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Establishment of Pacific Country Offices

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DCO	–	development coordination officer
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situations
IAE	–	internal administrative expenses
PARD	–	Pacific Department
PCO	–	Pacific country office
PIC-11	–	11 smallest Pacific island countries
PLCO	–	Pacific Liaison and Coordination Office
RM	–	resident mission
SPSO	–	Pacific Subregional Office
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

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I. INTRODUCTION

1. The Agreement Establishing the Asian Development Bank (ADB) (the Charter) requires ADB to have special regard for the needs of its smaller members.¹ The small, remote, and fragile countries in the Pacific region face some of the most challenging development constraints. Technical and managerial capacities are limited and difficult to retain. Costs of delivering goods and providing essential services are magnified by their small populations and isolation. They suffer not only from geographical limitations, but also from frequent exposure to climate change and natural disasters.

2. The effectiveness of ADB's assistance is closely related to its presence in developing member countries (DMCs). This fundamental principle was recognized in ADB's Resident Mission Policy (2000), which recommended that a resident mission be established in each borrowing DMC, subject to operational and logistical considerations.² This principle is even more relevant in small Pacific countries, which are highly vulnerable to economic and natural shocks.

3. With the rapid growth in ADB's portfolio in small Pacific DMCs since 2005, ADB requires a stable and appropriately sized presence in its smallest members. The Pacific Approach, 2016–2020³ calls for a stronger program of support to the 11 smallest Pacific island countries (PIC-11).⁴ The Pacific Approach also indicates that the continued expansion of assistance requires a deepening of ADB's relationship through formalizing an ADB presence in each DMC.⁵

4. Strategy 2030 recognizes that the 11 smallest Pacific DMCs, as small island developing states, are on the front lines of climate change; additionally, seven of the Pacific DMCs are in fragile and conflict-affected situations (FCAS). Strategy 2030 will prioritize countries classified as small island developing states and FCAS by providing concessional finance, tailored business processes, augmented human resources, and field presence.⁶

5. This paper proposes that ADB establish Pacific country offices (PCOs) in each of the PIC-11. The establishment of the PCOs, which will serve as extensions of the two Pacific regional offices and ADB headquarters, is consistent with the Resident Mission Policy.⁷

¹ In Article 2 of the ADB Charter, one of the Bank's functions is "to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region." ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

² The Resident Mission Policy noted that the Pacific operations posed some special problems, which required that the resident missions be structured differently. It was noted that "establishing an RM in each Pacific DMC may not be appropriate for efficiency and effectiveness reasons" and proposed that "the needs of the Pacific region may be best served by adopting a subregional approach. A subregion will include several DMCs, based upon geographic and logistical contiguity." ADB. 2000. *Resident Mission Policy*. Manila (paras. 70–71). Further, the 2008 review of the Resident Mission Policy recommended that ADB deepen its engagement with DMCs and expand its presence in the Pacific. ADB. 2008. *Review of Resident Missions' Operations*. Manila.

³ ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

⁴ The PIC-11 are the Cook Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

⁵ The Pacific Approach, 2016–2020 states in para. 49: "Furthermore, ADB will continue to expand its field presence to ensure that it has staff based in all of the PIC-11 during the implementation period of the Pacific Approach."

⁶ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁷ The two regional offices are the Pacific Subregional Office (SPSO) and the Pacific Liaison and Coordination Office (PLCO).

II. RATIONALE FOR ESTABLISHING PACIFIC COUNTRY OFFICES

6. ADB does not maintain a resident mission or regional office in any of the PIC-11.⁸ The 2008 *Review of Resident Missions' Operations* noted that despite the establishment of the Pacific Subregional Office (SPSO) and the Pacific Liaison and Coordination Office (PLCO), the need for closer interaction and deeper engagement with ADB's smallest members remains. The 2008 review underscored the need to expand ADB's presence in the Pacific and suggested "shared" offices with the World Bank in the Pacific.

