Pacific Economic Update:
Employ Women, Empower the Pacific: A Strategy for Uncertain Times

June 2025

The Pacific Economic Update provides analysis of 11 Pacific Island countries (PIC-11): Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

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Preface and Acknowledgements

The Pacific Economic Update (PEU) is a semi-annual publication that informs business leaders, citizens, international partners, and policymakers about economic trends and key development issues in eleven Pacific Island countries (PIC-11): the Federated States of Micronesia (FSM), Fiji, Kiribati, the Republic of the Marshall Islands (RMI), Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Part One provides an overview of recent economic developments, the outlook, and associated risks. Part Two examines the challenges related to female labor force participation in the Pacific, with a focus on women in the energy sector. It offers policy recommendations to increase participation, thereby bolstering economic resilience and fostering sustainable growth.

This edition of the PEU was led by Ekaterine Vashakmadze (Senior Economist) and Vishesh Agarwal (Economist). Guidance was provided by Stephen N. Ndegwa (Division Director), Lalita Moorty (Regional Practice Director), Lars Christian Moller (Practice Manager), and Ingo Wiederhofer (Practice Manager). Stefano Mocci (Country Manager), Annette Leith, Omar Lyasse (Resident Representatives), Ralph Van Doorn (Program Leader and Lead Economist), Sonya Woo (Program Leader and Senior Social Development Specialist), and Sandor Karacsony (Senior Economist) offered additional insights.

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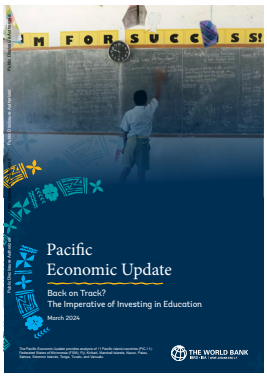

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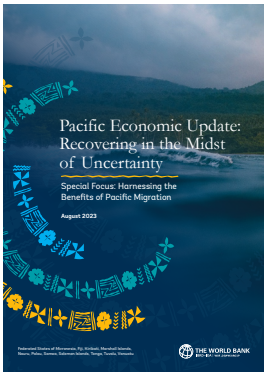

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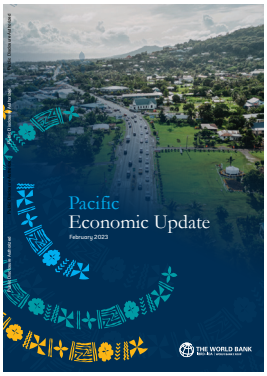

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Abbreviations and Acronyms

ADB	Asia Development Bank
AEs	advanced economies
CBSI	Central Bank of Solomon Islands
COVID-19	Coronavirus
CPI	consumer price index
DAC	Development Assistance Committee
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific
ECP	Economic Citizenship Program
EMDEs	emerging markets and developing economies
FDI	foreign direct investment
FLFP	female labor force participation
FSM	Federated States of Micronesia
FY	financial year
GDP	gross domestic product
GEGI	Gender Employment Gap Index
HIES	Household Income and Expenditure Survey
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
LFP	labor force participation
LFS	labor force survey
LMIC	lower-middle-income country
MENA	Middle East and North Africa
MICS	Multiple Indicator Cluster Survey
NEET	youth not in employment, education, or training
NRBT	National Reserve Bank of Tonga
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PALM	Pacific Australia Labour Mobility Scheme
PEU	Pacific Economic Update
PIC-9	Pacific-9 countries (Federated States of Micronesia, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu)
PIC-11	PIC-9 plus Fiji and Solomon Islands
PICs	Pacific Island countries
PPP	Purchasing Power Parity
R&D	research and development
RERF	Revenue Equalization Reserve Fund
RMI	Republic of the Marshall Islands
RPC	Regional Processing Centre
SAR	Special Administrative Region
SOE	state-owned enterprise

STEM	science, technology, engineering, and mathematics
SWF	Sovereign Wealth Fund
UMIC	upper-middle-income country
US	United States
USP	University of the South Pacific
VAT	Value Added Tax
WB	World Bank

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Executive Summary

The World Bank's Pacific Economic Update (PEU) highlights critical challenges facing 11 Pacific Island countries (PIC-11), including a global economic slowdown and trade policy uncertainty, set against the backdrop of vulnerabilities from limited diversification, natural hazards, and climate-related events.[1] To confront these formidable issues, the report underscores the importance of building resilience. It delves into empowering women with quality jobs and integrating economic and gender strategies, with a particular focus on the energy sector, for sustainable growth and stability.

Growth in the PIC-11 slowed from 5.5 percent in 2023 to 3.8 percent in 2024 and is projected to decelerate further to 2.6 percent in 2025, a slower pace than previously anticipated. This slowdown primarily reflects the diminishing post-pandemic rebound in Fiji, the largest economy in the group. In Solomon Islands, economic growth has been hovering at about 2.5 percent, with further acceleration constrained by structural limitations. Additionally, the slowdown is influenced by deteriorating global economic conditions, including slower global growth, more restrictive trade policies, and increased policy uncertainty, impacting the region's economic outlook.

1. The PIC-11 refers to the Federated States of Micronesia (FSM), Fiji, Kiribati, Republic of the Marshall Islands (RMI), Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Aggregate growth in tourism- and remittances-led countries—including Palau, Samoa, Tonga, and Vanuatu—is projected to soften after two years of robust growth. This group saw growth remain steady at an estimated 5.0 percent in 2023 and 2024, driven by a delayed recovery in tourism. However, growth is projected to decelerate to 2.6 percent in 2025. Individual country performance has been mixed, reflecting varying paces of tourism recovery and country-specific conditions, including the impact of a dual shock in Vanuatu.

Aggregate growth in sovereign rent-led countries—including the Federated States of Micronesia (FSM), Kiribati, the Republic of the Marshall Islands (RMI), Nauru, and Tuvalu—has been relatively subdued and volatile. Growth in this group increased from 0.4 percent in 2023 to 2.4 percent in 2024, driven by large fiscal stimulus spending in Kiribati, improved non-tax revenues, and donor-financed public spending. Growth is projected to slightly increase to 2.5 percent in 2025.

The inflation rate fell from 7.4 percent annually in 2023 to an estimated 4.2 percent in 2024 and is projected to decrease to 3.6 percent in 2025, barring unexpected shocks. This broad-based reduction aligns with the global trend of falling inflation and reflects the region's reliance on imported commodities. The easing of inflation has alleviated cost-of-living pressures for households. Despite the decline, inflation is projected to remain above pre-pandemic levels in 2025-26, with cumulative price increases from recent years continuing to burden households navigating elevated prices for essential goods and services.

Fiscal positions in the PIC-11 have improved as some countries pursue fiscal consolidation. Fiji's fiscal balance is back to pre-pandemic levels but still in deficit. The fiscal balance in Solomon Islands remains in deficit and has not yet returned to pre-pandemic levels. Tourism- and remittances-led countries, except for Vanuatu, recorded fiscal surpluses exceeding pre-pandemic levels, with a median fiscal surplus of 3.5 percent in 2024. Conversely, sovereign rent-led countries have seen their fiscal surpluses erode, with a median surplus of 0.1 percent in 2024, down from around 20 percent pre-pandemic. Over the past two years, Debt Sustainability Analysis ratings for Solomon Islands, Samoa, and FSM have improved, while Vanuatu's rating has deteriorated.

Declining inflation in 2024 allowed most of the PIC-11 to reduce interest rates and maintain them at low levels, a trend expected to continue into 2025. Monetary policy was kept broadly accommodative, with Fiji and Tonga keeping their policy rates unchanged. They are anticipated to maintain this stance throughout 2025. In Solomon Islands, Samoa, and Vanuatu, easing inflationary pressures provided room to normalize interest rates while broadly retaining accommodative monetary policy positions. The remaining countries do not have independent monetary policy owing to the use of the Australian dollar (e.g., Kiribati, Nauru, and Tuvalu) and U.S. dollar (e.g., FSM, Palau, and RMI) as legal tender.

In 2024, Fiji and Solomon Islands experienced notable reductions in their current account deficits, while other Pacific countries displayed varied trends. Fiji's deficit was halved from 15.3 percent of GDP in 2023 to 7.0 percent in 2024, driven by a surge in tourism and increased remittance inflows. Solomon Islands saw its deficit narrow from 10.7 percent of GDP in 2023 to 4.3 percent in 2024, benefiting from improved terms of trade driven by reduced fuel import prices and rising mineral exports. Palau returned to its pre-pandemic deficit levels in 2024, thanks to a delayed but substantial recovery in tourism. Conversely, Vanuatu faced challenges, with its deficit widening from 2.1 percent of GDP in 2023 to 7.6 percent in 2024. This was primarily due to a sharp decline in travel receipts following the liquidation of Air Vanuatu.

The growth outlook for the PIC-11 over the decade indicates a slowdown, with projected average annual growth around 2.0 percent per year for 2020-29. This is a decrease from an average of 3.0 percent per year during 2010-19. This decline is attributed to several compounded factors, including a global economic slowdown and the increased frequency and severity of shocks such as the COVID-19 pandemic, natural hazards, and climate related events, all occurring amid persistent structural constraints. Fiji and Solomon Islands are expected to see their average annual growth slow to 2.4 percent and 2.1 percent, respectively. Slower growth is also predicted for tourism- and remittances-led countries, with rates dropping to 1.4 percent. Sovereign rent-led countries show varied growth projections, generally lower than historical rates. Growth in FSM and RMI is expected to align with pre-pandemic averages due to the renewed U.S. Compact agreement.

The baseline projections already consider the effects of the global economic slowdown and trade policy uncertainty. Most Pacific Island economies are expected to be notably affected by slower global growth, policy uncertainty, and increased tariffs, with average growth potentially declining by around 0.2 percentage points in 2025. This decline is attributed to both direct and indirect channels, including reduced goods exports, lower inbound tourism, and slower remittances flows. The situation could worsen if global growth slows more than expected and trade policies become more restrictive, further affecting exports, tourism, and remittances. Additionally, a potential rebound in global import prices, driven by tariff increases and the fragmentation of trade and investment networks, could exacerbate the situation. The rising costs of importing machinery, equipment, and other capital goods may hinder long-term growth in the region.

Additionally, high levels of aid dependency make the PIC-11 vulnerable to shifting fiscal and policy priorities in donor countries, particularly sovereign rent-led PICs. Several Pacific countries face critical risks from aid volatility. Cumulative grant inflows are equivalent to nearly 40 percent of gross national income in the Republic of the Marshall Islands and Federated States of Micronesia, about 35 percent in Tuvalu, and 20 percent in Palau. The origin of grant inflows varies, with the Republic of the Marshall Islands and Federated States of Micronesia particularly reliant on the United States, while other PICs are more exposed to geographically closer countries such as Australia, China, Japan, and New Zealand. Policy changes and fiscal pressures in donor countries could severely constrain aid flows to PICs.

The challenging medium-term growth outlook in PICs and numerous risks highlight the need to safeguard economic growth and build resilience. Without this, PICs risk experiencing continued economic divergence. Building resilience in PICs should involve improving the ability to anticipate and adapt to external shocks without compromising development goals.

