,031 million to the 13 Pacific island countries. Samoa, Solomon Islands, Vanuatu and Tonga received the most infrastructural investment since August 2009 amounting to nearly 55% of total funding (see figure 1).

**Figure 1. Total PRIF Members Investment**

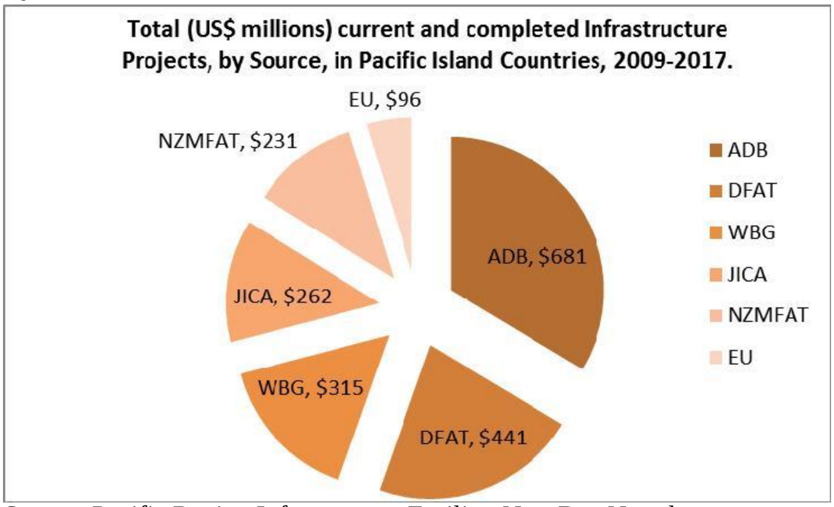



*Source:* Extracted from PRIF, http*:* www.theprif.org, 2015.

The Asian Development Bank (ADB) and Australia's Department of Foreign Affairs and Trade (DFAT) accounted for more than half of the total value of PRIF members investments. Involvement of the multilateral development banks – ADB and the World Bank - is substantial with around 49% of the total investment by PRIF members since 2009 (see figure 2). As of December 2014, about 68% of infrastructure projects coordinated by PRIF members in the Pacific islands are active or ongoing, 27% are completed projects; and 5% in the pipeline.

[1] Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

**Figure 2. Total current and completed infrastructure projects by PRIF members.**




*Source:* Pacific Region Infrastructure Facility, Nov-Dec Newsletter, <http://us8.campaign-archive2.com/?u=f4a36e56c4ad6ea4db0ce9382&id=ea4dae2899>

PRIF managed infrastructure projects now represent a substantial share of total infrastructure investment in many PICs.

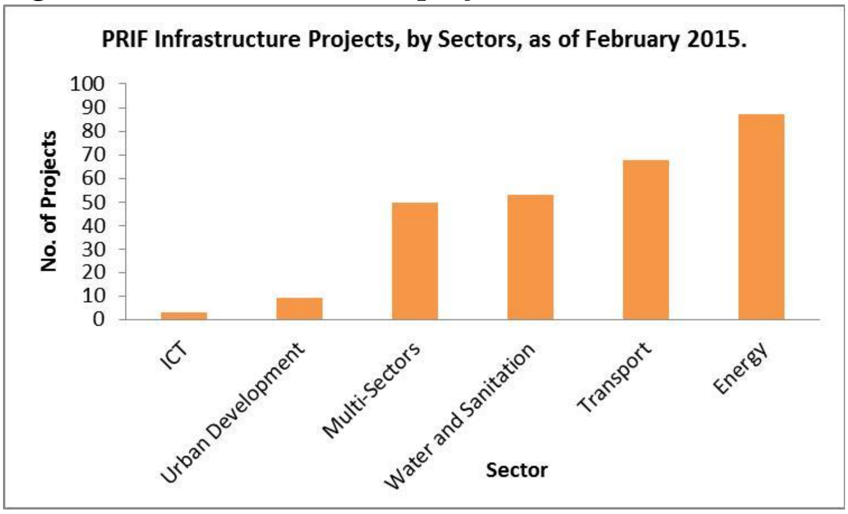
**Table 1. PRIF Members Investments by Country**

| No. | Other Donors | Destination | % share of PRIF Members' investments |
|---|---|---|---|
| 1. | ADB & JICA | Palau | 66% & 32% respectively. |
| 2. | ADB, DFAT & JICA | Vanuatu | 89% |
| 3. | JICA, NZMFAT & WBG | Tuvalu | 78% |
| 4. | ADB | FSM | 72% |
| 5. | NZMFAT | Cook Islands | 67% |
| 6. | NZMFAT & EU | Niue | All Projects |
| 7. | World Bank & DFAT | Kiribati | 48% & 29% respectively. |
| 8. | JICA & DFAT | RMI | 45% |

*Source:* Extracted from information provided in PRIF, http:www.theprif.org, 2015.
*Note:* Since 2009, and as of December 2014.