7. Beginning in 2008, ADB posted development coordination officers (DCOs) in selected PIC-11 countries.⁹ The initial DCOs, financed under the technical assistance (TA) for Enhancing Engagement with Pacific Developing Member Countries, were posted in three countries (Samoa, Solomon Islands, and Tonga).¹⁰ A second phase of the TA expanded the coverage initially to nine countries, then later to all PIC-11 countries by the end of 2016.¹¹

8. A midterm review of the phase 2 TA was conducted in 2014 to guide the evolution and further development of ADB's presence in the PIC-11. The midterm review confirmed the value and pivotal role of the DCOs but noted that consultants were limited in their effectiveness and utility in supporting ADB's work. The midterm review recommended that ADB establish a formal country presence with ADB staff engaged full time in each of the PIC-11. This suggestion was echoed in a corporate evaluation study by the Independent Evaluation Department in 2015.¹²

9. Encouraged by the positive experience with DCOs, extended missions were established on a temporary 3-year pilot in four Pacific DMCs (Samoa, Solomon Islands, Tonga, and Vanuatu). The four extended missions, although modest in size, are equipped to ADB standards and staffed with one senior national officer and, in the case of Solomon Islands and Vanuatu, one international staff. Extended missions also include local consultants and contractual staff.

10. In terms of reporting relationships, the Office of the Director General of the Pacific Department supervises DCOs in the Federated States of Micronesia, Marshall Islands, and Palau; PLCO supervises the extended missions in Solomon Islands and Vanuatu and the DCO in Nauru; and SPSO supervises the extended missions in Samoa and Tonga and the DCOs in the Cook Islands, Kiribati, and Tuvalu.

11. In the 2018 review of ADB's presence in small Pacific DMCs, the key finding was that ADB staff presence in field offices enhances the effectiveness and impact of ADB assistance (in the same way that ADB resident missions enable ADB to deliver higher quality services with greater

⁸ The resident missions and regional offices in the Pacific are Papua New Guinea Resident Mission; Timor-Leste Resident Mission; SPSO in Suva, Fiji; and PLCO in Sydney, Australia.

⁹ The DCOs are long-term consultants tasked with building local capacities and supporting donor coordination, portfolio management, and policy dialogue. The DCOs reported to the SPSO, PLCO, or ADB headquarters in accordance with the subregional designations.

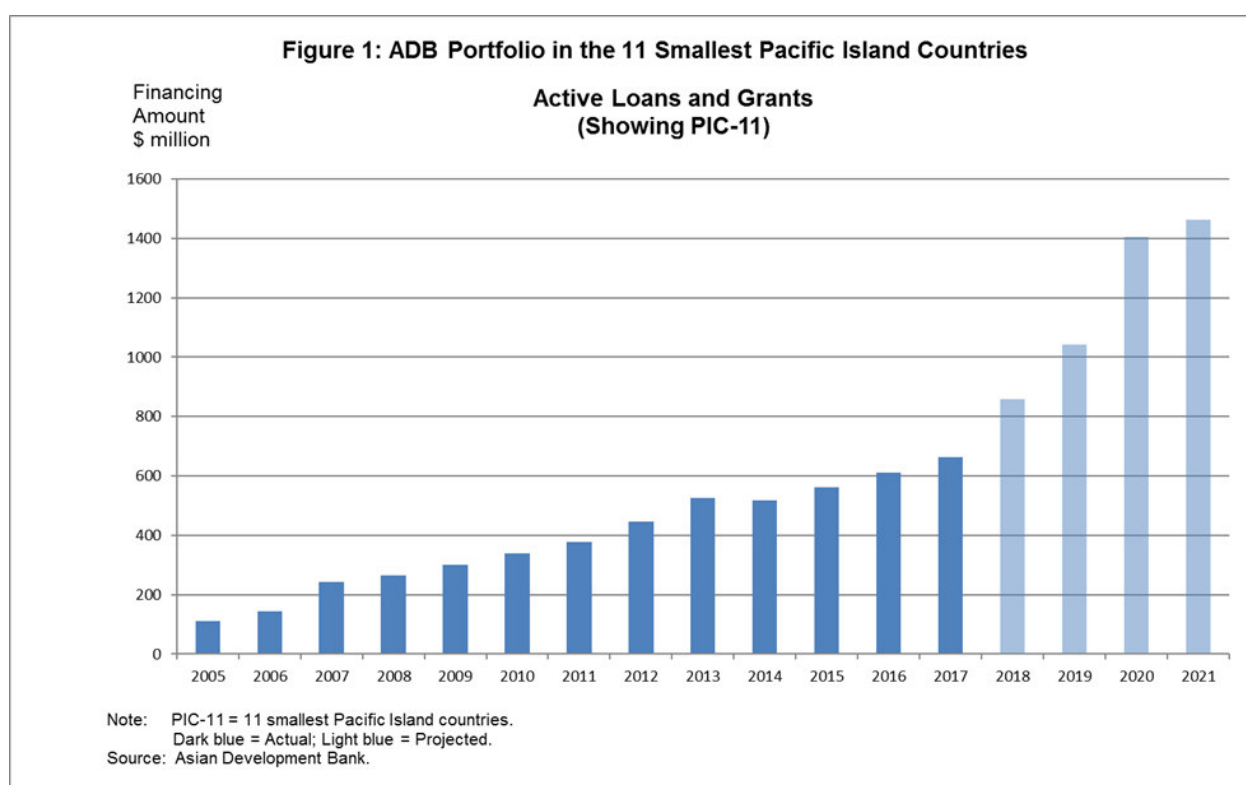
¹⁰ ADB. 2008. *Technical Assistance for Enhancing Engagement with Pacific Developing Member Countries*. Manila (TA 6475-REG; \$1.5 million). The Government of Australia contributed a further \$1.44 million, resulting in a cumulative TA amount of \$2.94 million. World Bank offered parallel financing for "shared" offices.