Previous Pacific Economic Updates have concentrated on demand-side policies to boost economic growth and employment (see Box 3) such as: enabling investment in high-potential sectors like the blue economy; addressing infrastructure deficiencies; building resilience against disasters; fostering private investment; and leveraging global funding (World Bank 2024c).

In contrast, the current update shifts focus to supply-side policies, specifically targeting the untapped potential of female participation to boost growth. Despite steady economic growth across the PIC-11, female labor force participation in the region remains remarkably low. The weighted average labor force participation rate in the PIC-11 is 53.7 percent, with 64.9 percent of males and only about 42.7 percent of females participating. This means that approximately half a million (57.3 percent) working-age women in the PIC-11 are not part of the labor force.[2] In comparison, the share of working-age women not participating in the labor force is 40 percent in the East Asia and Pacific region and about 48 percent in the Latin America and Caribbean region.

Raising female employment rates to match those of men could yield significant economy-wide returns. Research has found that closing gender gaps in employment in the PIC-11 would, on average, result in a 22 percent higher long-run GDP per capita (Pennings 2022). Individual gains range from 2.3 percent in Solomon Islands and 9.7 percent in Palau, to 30.1 percent in Fiji and 37 percent in the Republic of the Marshall Islands. In the Pacific, harnessing the untapped potential of the female labor force is crucial for accelerating structural transformation, particularly in promising industrial sectors such as energy.

Part Two of the Pacific Economic Update provides an overview of female labor force participation in the Pacific, offering a sectoral analysis of the energy sector.[3] It highlights the barriers that have led to women's underrepresentation and, to address these challenges, recommends three overarching policy interventions: (1) Close skills/education gaps; (2) Restructure care responsibilities; (3) Ensure equal rights and protections in the workplace (see Table 2.1).

2. Data from ILOSTAT (latest actual survey data except for Solomon Islands which is based on 2019 Census, p.134). https://statistics.gov.sb/download/60/solomon-islands-2019-population-and-housing-census-national-report_volume-1-and-2/1208/solomon-islands-2019-population-and-housing-census_national-report-vol-1-2.
3. Information on women in the Pacific energy sector in Part Two is based on the World Bank's *Pacific Women in Power: Women's Employment in the Pacific Power Sector* baseline report which was prepared in close collaboration with the Pacific Power Association.

PART 1:

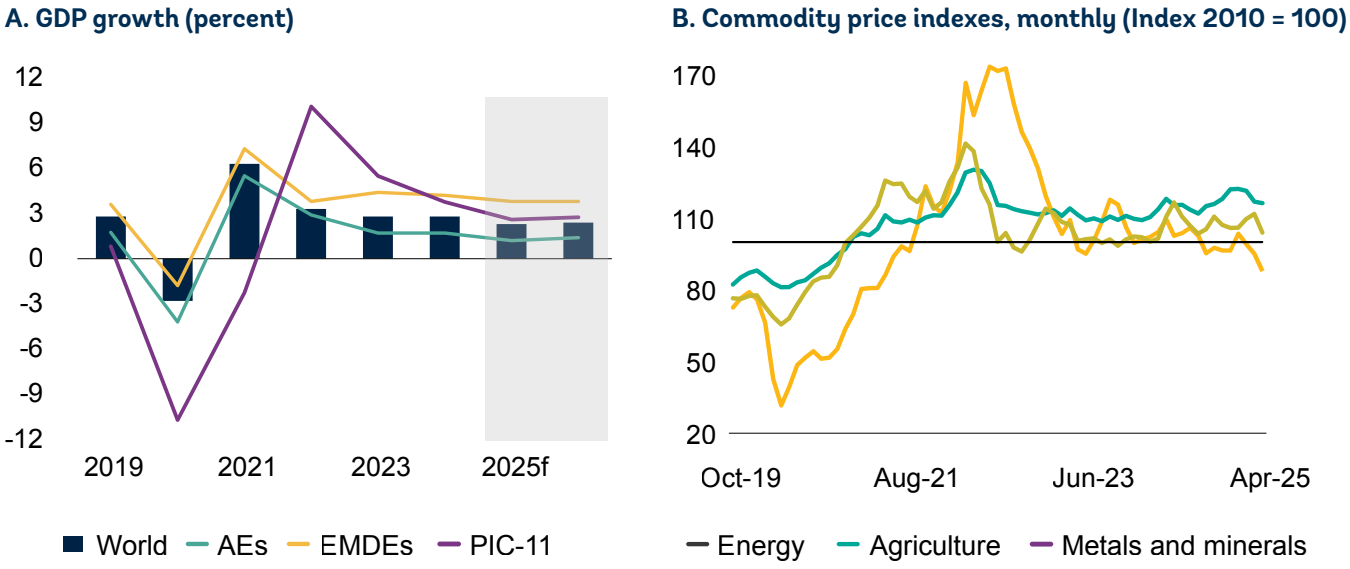
Economic Overview: Short-term Resilience Amid Global Uncertainty

1.1 How Does the Global Economic Context Affect the PIC-11?

The global economic context has become less favorable due to increasing trade policy restrictions, uncertainty about further trade policy changes, and a deteriorating global growth outlook. For the PIC-11, worsening external conditions could limit long-term growth, prevent the healing of pandemic-related economic scars, and delay convergence.

1. **Steady but modest global growth in 2024 supported the delayed yet sustained recovery of 11 Pacific Island countries (PIC-11) to pre-pandemic output levels.**[4] Global growth was steady at about 2.8 percent in 2024, unchanged from the previous year (Figure 1.1.A). This stability was driven by the resilience of the U.S. economy and major emerging market and developing economies (EMDEs) such as India and Indonesia. The consistent global growth provided a favorable environment for the PIC-11 to rebuild their economies by increasing remittances, enhancing trade activities, and boosting tourism.

Figure 1.1 GDP growth and global commodity prices



Sources: International Monetary Fund; World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; f = forecast; PIC-11 = Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
B. Last observation is April 2025.

4. The PIC-11 refers to the Federated States of Micronesia (FSM), Fiji, Kiribati, Republic of the Marshall Islands (RMI), Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

2. **The rebound in tourism and travel has become more balanced in 2024, with the East Asia and Pacific (EAP) region catching up with the rest of the world.** Tourism has been the main driver of the PIC-11's delayed rebound. In 2024, an estimated 1.4 billion tourists traveled internationally, marking a near-complete recovery to pre-pandemic levels and an 11 percent increase over 2023. East Asia and Pacific, with 316 million tourists, continued to experience a rapid recovery in 2024, though arrival numbers were still 13 percent lower compared to pre-pandemic levels. The delayed recovery of East Asia and Pacific tourists has particularly benefited Palau, which is heavily reliant on travelers from Asia.

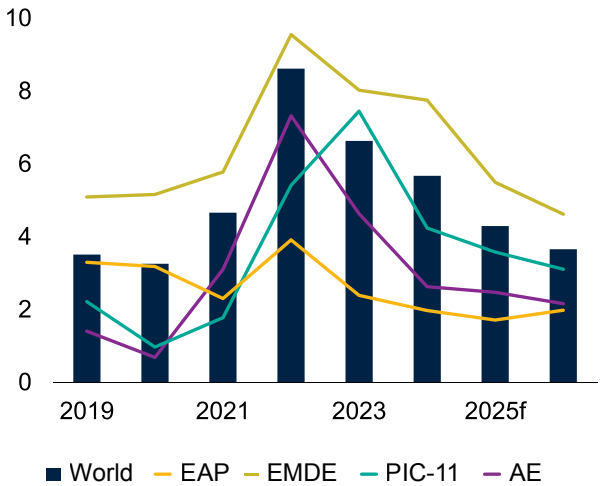
3. **Tourism in the Pacific is estimated to have increased by around 12 percent in 2024 compared to 2023, reflecting a broader global trend of significant recovery in international tourism post-pandemic.** This increase can be attributed to several factors, including pent-up demand after years of travel restrictions due to the COVID-19 pandemic, improved air connectivity, especially in EAP, ongoing economic recovery boosting consumer confidence and spending on travel, and strategic tourism initiatives implemented by various Pacific Island countries to attract tourists, such as marketing campaigns and infrastructure improvements.

4. **The tourism outlook for the Pacific is currently facing uncertainty, primarily due to an anticipated weakening in global economic growth, projected to slow to 2.3 percent in 2025.** This reflects a weaker economic performance across most countries compared to 2024. Early data from Fiji exemplifies this trend, with a reported 4 percent decline in tourist arrivals in the first quarter of 2025, particularly from major markets such as Australia, New Zealand, and the USA. This decline and broader global uncertainties challenge the previously optimistic forecast for the EAP region, which anticipated a 3-5 percent growth in international arrivals for 2025.

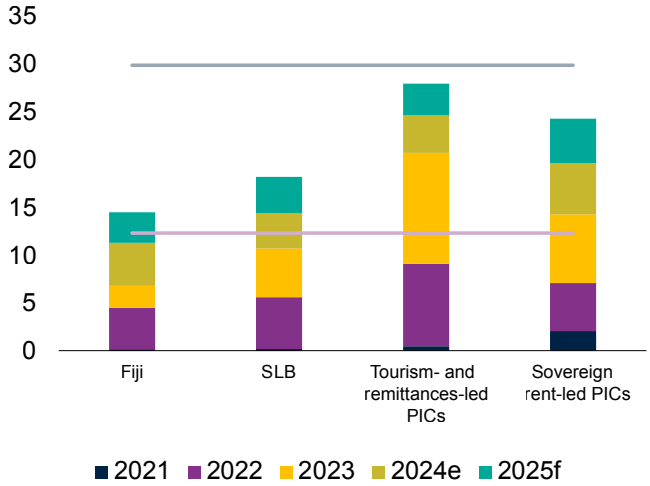
5. **Last year, the decline in global commodity prices, primarily driven by a 5 percent drop in energy prices, contributed to easing inflationary pressures worldwide, including in the Pacific region (Figures 1.1.B and 1.2.A).** Commodity prices continued to decline in early 2025, falling by 11 percent year to date as of end-April, largely driven by lower energy and agricultural prices. Looking ahead, commodity prices are projected to decline by 12 percent in 2025 and a further 5 percent in 2026, as slowing global economic growth dampens demand. Brent crude oil is forecast to average $64 per barrel in 2025, $60 in 2026, and $65 in 2027. For most of the PIC-11, continued declines in global food and energy prices may offer some relief from imported inflation and external pressures although price volatility remains a key risk given their high import dependence.

Figure 1.2 Consumer price inflation and change in consumer price index

A. Consumer price inflation (percent)



B. Change in consumer price index (Index, 2019 = 100; percent)



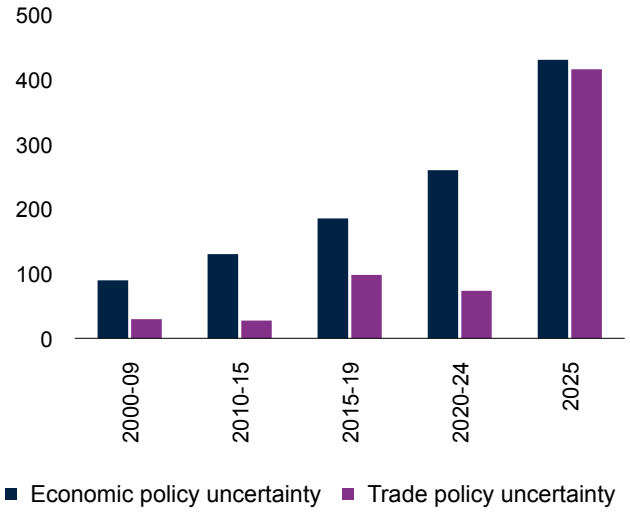
Sources: International Monetary Fund; World Bank.
Note: AEs = advanced economies; e = estimate; EAP = East Asia and Pacific; EMDEs = emerging market and developing economies; f = forecast; PIC-11 = Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu; SLB = Solomon Islands. Weighted averages for all indicators, except inflation for PIC-11, which is shown as the median for the group.
B. Last observation is April 2025. The grey line shows the cumulative change in the global CPI index from 2019 to 2025; the pink line shows the same for EAP.

