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East Asia & Pacific

## What is the *Public Expenditure Review (PER)* for Nine Pacific Island Countries?

The Public Expenditure Review (PER) for Nine Pacific Island Countries – titled *Raising Pasifika: Strengthening Government Finances to Enhance Human Capital in the Pacific* – aims to improve the efficiency of public spending in the health, education, and social sectors, and to increase domestic revenues across nine Pacific Island Countries (specifically, the ‘PIC-9’):



Kiribati



Nauru



Republic of the Marshall Islands (RMI)



Federated States of Micronesia (FSM)



Palau



Samoa



Tonga



Tuvalu



Vanuatu

This new World Bank report provides a set of recommendations for the PIC-9 governments to address many of their key public spending challenges and ultimately help each country and the wider Pacific region achieve its development goals.



### Why is a review of public finances so important ?

**Public finance has a critical role to play in building the knowledge, skills, and health that people need to reach their potential (known as ‘human capital’). This is a central element for a green, resilient, and inclusive recovery.** Human capital is a crucial driver of economic growth and development, poverty reduction, and improved wellbeing. Limited human capital is a key constraint to inclusive growth in the PIC-9.

Yet, human development in the PIC-9 (measured by the Human Capital Index, HCI) was low prior to the pandemic, relative to their level of income and public spending.

As the PIC-9 emerge from the pandemic and other shocks, Pacific governments will need to turn their attention to building back fiscal buffers, supporting growth, and addressing key development goals. The pandemic and associated border closures have highlighted that to improve livelihoods and support a diversification in the drivers of economic growth, the PIC-9 must invest in their greatest resource: **their people.**

# What are the report's key areas of concern?

An education crisis, the non-communicable diseases (NCDs) epidemic, and high vulnerability to climate change and natural disasters impose substantial costs on the PIC-9 that require urgent action.



## A

The Human Capital Index shows that the **average child born** in the PIC-9 today will be only **half as productive** when they grow up as they would have been if they had optimal **health and education**. Across the region (except Palau), too many 10-year-olds are not acquiring minimum proficiency in literacy and numeracy.



**HALF AS PRODUCTIVE**

as if they'd had optimal health and education

## B

Largely due to **Non-Communicable Diseases (NCDs)**, Pacific Islanders **lose over 37 years of life** from premature morbidity and mortality for **every 100 citizens**, 16 percent more than in similar countries. Without intervention to address the NCDs epidemic, the economic burden is projected to increase by 5–9 percent of GDP by 2040.



## C

Implementation of the **Pacific Agreement on Closer Economic Relations (PACER Plus)**—a regional free trade agreement—could result in **losses of 2–14 percent of revenues**, curbing the region's capacity to finance key development spending



## D

Finally, the **Pacific** is one of the world's most **disaster-prone regions**, and among the most **exposed to sea-level rise**. Left unaddressed, these challenges risk making the **economies weaker, societies more unequal, and families poorer and more vulnerable**.



# What are the report's key recommendations?

## » 1 CAREFULLY MANAGE PUBLIC SPENDING

Fiscal consolidation is necessary to balance country budgets, and to avoid a sharp cut to public services in the future. The fiscal adjustment could include a gradual increase in domestic revenues and containing expenditure at prudent levels, along with improving the quality of spending.

A medium-term fiscal adjustment is needed to meet the region's large development spending needs, while managing the risk of debt distress and rebuilding fiscal buffers to prepare for future shocks.



## » 2 INCREASE DOMESTIC REVENUE

Closing part of the large tax gaps for Pacific countries —estimated to be 8–17 percent of GDP—need to be at the heart of the countries' medium-term revenue strategies.

However, the challenge of increasing taxation is to avoid increasing tax burdens on a country's most vulnerable people. This challenge is best addressed by:

- i. strengthening direct taxes, so that the tax system is progressive, with the higher-income deciles paying more; and
- ii. ensuring that spending supports the poor and vulnerable, including through targeted cash transfers, and public goods and services consumed by the poor and vulnerable.