¹¹ ADB. 2012. *Technical Assistance for Enhancing Engagement with Pacific Developing Member Countries, Phase 2*. Manila (TA 8088-REG; \$2.0 million). ADB and the Government of Australia contributed a further \$1.47 million and \$0.82 million, respectively, resulting in a cumulative TA amount of \$4.32 million. The TA is active and has an expected closing date of 30 June 2020.

¹² Independent Evaluation Department. 2015. *Corporate Evaluation Study: ADB Support to Small Pacific Island Countries*. Manila: ADB.

efficiency). In comparison with field offices consisting entirely of local consultants, the long-term posting of ADB staff in a DMC (i) permits ADB to have more regular contact and substantive communication with key government decision-makers and development partners, (ii) enables the local office to use ADB's information systems to access knowledge products and portfolio management data, (iii) allows staff in the local office to participate in ADB's training and capacity building programs, and (iv) enables ADB to join in-country meetings of development partners, thereby enhancing donor coordination.

12. Engaging full-time ADB staff in the PIC-11 is consistent with the recent scaling up of ADB operations in the Pacific, including the minimum Asian Development Fund annual allocation of \$6 million per country.¹³ From a portfolio of \$100 million in 2005, ADB's portfolio across the PIC-11 grew to more than \$600 million by the end of 2017, and is projected to exceed \$1 billion in 2019 (Figure 1). Having staff presence in a DMC strengthens ADB's ability to safeguard its investments and address risks and challenges during and after project implementation.



13. Table 1 highlights factors that call for sustained staff in-country presence, including portfolio growth and the existence of FCAS in six of the PIC-11. Notably, the 2010 evaluation study on ADB's support to fragile states underscored that field presence and active supervision are major determinants of project effectiveness, and therefore highly desirable in FCAS countries.¹⁴

¹³ Even in Kiribati, where a joint development coordination office of the World Bank and ADB has been lauded as a successful partnership, the sharp growth in operations of the two institutions in the country has meant that it is no longer sustainable for a single joint office to handle the requirements of both the World Bank and ADB.

¹⁴ ADB. 2010. *Special Evaluation Study: Asian Development Bank's Support to Fragile and Conflict Affected Situations*. Manila.