6. **The recent decline in commodity prices has provided some relief to these nations by easing inflationary pressures (Figure 1.2.A).** However, the cost of living remains elevated due to multiple years of high inflation following the pandemic (Figure 1.2.B). This prolonged period of inflation has significantly impacted household budgets, making it challenging for many to manage their expenses. Looking ahead, the projected decline in commodity prices over the next two years could benefit Pacific countries by reducing import costs and helping to stabilize their economies. The forecasted decrease in Brent crude oil prices is particularly relevant, as lower energy costs can lead to reduced transportation and production expenses, ultimately benefiting consumers and businesses alike. However, Pacific nations must remain vigilant and adaptable to the volatile nature of global commodity markets, ensuring they have strategies in place to mitigate potential adverse effects on their economies.

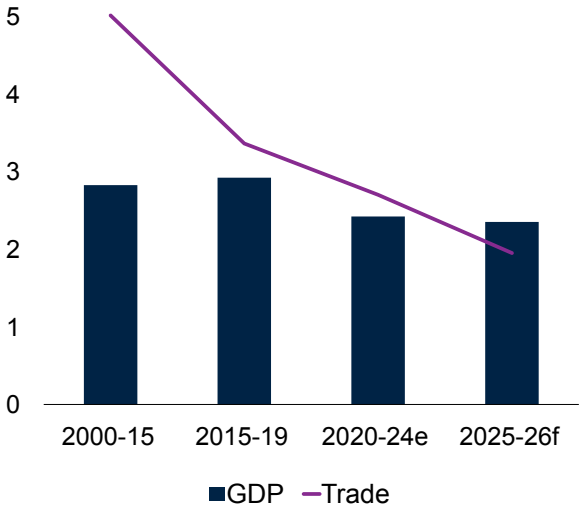
7. **Global economic policy uncertainty surged in early 2025, rising to approximately 65 percent above the 2020-24 average (Figure 1.3.A).** This increase was influenced by the introduction of new tariffs and the growing uncertainty surrounding trade policies. These factors have contributed to a decline in confidence and a cautious approach to investment (Annex 2). Global trade in goods and services is projected to slow in 2025, to 1.6 percent, down from 3.4 percent in 2024 (Figure 1.3.B). The heightened trade restrictions pose significant risks to the PIC-11 (see Section 1.3). The increased tariffs and trade policy uncertainty could lead to higher import costs, affecting the cost of living and economic stability. Additionally, slower global growth, including among major trade partners, could reduce tourism flows and remittances, further impacting PIC-11 economies.

Figure 1.3 Global economic and trade policy uncertainty and global GDP and trade growth

A. Global economic policy and trade policy uncertainty (index)



B. Global GDP and trade growth (percent)



Sources: Global Trade Alert; International Monetary Fund; World Bank.
Note: Trade = trade volume of goods and services.
A. Economic policy uncertainty is a GDP-weighted average of 15 advanced economies and 5 EMDEs using current price-adjusted GDP. The 2025 policy uncertainty figure reflects actual data for the first quarter.

1.2 Recent Economic Developments and Near-term Outlook in the PIC-11

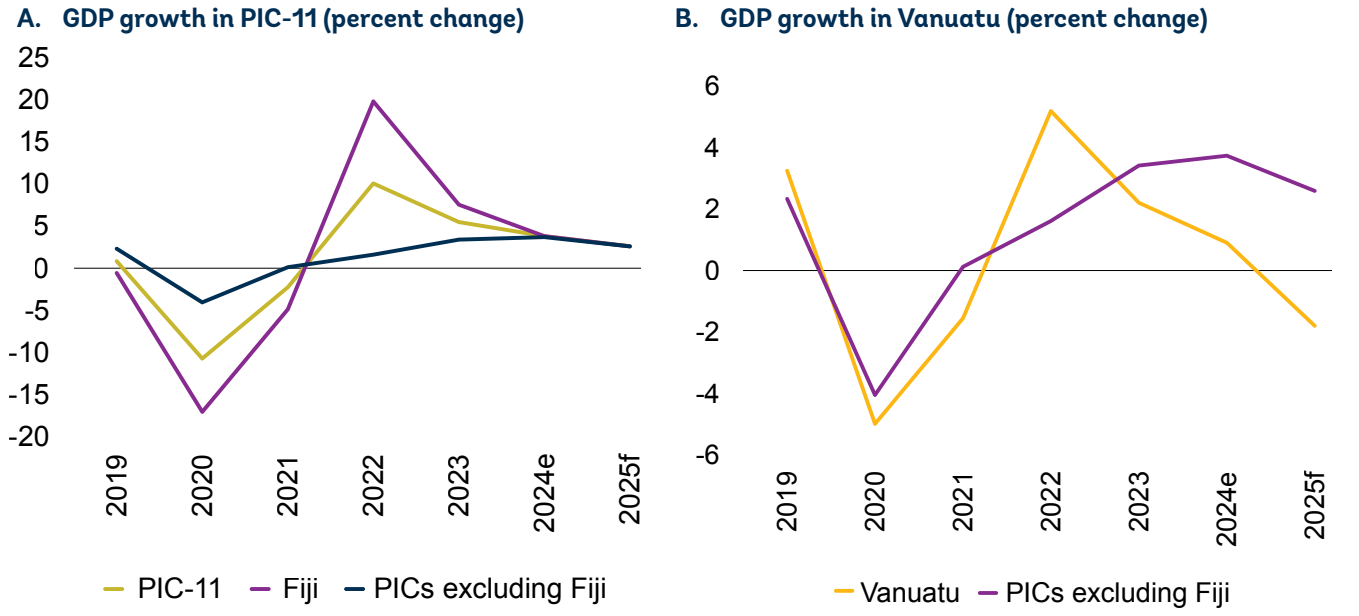
PIC-11 economies continued to demonstrate remarkable resilience in 2024, with growth slightly exceeding expectations. In most countries, output has not only surpassed pre-pandemic levels but also continues to expand. However, growth momentum has moderated, with early signs of a further slowdown emerging in 2025. The medium-term outlook also points to a deceleration in growth, as projections have been revised downward amid weaker global demand and heightened trade policy uncertainty. Meanwhile, despite a sharp drop in global commodity prices, the pace of disinflation has slowed, and the risk of inflation reversal has resurfaced—driven by persistent cost-of-living pressures on households stemming from the earlier inflation surge.

1.2.1 Growth

Recent developments

8. **Growth in the PIC-11 slowed to 3.8 percent in 2024, down from 5.5 percent in 2023.** This gradual deceleration aligns with the pre-pandemic trend, yet growth rates have remained above their pre-pandemic levels for the third consecutive year (Figure 1.4.A). The slowdown was primarily driven by a deceleration in the two largest economies, Fiji and Solomon Islands. This mainly reflects the diminishing effects of the post-pandemic rebound in Fiji and the dissipation of investment spending related to the organization of the Pacific Games in Solomon Islands. In the PIC-11, excluding Fiji, growth accelerated from 3.4 percent in 2023 to 3.7 percent in 2024. This acceleration was driven by a rebound in sovereign rent-led economies, supported by improved grant financing, higher non-tax revenues, and expansionary fiscal policies.

Figure 1.4 GDP growth



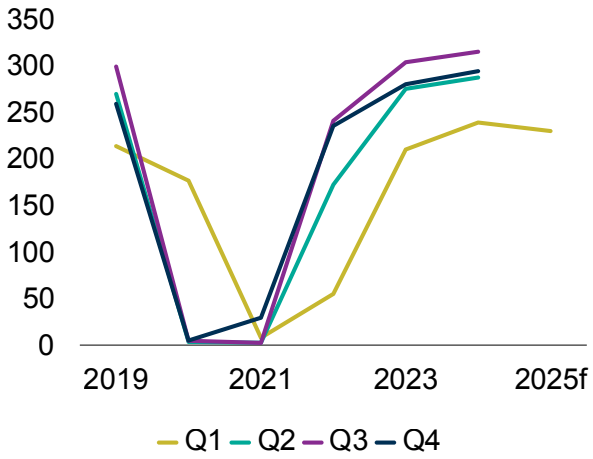
Sources: Haver Analytics; World Bank.
Note: e = estimate; f = forecast; PIC-11 = Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. All data in the report are presented on a calendar year basis for consistency and comparability. For countries with a fiscal year different from the calendar year, data on a calendar year basis are computed based on fiscal year estimates. Data corresponding to fiscal years are explicitly indicated as such.

9. **The overall growth in the PIC-11 for 2024 was 0.2 percentage points stronger than earlier projections.** Stronger-than-expected tourism activity in Fiji provided a boost to PIC-11 growth. Growth in Samoa was exceptionally strong, reaching 9.8 percent. However, it was 1.1 percentage points weaker than initially expected due to faster fiscal and monetary tightening. In Kiribati, despite significant fiscal stimulus, growth in 2024 was about 0.6 percentage points lower than expected, reflecting weak investment. In Vanuatu, the estimated growth in 2024 was aligned with the projected subdued 0.9 percent (Figure 1.4.B).

10. **Growth in Fiji declined to 3.8 percent in 2024.** Despite the deceleration, this marked the third consecutive year of robust performance, indicating a resilient recovery trajectory following a significant contraction. In 2024, Fiji's contribution to PIC-11 growth remained significant, but diminished from over 80 percent in 2023 to about 50 percent in 2024, as the rest of the region rebounded. Growth in Fiji was supported by the continued recovery in tourism. In 2024, total tourist arrivals exceeded 2019 levels by 9 percent (Figure 1.5.A). Visitors from Australia (over 45 percent of total visitors) and New Zealand (23 percent) surpassed pre-pandemic levels by about 24 percent and 10 percent, respectively, compensating for weaker arrivals from China (Figure 1.5.B).

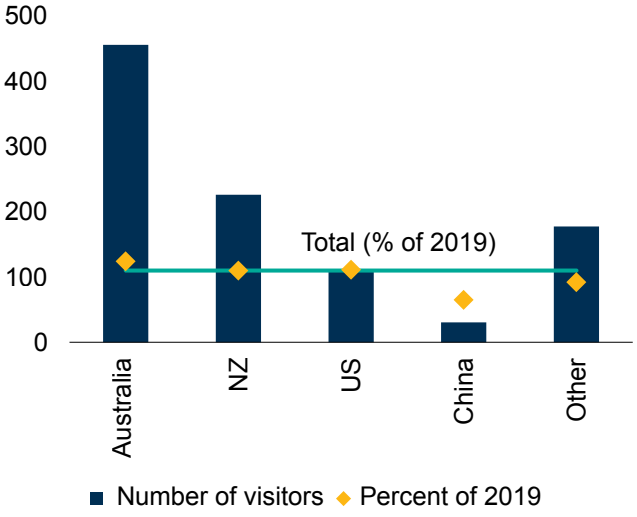
Figure 1.5 Tourist arrivals in Fiji

A. Quarterly arrivals (thousands)



Sources: Haver Analytics; World Bank.