Most of infrastructure investments coordinated by PRIF members are in the form of loans, grants and technical assistance (TA). The data from 2012 onwards suggests roughly 28% of all investment in loans, 21% in TA and 30% in grants (PRIF, 2015). Majority of the infrastructure projects (both pipeline and current projects as of February 2015) are in the energy sector (32%, 87 projects) followed by transport (25%, 68 projects), and water and sanitation (20%, 53 projects). See figure 3.

**Figure 3. PRIF infrastructure projects**

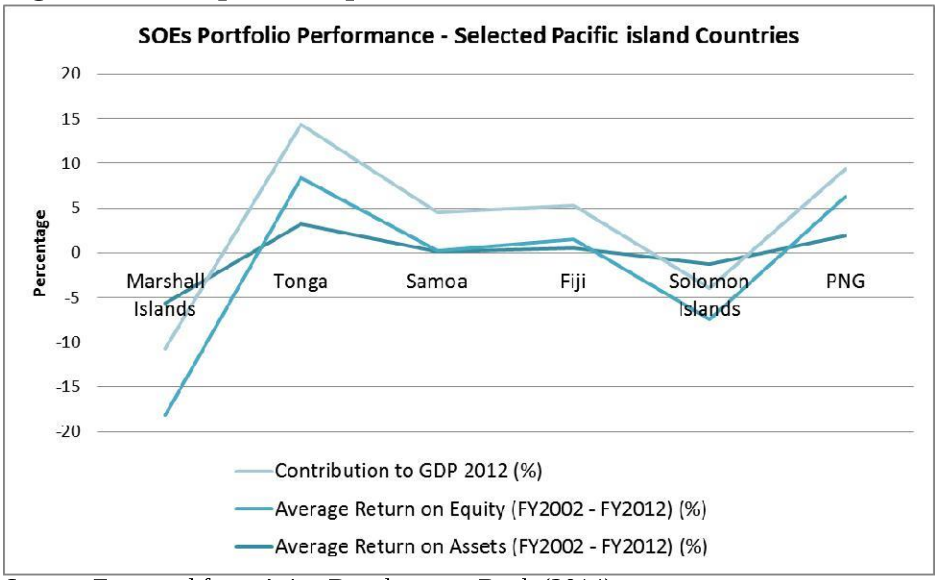



*Source:* Pacific Regional Infrastructure Facility, Feb 2015 Newsletter, <http://us8.campaign-archive1.com/?u=f4a36e56c4ad6ea4db0ce9382&id=beb83aea6b&e=777af99329>

## 3. FINANCING INFRASTRUCTURE DEVELOPMENT THROUGH PUBLIC-PRIVATE PARTNERSHIPS (PPP) IN THE PACIFIC

While the role of the private sector towards funding of infrastructure development is critical, PPPs in the Pacific region have shown mixed results. One key reason is that in many PICs SOEs remains the main mechanism for provision of infrastructure related services. Although much work has been done in reforming SOEs and moving some into the private sector, the performance of most SOEs has been disappointing. The inefficiency of SOEs has therefore tended to push up the already high cost of providing infrastructure in scattered and isolated islands. A recent ADB (2014) report found that SOEs in six Pacific island countries with available data did not produce sufficient return to cover capital costs between 2002 and 2012. Only four out of the six Pacific island countries produced average returns on assets and equity above zero over this period (see figure 4).

**Figure 4. SOEs portfolio performance**




*Source:* Extracted from Asian Development Bank (2014).

Nevertheless, governments in the region have implemented various types of regulatory reform policies (privatisation including PPPs) to improve SOEs performances (see table 2).

**Table 2. SOEs performances**

SOE Reforms (privatisation or PPPs) in Selected Pacific Island Countries, 2002-2014

| Country | Reform Milestone |
|---|---|
| Fiji | Corporatizing the Water Authority, Roads Authority, and Government Printer and Stationery Department; |
| | Privatizing Fiji Dairy and preparing privatization options for Copra Millers and the Government Printer; |
| | Implementing an operations and maintenance contract for Suva and Lautoka ports; and |
| | Preparing three SOEs for listing on the Fiji Stock Exchange. |
| Marshall Islands | Restructuring Marshall Energy Company with losses reduced by over two-thirds in 2010–2012; |
| | Approving an SOE reform policy in 2012; and |
| | Introducing the resulting SOE Bill into Parliament in 2013. |
| Papua New Guinea | Approving a comprehensive community service obligations (CSO) policy in 2013 for implementation in 2014; |

预览已结束，完整报告链接和二维码如下：
https://www.yunbaogao.cn/report/index/report?reportId=5_4090