Table 1: Selected Indicators for 11 Smallest Pacific Island Countries

Country	Population (‘000)	Classified as FCAS	Loan/Grant Portfolio	Loan/Grant Pipeline
			(includes cofinancing) ^a	(excludes cofinancing) ^b
			(\$ million)	
Cook Islands	19.0	No	58.01	28.00
Federated States of Micronesia	102.5	Yes	36.50	19.53
Kiribati	111.6	Yes	40.00	22.17
Marshall Islands	54.2	Yes	19.70	19.11
Nauru	13.0	Yes	74.72	15.97
Palau	17.9	No	53.63	91.28
Samoa	192.1	No	162.79	44.23
Solomon Islands	606.8	Yes	69.67	51.05
Tonga	104.0	No	75.34	34.46
Tuvalu	11.3	Yes	16.80	16.87
Vanuatu	283.4	No	119.41	30.81

FCAS = fragile and conflict-affected situations.

^a As of 28 February 2018.

^b Based on the work program and budget framework, 2018–2020.

Sources: Asian Development Bank.

14. In summary, the establishment of PCOs (as extensions of the regional offices or of ADB headquarters) in each of the PIC-11 would be an appropriate and cost-effective response to the need for a stable staff presence in small DMCs.¹⁵ The TA consultants serving as DCOs would no longer be required once the PCOs are established and ADB staff are in place.¹⁶

III. STAFFING AND FUNCTIONS

15. In each PCO, it is expected that the basic office contingent would include one national staff and one administrative staff.

- (i) In the four pilot extended missions, one senior national staff has been earlier assigned (para. 9). The extended missions will be converted to PCOs, and their senior national staff position will be retained. Each of them further requires one administrative staff to meet the basic office contingent.
- (ii) In the other seven PCOs, one senior national staff and one administrative staff are required.

16. Overall, while 18 staff (7 national staff and 11 administrative staff) are required, the incremental staff required by the Pacific Department (PARD) is expected to consist of six administrative staff positions because of PARD’s position optimization measures to achieve efficient use of available resources.¹⁷ Staff recruited into the PCOs will be on special fixed-term

¹⁵ With the parallel expansion of the World Bank’s operations in the Pacific, the earlier model of “shared” ADB–WB consultants is no longer sustainable. The World Bank’s minimum annual allocation for each International Development Association eligible country is \$20 million. With this expansion in lending operations, the World Bank has opted to establish its own office in Suva, Fiji rather than continue the earlier arrangement of occupying part of the office space of SPSO.

¹⁶ Nevertheless, ADB TA may continue to provide other capacity building assistance and support, as needed.

¹⁷ Staff optimization measures include flexible position management, which allows reclassification of staff positions across categories (e.g., conversion of one international staff position into multiple national staff and/or administrative staff positions).

contracts. Further, PCO staffing levels may be adjusted to match the workload in a particular DMC through reallocation of staff resources within PARD.

17. PCOs are a unique arrangement within ADB and will neither be considered equal to resident missions nor subject to the minimum staffing requirements contemplated under the Resident Mission Policy. Each PCO will be considered an extension of a regional office (SPSO or PLCO) or the Office of the Director General of the Pacific Department (which is responsible for North Pacific DMCs).¹⁸ Accordingly, the regional directors for these Pacific DMCs and their equivalent in ADB headquarters will oversee the PCOs and will have a staff complement reporting to them from the PCOs.¹⁹ The regional office or ADB headquarters will retain all standard and specific functions as defined in the Resident Mission Policy.²⁰ Each PCO will be expected to support the concerned regional office or ADB headquarters in carrying out the standard and specific functions of their hub.

IV. LOGISTICAL ARRANGEMENTS

18. The existing offices in Samoa, Solomon Islands, Tonga, and Vanuatu will not require any further upgrading or capital expenditure at this time.

19. In the other seven Pacific DMCs, office space will be leased or provided by the host government and fitted out in a phased manner over a 2-year period, according to ADB standards. Basic information technology and communication facilities will be set up to support smooth operations and facilitate regular interaction and sharing of information with other ADB offices in the Pacific and with ADB headquarters. Necessary fit-out work will be undertaken with the assistance of the Office of Administrative Services (OAS) and the Office of Information Systems and Technology.