B. Arrivals by country, 2024 (thousands)



Sources: International Monetary Fund; World Bank.
Note: NZ = New Zealand; US = United States.

11. **Growth in Solomon Islands—the second largest economy among the PIC-11—slowed to 2.5 percent in 2024, down from a peak of 2.7 percent in 2023.** Economic activity in 2024 was supported by preparations for national elections, and substantial investments in the energy and transport sectors (including airport upgrades). Additionally, heightened mining activity, particularly at the Gold Ridge mine, bolstered the construction and services sectors. However, these temporary factors have not been sufficient to sustain higher growth rates and offset a structural decline in logging, leading to a slowdown in Solomon Islands' economy (World Bank 2024c).

12. **Tourism- and remittances-led countries continued their economic recovery into the third year, with broad-based growth acceleration (Figure 1.6.A).**[5] This group, including Palau, Samoa, Tonga, and Vanuatu, experienced strong growth of around 5 percent in both 2023 and 2024—significantly above their long-term average. Samoa led the recovery, despite growth moderating to 9.8 percent in 2024, following a strong rebound of 11.4 percent in 2023. Growth in Samoa continued to be fueled by substantial inflows of Australian and New Zealand tourists and increased remittances. Growth in Palau has finally rebounded to an estimated 7.5 percent in 2024, helped by the resumption of international flights and stronger tourism inflows from Asia. This followed three consecutive years of contraction from 2020 to 2022 and subdued 1 percent growth in 2023. Tonga saw a modest acceleration, from 1 percent in 2023 to 1.9 percent in 2024, driven by increased visitor arrivals and ongoing reconstruction efforts. However, growth continued to be limited by the lack of accommodation due to the destruction of hotel infrastructure from the Hunga Tonga-Hung Ha'apai volcano eruption in 2022. Growth in Vanuatu remained subdued at 0.9 percent in 2024, following 2.2 percent growth in 2023 (Box 1).

5. The March 2024 edition of the Pacific Economic Update provides a detailed classification of the PIC-11. Fiji and Solomon Islands are placed in separate categories due to their larger populations and economies. The remaining nine countries (PIC-9) are divided into two sub-groups. The first includes Palau, Samoa, Tonga, and Vanuatu, where tourism and remittances contribute about 41 percent of GDP. The second group includes FSM, Kiribati, RMI, Nauru, and Tuvalu, where fishing and other non-tax revenues make up 30 percent of GDP, and external grants make up over 35 percent of GDP (World Bank 2024c).

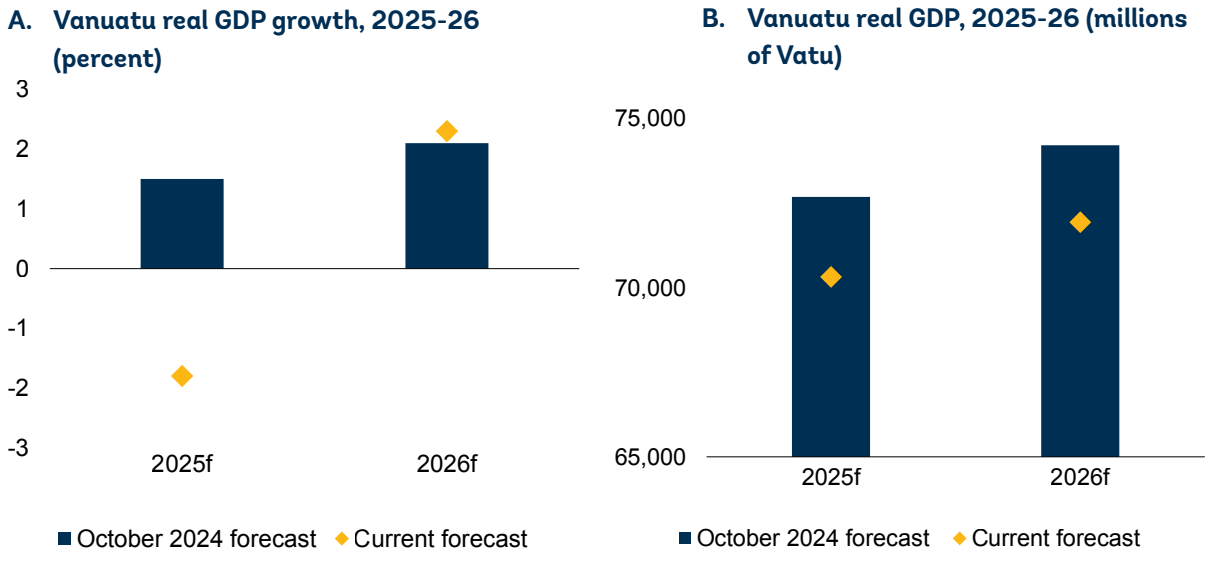
Box 1. Vanuatu's twin economic shocks of 2024

In May 2024, Vanuatu faced a significant economic shock with the liquidation of its national airline, Air Vanuatu. The airline's collapse had a profound impact on the tourism sector, which is a critical component of the nation's economy. With the cessation of Air Vanuatu's operations, the country experienced a sharp decline in tourist arrivals, leading to a contraction in related sectors, such as hospitality, transportation, and retail. The immediate aftermath saw a reduction in GDP growth to an estimated 0.9 percent for 2024, down from previous projections of over 2 percent.

On December 17, 2024, a 7.3 Moment Magnitude earthquake, the strongest in 15 years, caused loss of life and significant damage to physical infrastructure. The epicenter was located 30 kilometers off the coast of Port Vila at a depth of 54 kilometers. The natural disaster caused extensive damage to infrastructure, homes, and public buildings, further straining the country's already fragile economy. The earthquake exacerbated supply chain disruptions, leading to shortages of essential goods and services. The immediate humanitarian response required significant financial resources, diverting funds from other critical areas of the economy.

The twin shocks are likely to cause the economy to contract by 1.8 percent in 2025, before recovering in the medium term (Figure B.1). Prior to the earthquake, growth was expected to recover to 1.5 percent in 2025 and then rise further in the medium term, but the loss of capital stock and disruption of supply chains due to the earthquake will likely result in a reduction in output in the first half of 2025. The near-term growth outlook is subject to considerable uncertainty, with early signs of infrastructure recovery pointing to potential upside risks. Medium-term growth is expected to be driven primarily by government and private spending related to post-earthquake reconstruction, as well as services growth, particularly tourism and related sectors, as connectivity is restored.

Figure B.1 Vanuatu GDP growth and output

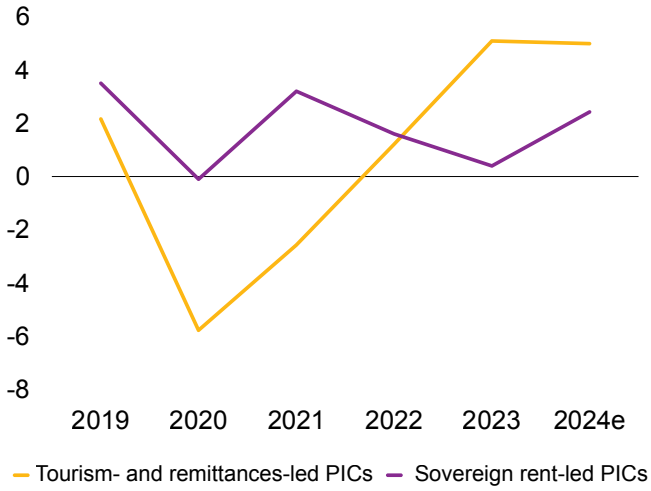


Source: World Bank.
Note: f = forecast.

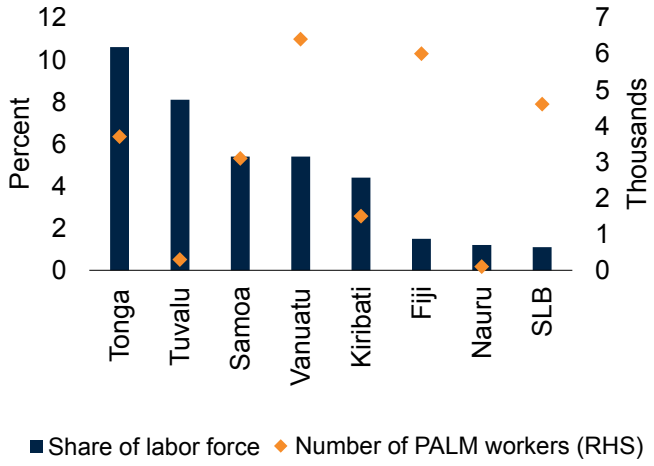
13. **Remittance inflows continued to increase in countries that send labor abroad, such as Fiji, Samoa, Tonga, and Vanuatu.** In Samoa, remittances are expected to equal 30.6 percent of GDP in 2024, slightly lower than in 2023. In Vanuatu, remittances are expected to total 14.8 percent of GDP—an increase from the 2023 level, but still below the high levels recorded in 2021 and 2022. In Tonga, remittances equaled 37.4 percent of GDP in FY24 ($204 million). These countries send labor to Australia and New Zealand, with the number of seasonal workers abroad for Samoa, Tonga, and Vanuatu ranging from 5-11 percent of their labor force. In 2024, workers from Samoa, Tonga, and Vanuatu made up roughly 41 percent of participants in the Pacific Australia Labour Mobility (PALM) scheme (Figure 1.6.B).

Figure 1.6 GDP growth and seasonal workers

A. GDP growth (percent)



B. Seasonal workers (percent, thousands)



Sources: Department of Employment and Workplace Relations Australia; Haver Analytics; International Labour Organization; International Monetary Fund; World Bank.
Note: e = estimate; PALM = Pacific Australia Labour Mobility; SLB = Solomon Islands.

14. **Aggregate growth in sovereign rent-led countries also accelerated, though more modestly.** Growth in this group, which includes FSM, Kiribati, RMI, Nauru, and Tuvalu, increased from 0.4 percent in 2023 to 2.4 percent in 2024, slightly above their long-term average. Some countries have benefitted from U.S. Compact funds, while others have been experiencing gains due to looser fiscal policies. In RMI, real GDP grew by 1.5 percent in 2024, compared to -3.2 percent in 2023. This growth was driven by improvements in the fisheries sector, increased construction activity supported by U.S. Compact transfers, and preparations for the 2024 Micronesian Games. In FSM, growth rebounded from near stagnation in 2023 to approximately 1 percent in 2024, driven by an increase in public wages and the resumption of infrastructure projects partly benefitting from U.S. Compact funds. In Kiribati, growth accelerated from 2.7 percent in 2023 to 5.2 percent in 2024. This above-trend increase is attributed to a nearly 40 percent rise in public sector wages before the election. Nauru's growth declined to an estimated 1.2 percent in 2024, as the boost from the renewal of the Regional Processing Center (RPC) dissipated. Tuvalu's GDP growth moderated from 3.9 percent in 2023 to an estimated 3.5 percent in 2024. This reduction reflects the diminishing benefits of the December 2022 border reopening, including the resumption of infrastructure projects.