In addition, greater regional cooperation in the management of fishing license fees has the potential to generate substantial increases in domestic revenues for several of the PIC-9 countries.

## » 3 IMPROVE EDUCATION OUTCOMES AND EFFICIENCY

The PER recommends:

- i. Making improved learning outcomes for all children a national priority.
- ii. Ensuring education strategies and curriculum are consistent with international evidence.
- iii. Improving education data – which will help to guide decisions.
- iv. Exploring ways of reducing 'overhead' costs, including through enhanced regional cooperation, focusing on which functions could be delivered better through cooperation.
- v. Widening access to Early Childhood Education from the age of three, through local centers close to the population settlements.
- vi. Expanding access to secondary education for children residing in the most remote areas.



## »» 4 STRENGTHEN THE QUALITY AND EFFICIENCY OF HEALTH CARE



The PER recommends:

- i. Strengthening corporate and clinical governance in the health sector.
- ii. Better management and coordination of patient medical referrals (both local and overseas).
- iii. Strengthening supply chain management systems for pharmaceutical and medical supplies; reducing costs, stock-outs, and wastage.
- iv. Improve the management of health infrastructure and utilities.
- v. Reviewing the total number of health facilities and better management of health workers.
- vi. Better integration of health services across the 'continuum of care'; particularly the prevention, detection, and routine management of NCDs.
- vii. Empower staff to take timely action, informed by quality information.

## »» 5 INVEST IN SOCIAL PROTECTION

Social protection is a key enabler of inclusive growth, a builder of human capital, and essential for reducing poverty. With that in mind, the PER recommends:

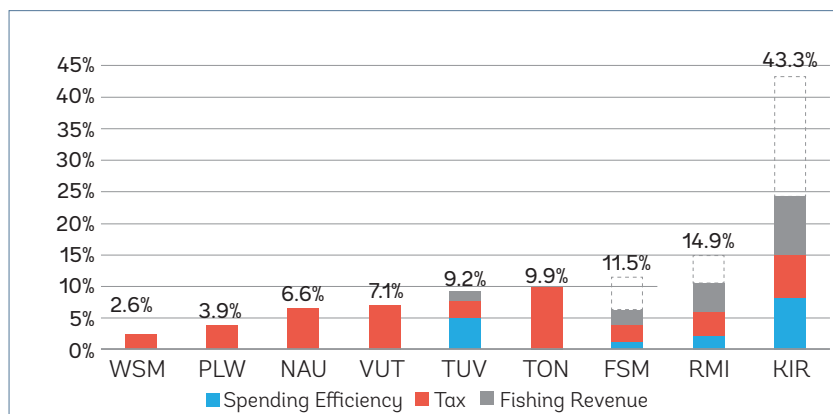
- i. Allocating more resources to social assistance, with the aim of bringing spending towards the global average of 1.5 percent of GDP.
- ii. Improving the targeting of social assistance, such as through poverty-targeted cash transfers and employment support.
- iii. Investing in social assistance programs and delivery systems to improve support to the poor and vulnerable.
- iv. Investing in employment and productive inclusion services.
- v. Committing to reforms to social insurance.



## What could these recommendations deliver?

The reforms identified in this report could deliver a fiscal impact of **3–43 percent of GDP** for each of the PIC-9 countries, as outlined in the following graph:

**Reform recommendations could deliver a fiscal impact of 3–43 percent of GDP for each of the PIC-9**



Note: Spending efficiency measures refer to the education, health, and social protection sectors. For fishing revenues, the solid bars represent the estimated minimum impact of the reforms, while the dotted bar represents the estimated maximum impact.

 **Learn more:**

Explore the full report and its recommendations:

[www.worldbank.org/pacificislands](http://www.worldbank.org/pacificislands)