20. Security arrangements will be implemented following ADB standard procedures and in coordination with the United Nations Security Management System, as detailed in the memorandum of understanding between the two organizations. The PIC-11 are generally regarded as safe and peaceful countries. In selected countries, OAS will field security assessment missions to ensure security requirements are met and that staff in PCOs understand their security responsibilities. Given the particular vulnerability of PIC-11 countries to natural disasters, ADB will work to provide an appropriate level of security resources to ensure that ADB offices and staff in these countries have adequate protection against such risks. The cost of initial security provisions is anticipated to be low, and annual costs for security services will be met through ADB's administrative budget.

21. ADB will enter into negotiations with the governments of each of the PIC-11 for the establishment of host country agreements to facilitate the application of the ADB's privileges and immunities in the context of the day-to-day operations of the PCOs.

¹⁸ ADB is authorized to establish "agencies or branch offices" under Article 37(2) of the ADB Charter.

¹⁹ As such, there is no provision for creating a country director or equivalent position in any PCO.

²⁰ Standard functions include (i) relations with the government, civil society, and the private sector; (ii) policy dialogue; (iii) country reporting; (iv) aid and development partner coordination; and (v) external relations and information dissemination. Specific functions include country programming, project processing, and project administration.

V. BUDGETARY REQUIREMENTS

22. **Capital expenditure.** A capital expenditure budget of \$4.02 million is required to cover the one-time cost of establishing seven new country offices in the Cook Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, and Tuvalu. Capital expenditure will be depreciated over useful life based on the nature of the expenditure.²¹ The depreciation cost will form part of the administrative expenses (overhead costs). A summary of the capital expenditure budget for the one-time establishment cost is presented in Appendix 1. The depreciation cost is included in Appendix 2 (under item B: Administrative Expenses).

23. **Annual internal administrative expenses.**²² The estimate for the annual operational expenses for this proposal is \$1.71 million, consisting of \$1.52 million in staff costs (salaries and benefits)²³ and \$0.19 million for business travel and other costs. Of the annual staff costs of \$1.52 million, about \$1.41 million are staff costs for the existing four extended missions, as well as redeployed and optimized staff positions.²⁴ Out of 18 staff positions required for this proposal, 12 positions will be met through redeployment and staffing optimization within PARD.²⁵ Therefore, the net incremental requirement is six new administrative staff positions, with a net incremental annual staff cost of about \$0.11 million. Including the incremental costs of \$0.07 million for business travel and others, net incremental annual operational costs is estimated at \$0.18 million.

24. The estimate of the annual administrative expenses for 11 country offices (recurring costs for overhead and depreciation) is \$2.02 million,²⁶ including \$0.61 million for the four existing extended missions.²⁷ The net annual incremental administrative expenses is estimated at \$1.42 million; these are office costs (e.g., rental, depreciation, communications, etc.) that are separate from staff-related costs. Total net incremental internal administrative expenses (IAE) (i.e., operational and administrative expenses covering both staff-related and non-staff-related costs) is estimated at \$1.60 million, which will be included in the 2019 IAE budget. This net increase will contribute 0.24% to the growth of the 2019 IAE budget (using 2018 as a base). A summary of the operational and administrative expenses is presented in Appendix 2.

²¹ The cost of fit-out works and associated costs will be depreciated over 5 years. Others include computer equipment (3 years), telecommunication equipment (7 years), and furniture and furnishings (10 years).

²² ADB's net internal administrative expenses budget for 2018 is \$672.26 million, consisting of the budget categories for (i) Board of Governors, covering the cost of the ADB annual meeting; (ii) Board of Directors, comprising three subcategories: (a) Offices of the Directors, (b) Accountability Mechanism, and (c) Independent Evaluation; (iii) operational expenses, covering staff costs (salaries and benefits of staff and Management), staff development, relocation, consultants, business travel, and representation; (iv) administrative expenses, covering overhead costs such as communication, office occupancy (rental, utilities, security, etc.), and others (library and subscription, equipment, maintenance and support services mainly for information technology services, contractual services, insurance, depreciation, and miscellaneous); and (v) general contingency, which is 1% of the total budget in categories (i)–(iv).