Growth outlook

15. **GDP growth in the PIC-11 is forecast to slow further to 2.6 percent in 2025, reflecting the diminishing post-pandemic recovery and the impact of weaker global growth and trade policy uncertainty (Table 1.1).** Domestic demand in the PIC-11 is expected to remain strong as fiscal consolidation proceeds more gradually than initially anticipated. However, increased global uncertainty relating to trade and tariff policy is expected to translate to lower global demand, which may impact export sectors and investment in the PIC-11. These forecasts assume that the PIC-11 will not experience any additional major spikes in policy uncertainty, that grant financing will not decline sharply, that the magnitude of any natural disasters is within a typical range, and that no new financial or debt crises develop.

16. **The lower-than-average growth projection for the PIC-11 in 2025 reflects broad-based downgrades across all country forecasts, driven by weaker global growth and uncertainty in trade policy.** Several significant revisions have been made to individual country forecasts. Fiji's growth is expected to be downgraded by 0.8 percentage points compared to October 2024 projections, primarily due to lower-than-expected tourism numbers. Palau's growth is projected to be downgraded by 2.4 percentage points in 2025, reflecting its vulnerability to slower demand in the tourism sector. Vanuatu's growth forecast for 2025 has been downgraded by 3.3 percentage points due to the impact of the earthquake fallout. These adjustments underscore the pervasive impact of trade policy uncertainty on the region's economic prospects.

Table 1.1 Growth forecast summary (based on calendar year information)

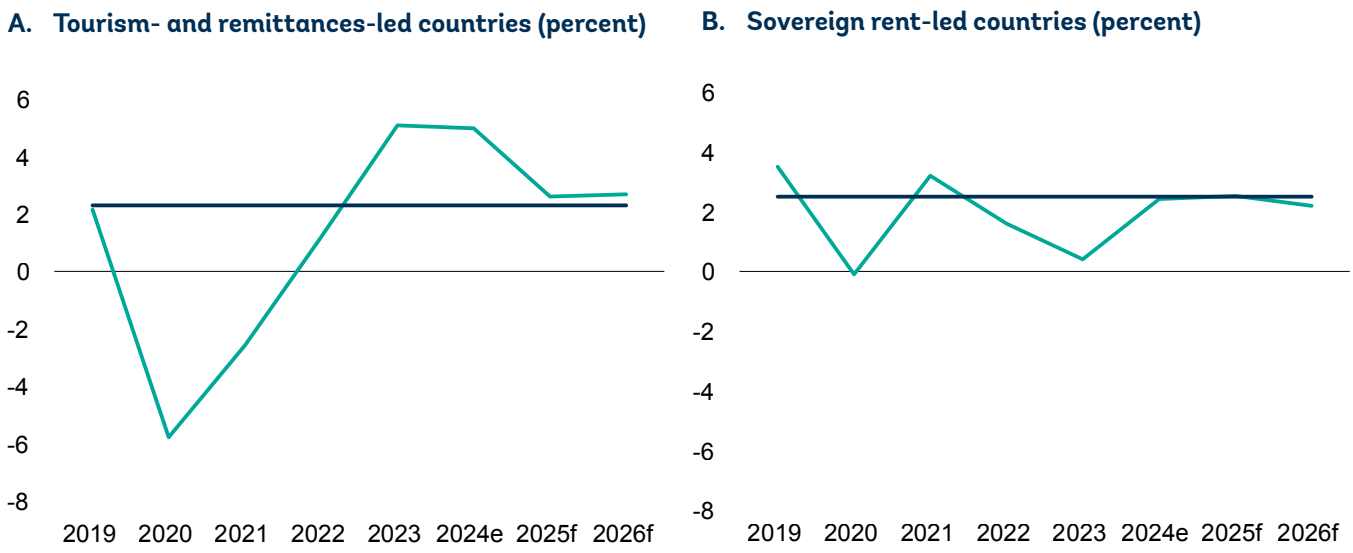
(Real GDP growth at market prices in percent, unless otherwise indicated)								Percentage point difference from October 2024 projections		
	2020	2021	2022	2023	2024e	2025f	2026f	2024e	2025f	2026f
PIC-11	**-10.7**	**-2.3**	**10.1**	**5.5**	**3.8**	**2.6**	**2.8**	**0.2**	**-0.8**	**-0.2**
Fiji	-17.0	-4.9	19.8	7.5	3.8	2.6	2.9	0.7	-0.7	-0.3
SLB	-3.4	2.6	2.4	2.7	2.5	2.6	2.7	0.0	-0.3	-0.2
Tourism- and remittances-led PICs	**-5.8**	**-2.6**	**1.2**	**5.1**	**5.0**	**2.6**	**2.7**	**-0.6**	**-1.4**	**-0.3**
Palau	-4.4	-11.7	-4.8	1.1	7.5	8.8	4.7	-1.6	-2.4	-0.5
Samoa	-10.1	-2.3	0.0	11.4	9.8	5.3	2.8	-1.1	0.0	-0.7
Tonga	0.5	0.0	-0.6	1.0	1.9	2.0	2.0	0.0	-0.1	-0.2
Vanuatu	-5.0	-1.6	5.2	2.2	0.9	-1.8	2.3	0.0	-3.3	0.2
Sovereign rent-led PICs	**-0.1**	**3.2**	**1.6**	**0.4**	**2.4**	**2.5**	**2.2**	**-0.6**	**-0.4**	**-0.3**
Kiribati	-0.6	8.5	4.6	2.7	5.2	3.9	3.0	-0.6	-0.2	-0.3
RMI	0.3	0.2	-0.5	-3.2	1.5	3.3	2.8	-1.8	-0.6	-0.6
FSM	-0.5	1.8	0.1	0.4	1.0	1.2	1.4	0.1	-0.4	0.1
Nauru	3.4	4.6	4.9	1.7	1.2	1.6	1.3	-0.6	-0.4	-0.6
Tuvalu	-3.3	0.2	0.4	3.9	3.5	2.8	2.3	0.0	-0.2	-0.2
Memo item										
PIC-11 excluding Fiji	-4.0	0.1	1.6	3.4	3.7	2.6	2.6	-0.4	-0.9	-0.3
PIC-11 excluding Fiji and SLB	-4.3	-1.0	1.3	3.8	4.3	2.6	2.6	-0.6	-1.1	-0.2

Source: World Bank.
Note: e = estimate; f = forecast; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. Data and projections are based on the calendar year. For fiscal year information, see Annex 1. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given time.

17. **GDP growth in Fiji and Solomon Islands is expected to diverge in 2025.** In Fiji, growth is projected to slow to 2.6 percent, below the long-term trend, due to slower-than-expected tourism flows (Table 1.1). In contrast, Solomon Islands' growth is projected to accelerate slightly to 2.6 percent in 2025 but will remain below the long-term trend due to persistent structural constraints. The rapid decline of the logging sector, historically a major economic driver, is a significant constraint. Amid this decline, the country also grapples with a small and dispersed population, limited state capacity, high infrastructure costs, and vulnerability to natural hazards and climate-related events. Despite ongoing recovery efforts, these constraints continue to limit Solomon Islands' economic potential.

18. **Growth in tourism- and remittances-led countries is projected to slow to 2.6 percent in 2025, still slightly above trend (Figure 1.7A).** In Samoa, sustained growth in the tourism sector and strong remittance inflows are expected to bolster the broader economy. However, momentum is expected to gradually slow as the recovery surpasses its peak. Palau is expected to record strong growth of 8.8 percent in 2025, reflecting a bounce-back following delayed post-COVID tourism recovery and a resumption of direct airline routes from Asia. Remittance inflows into the region in 2025 are expected to remain significantly above pre-pandemic levels, bolstered by expanded migration schemes that now include semi-skilled sectors alongside horticulture. However, weaker-than-expected growth due to trade policy uncertainty may pose risks to these projections.

Figure 1.7 Pacific real GDP growth projections



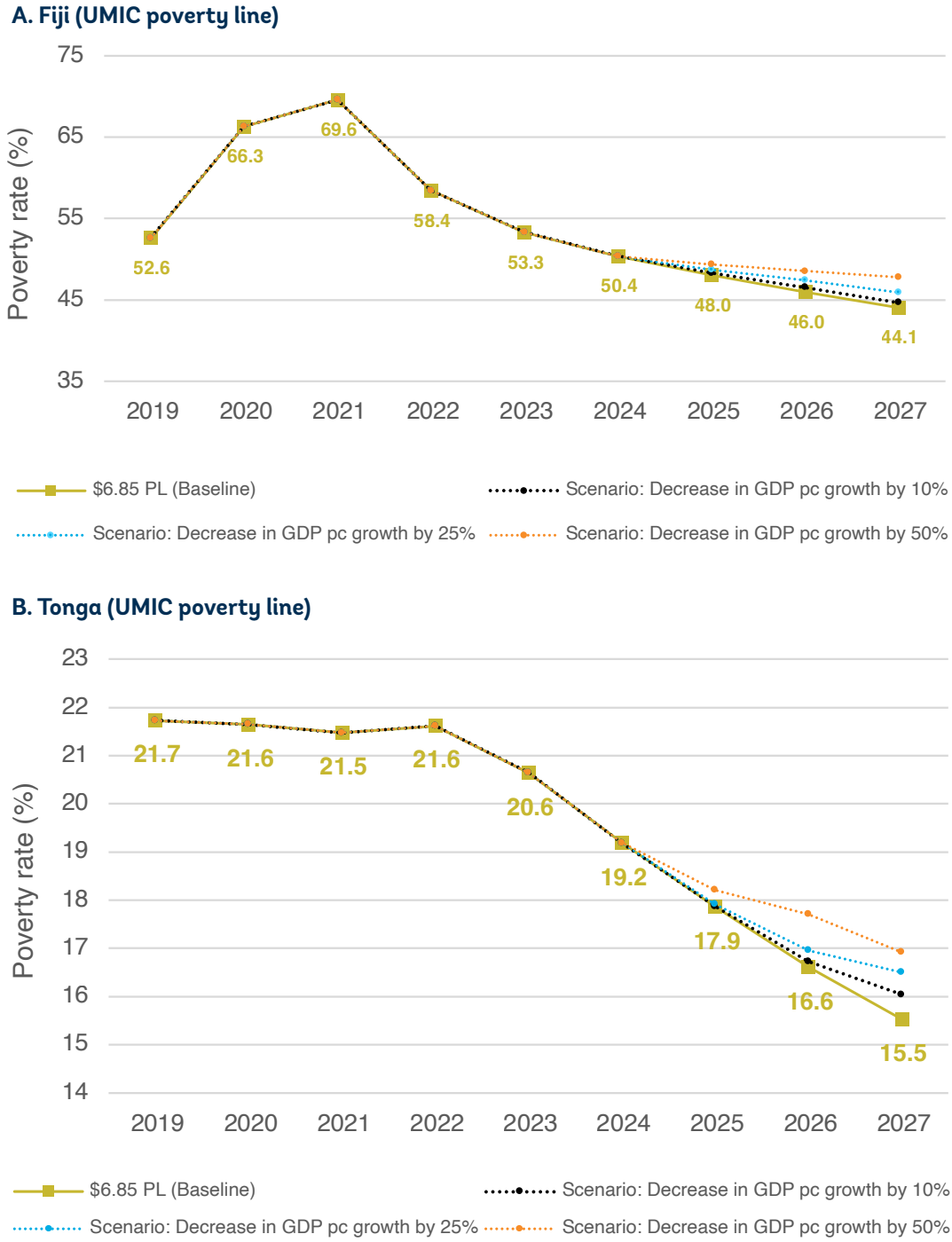
Source: World Bank staff estimates.
Note: e = estimate; f = forecast. Black lines denote 2010-19 average growth.

19. **Aggregate growth of sovereign rent-led countries is projected to remain broadly unchanged at 2.5 percent in 2025, slightly above the long-term average (Figure 1.7.B).** However, growth trends will vary significantly across these countries. U.S. Compact countries are expected to experience accelerated growth, with RMI and FSM benefiting from U.S. Compact disbursements.[6] Specifically, RMI is projected to see growth rise to 3.3 percent, while growth in FSM is expected to increase by 1.2 percent. Nauru is projected to experience a modest acceleration in growth in 2025, though this outlook remains highly uncertain. The growth is driven by RPC resource rent revenues and new budget support, both of which are volatile. In contrast, other sovereign rent-led countries will face a slowdown. Kiribati's growth is anticipated to slow to 3.9 percent as the impact of recent public wage increases diminishes. Tuvalu is also expected to experience reduced growth, projected at 2.8 percent, as the benefits from the post-COVID rebound wane.

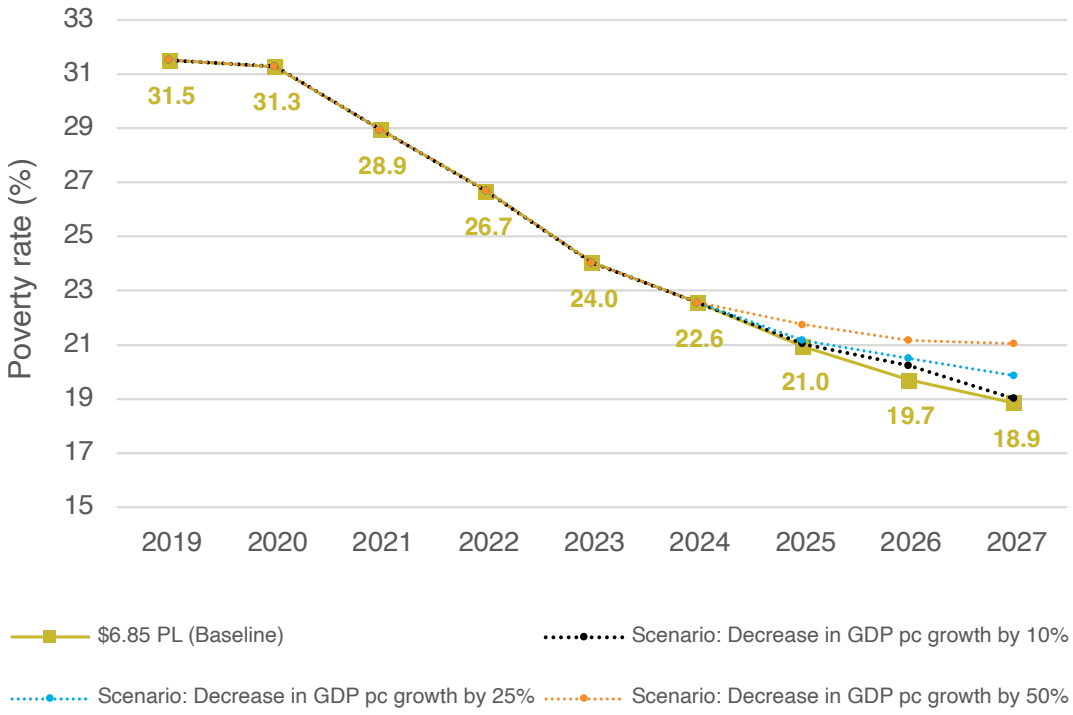
6. The Compact of Free Association (COFA) agreements, approved by the United States on March 9, 2024, will deliver a total of $6.5 billion in assistance to the three North Pacific countries over the next 20 years, starting in FY24. FSM will receive $3.3 billion, Palau $889 million, and RMI $2.3 billion.

20. **Supported by ongoing economic growth, poverty rates are expected to continue declining in most of the PIC-11, with Vanuatu being the notable exception (Figure 1.8).** In Fiji, steady economic growth is expected to reduce the poverty rate—measured using the upper-middle-income poverty line ($6.85 per capita in 2017 purchasing power parity [PPP])—from 48.5 percent in 2025 to 44.1 percent in 2027. Vanuatu is likey to continue facing a rise in poverty, with levels worsening recently in Shefa Province, where food security, employment, and income declined due to the earthquake. For example, 55 percent of Shefa households faced difficulties accessing markets due to the earthquake, and the proportion of the population in moderate food insecurity increased from 29 percent in December 2024 to 48 percent in January/February 2025. Vanuatu is likely to continue facing rising poverty levels—measured using the lower-middle-income poverty line ($3.65 per capita in 2017 PPP)—with an increase from 47.5 percent in 2025 to 48.2 percent in 2027 due to sluggish economic growth, further hampered by the December 2024 earthquake.

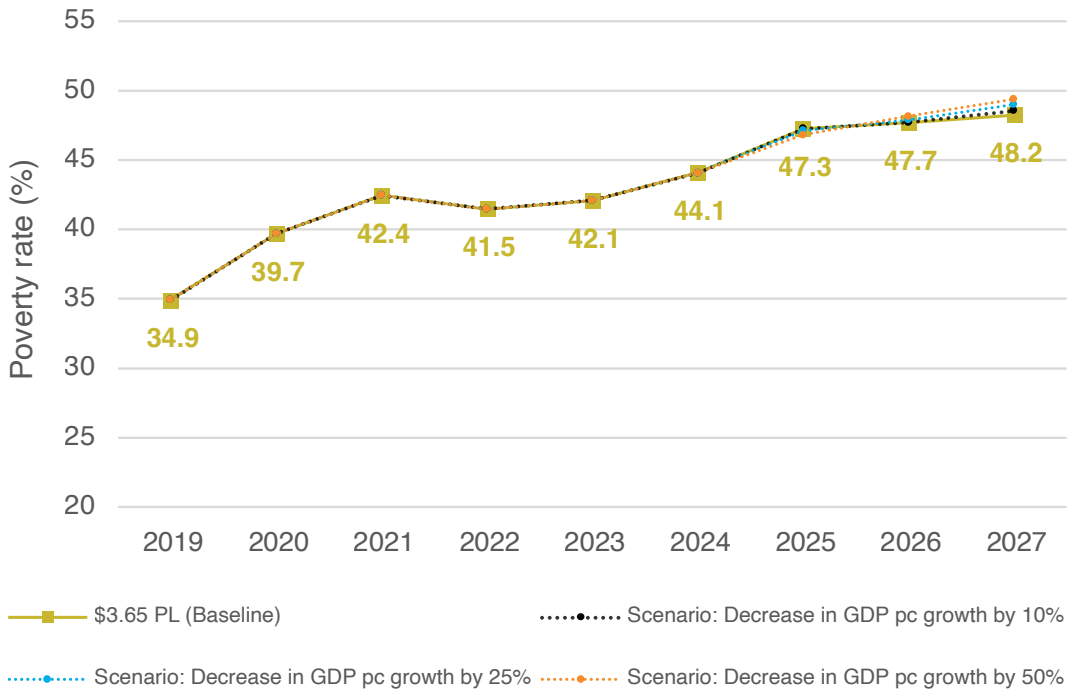
Figure 1.8 Poverty outlook and simulations with different growth scenarios, 2019-26



D. Republic of the Marshall Islands (UMIC poverty line)



E. Vanuatu (LMIC poverty line)



Source: Poverty and Equity Global Practice (World Bank).
Note: LMIC = lower-middle-income countries; UMIC = upper-middle-income countries.
A. The poverty line for lower-middle-income countries (Kiribati and Vanuatu) was $3.65 in 2017 purchasing power parity (PPP); for upper-middle-income countries (Fiji, the Republic of the Marshall Islands, and Tonga) it was $6.85 in 2017 PPP. Calculations are based on harmonization by the East Asia and Pacific Poverty Unit, using the most recent household income and expenditure survey (HIES) data from 2019. The nowcast covers 2020-23. Forecasts are from 2024 to 2026. Projections use a neutral distribution (2019) with a pass-through rate of 1 based on GDP per capita in constant local currency units.

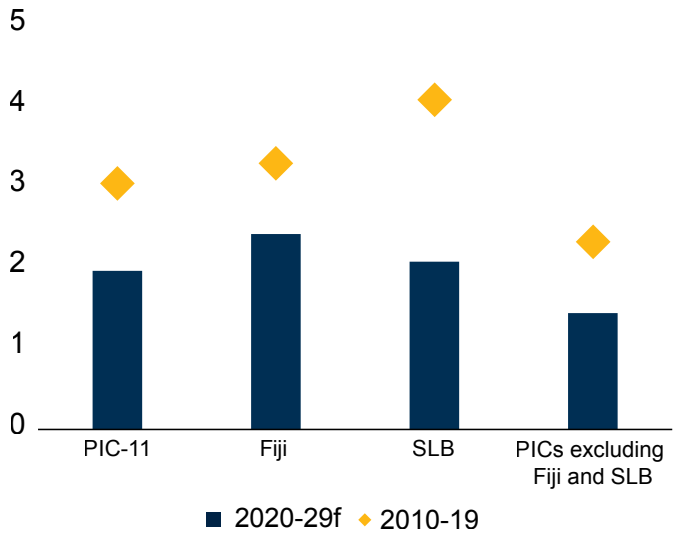
21. **The medium-term outlook for the PIC-11 indicates a slowdown in growth.** The growth outlook is projected to be around 2 percent, approximately 1 percentage point lower than its pre-pandemic medium-term growth. Growth rates have declined from 3.0 percent per year in 2010-19 to 2.0 percent in 2020-29. This slowdown can be attributed to the diminishing impact of underlying growth drivers since 2010, particularly in investment, as well as increased global trade uncertainties. Additionally, it has been exacerbated by increased shocks, including natural disasters, climate-related events, the pandemic, and trade policy uncertainty.

22. **Medium-term growth in Fiji and Solomon Islands is projected to slow to 2.4 percent and 2.1 percent, respectively, in 2020-29 (Figure 1.9.A).** This represents a decline of 0.9 percentage points for Fiji and 2.0 percentage points for Solomon Islands compared to the previous decade. For tourism- and remittances-led countries, medium-term growth slowed from over 2.0 percent to 1.4 percent, implying that growth remains too weak to fully recover the substantial losses incurred during the pandemic (Figure 1.9.B). This is especially true for countries like Palau, Samoa, and Vanuatu, where the economic impact of the pandemic has been particularly severe.