²³ Includes staff costs for 24 staff, comprising two international staff (deployed in extended missions in Solomon Islands and Vanuatu), 11 national staff, and 11 administrative staff.

²⁴ The existing positions include two international staff positions (deployed in extended missions in Solomon Islands and Vanuatu), four national staff (Samoa, Solomon Islands, Tonga, and Vanuatu), two national staff positions being redeployed from headquarters to the field offices; and 10 positions (five national staff and five administrative positions) optimized through conversion from one international staff position in headquarters.

²⁵ New additional staff positions required for the establishment of 11 country offices include 7 national staff and 11 administrative staff.

²⁶ Annual administrative expenses include office rent, security services, communications, office supplies, insurance and depreciation of fit-out costs, information technology infrastructure, vehicles, and other capital expenditures.

²⁷ The extended missions are in Samoa, Solomon Islands, Tonga, and Vanuatu.

VI. RECOMMENDATION

25. The President recommends that the Board approve the establishment of 11 Pacific country offices, which involves the conversion of four extended missions (Samoa, Solomon Islands, Tonga, and Vanuatu) and the establishment of seven new offices in the Cook Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, and Tuvalu, with a capital expenditure budget of \$4.02 million to cover the one-time establishment cost of the seven offices.

**ONE-TIME ESTABLISHMENT COST
FOR SEVEN PACIFIC COUNTRY OFFICES**
(\$'000)

Item	Amount
1. Information and communication technology facilities ^a	1,030
2. Fit-out ^b	976
3. Security-related fit-out work and equipment ^c	350
4. Furniture and furnishings ^d	223
5. Missions from headquarters ^e	140
6. Vehicle	560
7. Project management	343
8. Power generator and air conditioning system	280
9. Contingency ^f	116
Total	4,018

Notes:

(i) Numbers may not sum precisely because of rounding.

(ii) The seven new offices will be in the Cook Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, and Tuvalu.

^a Includes telecommunication equipment, networking, and computer equipment and accessories.

^b Covers design, architectural, engineering, and associated program management costs.

^c Security-related fit-out work and equipment, and includes access control system, CCTV system, fire alarm system, shatter resistant film for external windows, and fire extinguishers.

^d Includes local décor or artwork.

^e Includes travel expenses of Office of Information Systems and Technology (two staff) and Office of Administrative Services (two staff).

^f This is 5% of the costs of fit-out, security-related fit-out work and equipment, furniture and furnishings, missions from headquarters, project management, power generator and air conditioning system.

Sources: Asian Development Bank estimates.

**INDICATIVE ANNUAL INTERNAL ADMINISTRATIVE EXPENSES FOR
11 PACIFIC COUNTRY OFFICES**

(\$'000)

Item	Amount
A. Operational Expenses	
1. Staff costs ^a	1,518
2. Business travel, representation, overtime	190
Subtotal	1,708
Less: Staffing optimization and cost of existing positions in the four extended missions ^b	1,407
Discretionary expenses of the existing four extended missions ^c	116
Incremental Operational Expenses (A)	184
B. Administrative Expenses	
1. Communications	232
2. Office occupancy	745
3. Depreciation ^d	983
4. Others ^e	64
Subtotal	2,024
Less: Administrative expenses of the existing four extended missions	607
Incremental Administrative Expenses (B)	1,417
Total Indicative Incremental Internal Administrative Expenses (A + B)	1,601

Notes:

(i) Numbers may not sum precisely because of rounding.

(ii) The four extended missions are in Samoa, Solomon Islands, Tonga, and Vanuatu.

^a Includes salaries and benefits.

^b Staffing optimization refers to redeployment of staff positions and conversion of international staff position to national and administrative staff positions.

^c Includes business travel, representation, and overtime.

^d Consists of \$0.79 million for the seven new country offices and \$0.19 million for the existing extended missions.

^e Includes office supplies, vehicle rental, insurance, and miscellaneous expenses.

Sources: Asian Development Bank estimates.