23. **There are significant cross-country variations across sovereign rent-led countries but, overall, their aggregate medium-term growth projections are lower than their historical long-term growth rates.** Medium-term growth projections broadly align with the pre-pandemic decade averages in FSM, Kiribati, and RMI. This reflects the expected positive impact from the renewed U.S. Compact agreement, which will be a critical factor for FSM and RMI, as it will determine the level of economic assistance committed to these countries. For Nauru and Tuvalu, growth is projected to average 2.0 percent on average during the same period. Tuvalu's medium-term outlook, which will affect migration, remittances, and development, will be influenced by the 2023 Australia-Tuvalu Falepili Union Treaty.

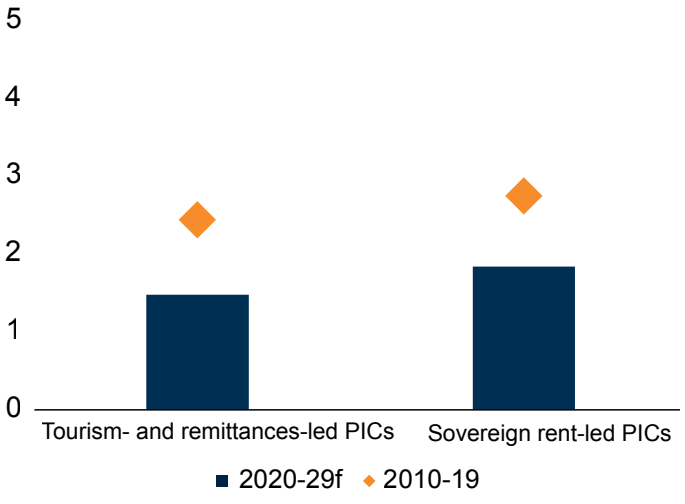
Figure 1.9 Medium-term growth

A. PIC-11 groups (percent)



Sources: International Monetary Fund; World Bank.
Note: SLB = Solomon Islands. For PIC-11, panel shows weighted average expected growth rate from the IMF's World Economic Outlook.

B. Tourism- and remittances-led PICs and sovereign rent-led PICs (percent)



Sources: International Monetary Fund; World Bank.
Note: Panel shows weighted average expected growth rate from the IMF's World Economic Outlook.

24. **Output losses relative to pre-pandemic trends are estimated to be substantial, reflecting the significant impacts of COVID-19 and weakening medium-term growth prospects.** These losses have only been partially recovered, with gaps expected to remain in double digits as a percentage of the pre-pandemic trend in 2024-25. Higher growth is needed for income convergence and catching up with pre-pandemic output trends in the PIC-11.

25. **Slow growth prospects mean that the progress of the PIC-11 in narrowing the income gap with advanced economies has significantly stalled.** The per capita income of the PIC-11, which once approached 25 percent of the average advanced-economy level, is now projected to stagnate at around 20-22 percent by 2030. This threatens to widen the already substantial income disparity, raising concerns about long-term economic stability. Slower income growth will undermine poverty reduction efforts, potentially exacerbating income inequality, increasing social instability, and deteriorating living standards. A widening income gap could also make the PIC-11 less attractive to foreign investors, hindering infrastructure and human capital development.

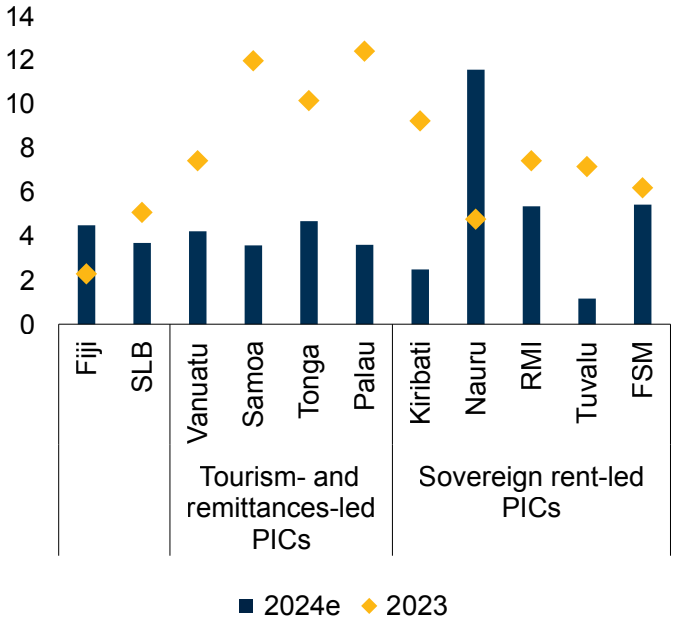
1.2.2 Inflation

Recent developments

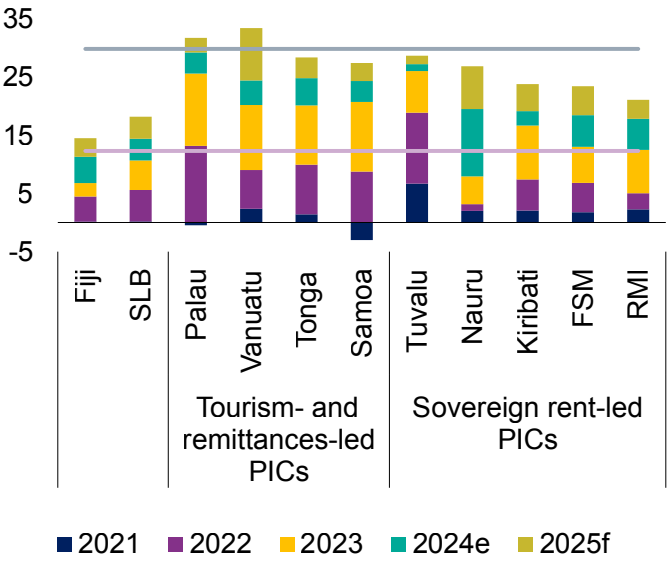
26. **In 2024, inflation decreased across most of the PIC-11, with the median rate falling from 7.4 percent in 2023 to an estimated 4.2 percent (Figure 1.10.A).** In Fiji, inflation rose to 4.5 percent in 2024, up from 2.3 percent in 2023, driven by the merger of the 9 percent VAT rate with the 15 percent rate, higher import costs and tariffs, and an increase in minimum wages. In contrast, inflation in Solomon Islands fell from 5.1 percent in 2023 to 3.7 percent in 2024, continuing its downward trend from a 2022 spike caused by high import prices.

Figure 1.10 Consumer price inflation

A. PIC-11 groups (percent)



B. Consumer price index (percent)



Sources: International Monetary Fund; World Bank.
Note: e = estimate; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.
B. The grey line shows the cumulative change in the global CPI index from 2019 to 2025; the pink line shows the same for EAP.

27. **In 2024, tourism- and remittances-led countries experienced significant relief from inflation.** The median inflation rate fell markedly to an estimated 3.9 percent in 2024, down from 11.6 percent in 2023. Samoa, Tonga, Palau, and Vanuatu saw substantial decreases from the double-digit rates experienced in 2023 to 4 percent on average in 2024. Inflation also moderated in sovereign rent-led countries in 2024. The median inflation rate for this subgroup decreased to 5.4 percent in 2024, down from 7.2 percent in 2023. Kiribati experienced the largest drop, with inflation falling from 9.3 percent in 2023 to 2.5 percent in 2024. By contrast, inflation has accelerated in Nauru, reflecting temporary supply shortages.

Near-term outlook

28. **Inflation is anticipated to further ease in the PIC-11 in 2025 and 2026** (Table 1.2). In line with global trends and falling global commodity prices, the median inflation rate is expected to decrease to 3.1 percent by 2026. This trend is expected to be consistent across the Pacific, with inflation in Fiji and Solomon Islands also projected to hover around 3-4 percent in 2025 and 2026. The cumulative price increases from recent years have continued to burden households, leading to a higher cost of living due to elevated prices for essential goods and services (Figure 1.10.B). Although inflation has decreased, it is expected to stay above pre-pandemic levels in 2025-26. In addition, volatility in global commodity prices due to policy uncertainty poses an upside risk to this outlook.

Table 1.2 Inflation forecast summary

		2021	2022	2023	2024e	2025f	2026f
PIC-11 median		**1.8**	**5.4**	**7.4**	**4.2**	**3.6**	**3.1**
	Fiji	0.2	4.3	2.3	4.5	3.2	3.1
	SLB	0.2	5.4	5.1	3.7	3.8	3.7
Tourism- and remittances-led PICs median		**0.5**	**8.6**	**11.6**	**3.9**	**3.3**	**3.2**
	Vanuatu	2.3	6.7	11.2	4.2	9.0	5.0
	Samoa	-3.0	8.7	12.0	3.6	3.1	3.0
	Tonga	1.4	8.5	10.2	4.7	3.6	2.1
	Palau	-0.5	13.2	12.4	3.6	2.5	3.8
Sovereign rent-led PICs median		**2.1**	**5.0**	**7.2**	**5.4**	**4.6**	**3.0**
	Kiribati	2.1	5.3	9.3	2.5	4.6	3.5
	Nauru	2.0	1.1	4.8	11.6	7.3	4.3
	RMI	2.2	2.8	7.4	5.4	3.3	2.9
	Tuvalu	6.7	12.2	7.2	1.2	1.5	2.0
	FSM	1.8	5.0	6.2	5.4	5.0	3.0

Sources: Haver Analytics; World Bank.
Note: e = estimate; f = forecast; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. Data and projections are based on calendar years.

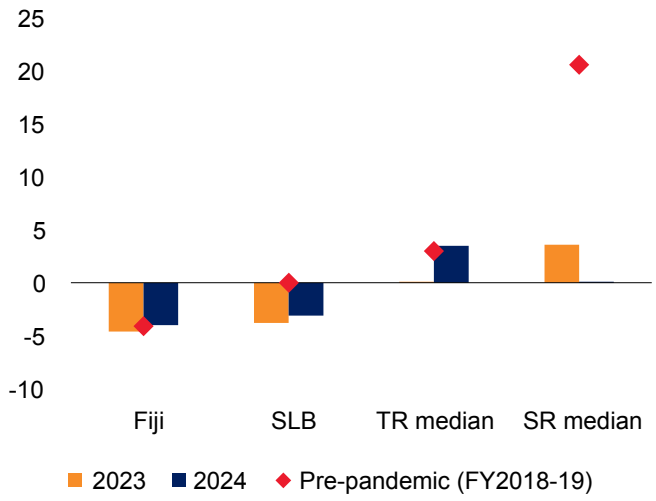
1.2.3 Fiscal and Debt Dynamics

Recent developments

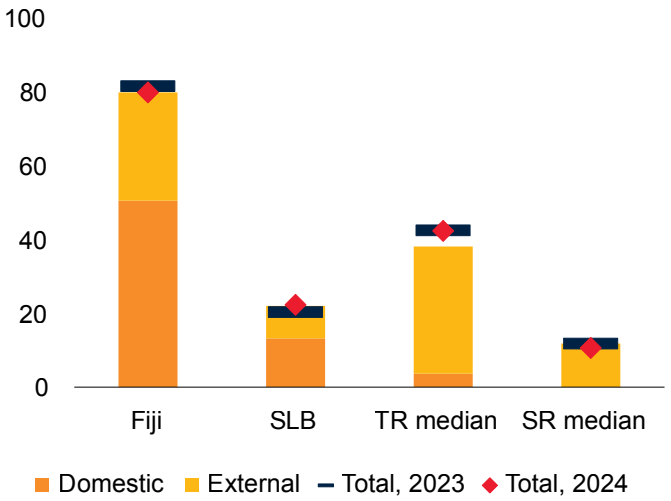
29. Public debt as a share of GDP decreased in more than two-thirds of the PIC-11, driven by ongoing fiscal repair and continued economic recovery (Figure 1.11.B). The fiscal balance in Fiji has returned to pre-pandemic levels, though it remains in deficit (Figure 1.11.A). Solomon Islands, despite an improvement in its fiscal balance in 2024, also remains in deficit and has not returned to pre-pandemic levels. Tourism- and remittances-led countries, except for Vanuatu, recorded fiscal surpluses exceeding pre-pandemic levels, with a median fiscal surplus of 3.5 percent in 2024. These improvements have been supported by fiscal consolidation and revenue-boosting reforms. Conversely, sovereign rent-led countries have seen their fiscal surpluses erode, with a median surplus of 0.1 percent in 2024, down from around 21 percent pre-pandemic. These countries face fiscal challenges due to increased spending pressures and volatile non-tax revenues, although their public debt remains low due to large buffers.

Figure 1.11 Fiscal balances

A. Fiscal balance (percent of GDP)



B. Public debt (percent of GDP)

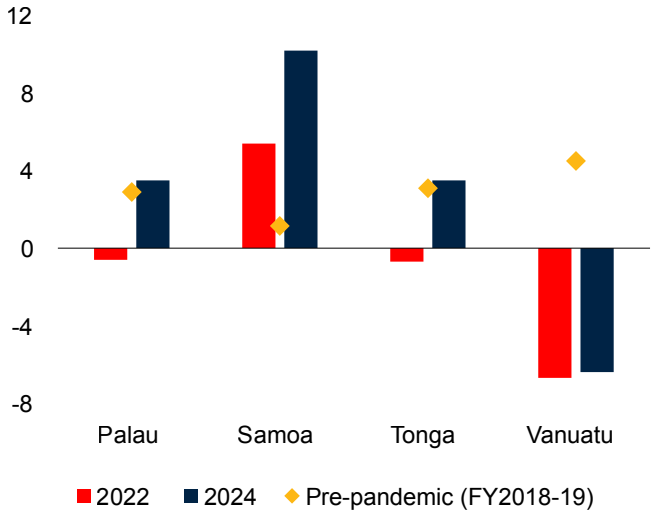


Sources: IMF Article IV (2023 and 2024); World Bank staff calculations.
Note: SLB = Solomon Islands; SR = sovereign rent-led countries; TR = tourism- and remittances-led countries.

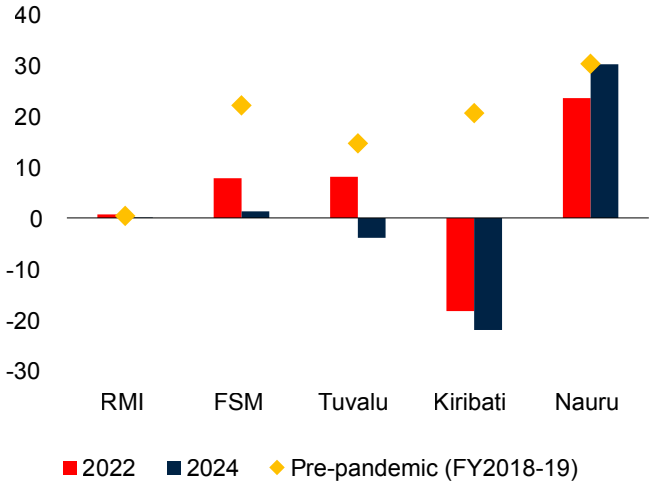
30. The fiscal deficit narrowed in Fiji and Solomon Islands (Figure 1.11.A). In Fiji, the fiscal deficit fell to 4.0 percent of GDP in 2024. This reflects high tax buoyancy from value-added-tax (VAT) and corporate income tax, and comprehensive revenue reforms, such as a departure tax and higher VAT rate. On the expenditure side, reforms include the implementation of stricter controls on public wages and the rationalization of subsidies. In Solomon Islands, the fiscal deficit narrowed to 3.1 percent of GDP in 2024, a decrease from 3.8 percentage points in 2023. Total revenues expanded slightly, with growth in mining export revenue, though this is offset by declining logging activity. The government managed to contain expenditure growth, despite facing substantial spending pressures, including the organization of the national general election and major infrastructure investments.

Figure 1.12 Fiscal balances (cont.)

A. Fiscal balance tourism- and remittances-led (percent of GDP)



B. Fiscal balance in sovereign rent-led (percent of GDP)

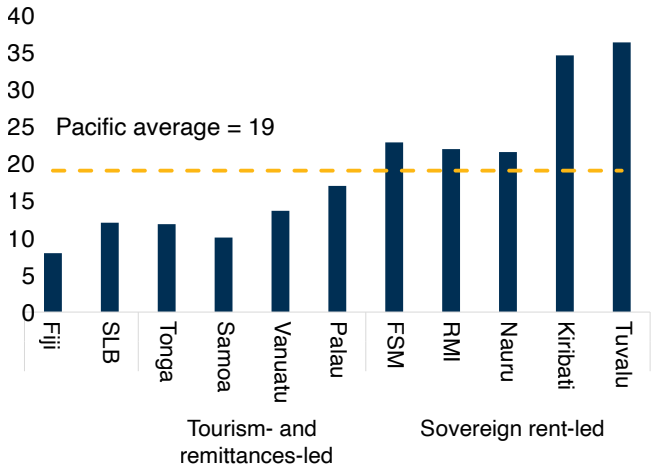


Sources: IMF Article IV (2023 and 2024); World Bank staff calculations.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands. Data for FSM is based on the latest published IMF Article IV reports. Data for 2024 are estimates.

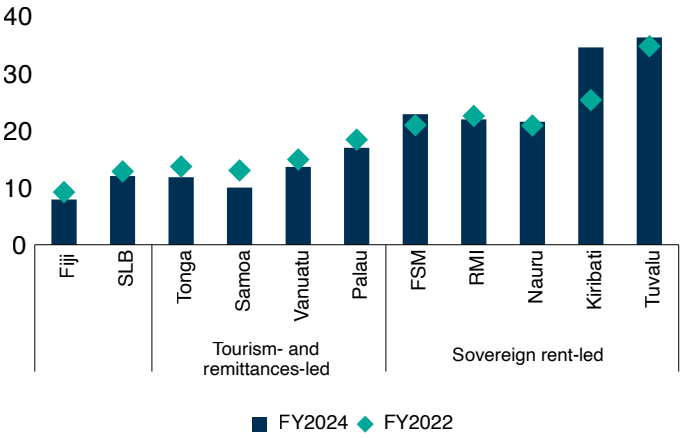
31. **Tourism- and remittances-led PICs continued to see improvements in their fiscal balances in 2024, driven by higher revenue collections and continued revenue-side reforms (Figure 1.12A).** In Palau, the fiscal surplus was revised upward, with higher tax revenues partly attributable to reforms such as the introduction of the Palau Goods and Services Tax, as well as increased tourism revenues. In Samoa, the fiscal surplus widened considerably to 10.2 percent of GDP, driven by increases in development partner grants, robust tax revenues, and improved tax administration. Tonga also recorded a fiscal surplus in 2024, despite higher reconstruction-related expenditures from natural disasters in 2022. In Vanuatu, however, decreased tourism revenues associated with the May 2024 liquidation of Air Vanuatu is expected to contribute to a fiscal deficit of 6.4 percent of GDP.

Figure 1.13 Wage expenditures and changes

A. Expenditure on wages and salaries (percent of GDP)



B. Change in expenditures on wages and salaries (percent of GDP)



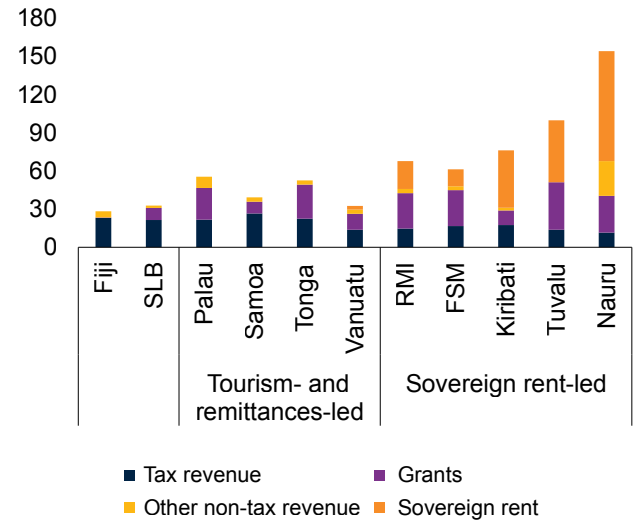
Sources: International Monetary Fund; World Bank.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.
A. Data is for 2024.

32. Fiscal balances in several sovereign rent-led countries deteriorated in 2024, owing to lower non-tax revenues and increased expenditures (Figure 1.12.B). Sovereign rent-led PICs are characterized by high levels of current expenditure, of which wages and salaries for public employees are a major driver. This reflects the predominant role of the government in the provision of public goods and services, as well as the limited size of domestic private sectors. In FY24, each of the sovereign rent-led PICs had expenditure on public sector wages and salaries at over 20 percent of GDP, and as high as over 34 percent of GDP in Kiribati and Tuvalu (Figure 1.13.A). In Kiribati, a 38 percent increase in civil service wages, combined with higher spending on social protection and subsidies, led to a surge in the budget deficit to 22 percent of GDP (Figure 1.12.B).[7] In Tuvalu, the fiscal balance swung from surplus to deficit in 2024 due to a decline in fishing license fees, grants, and a rise in public wages and salaries. In FSM, there was a slight decline in the fiscal surplus in 2024 as revenues similarly declined. RMI improved on its balanced position in 2023 and recorded a modest fiscal surplus due to strong grant inflows. Nauru, despite declining tax and RPC-related revenues, is expected to record a large fiscal surplus in 2024—assisted by increased budget support, including from China (Figure 1.12.B).

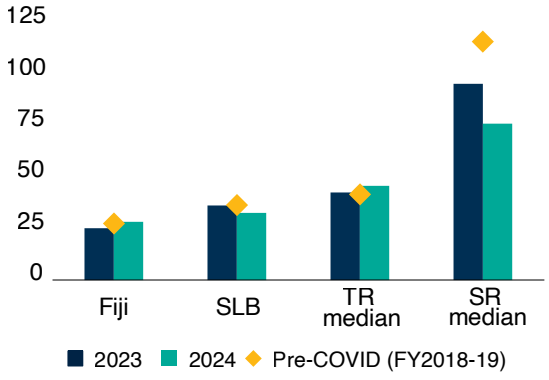
7. In contrast, in FY24 the average level of spending on wages and salaries among the other PICs was 12 percent, with a range from 8-17 percent. Between FY22 and FY24, Fiji, Solomon Islands, and tourism- and remittances-led countries have reduced expenditure on public wages and salaries, often as part of post-pandemic fiscal consolidation efforts (Figure 1.13.B).

Figure 1.14 Revenue

A. Composition of revenue sources in 2024 (percent of GDP)



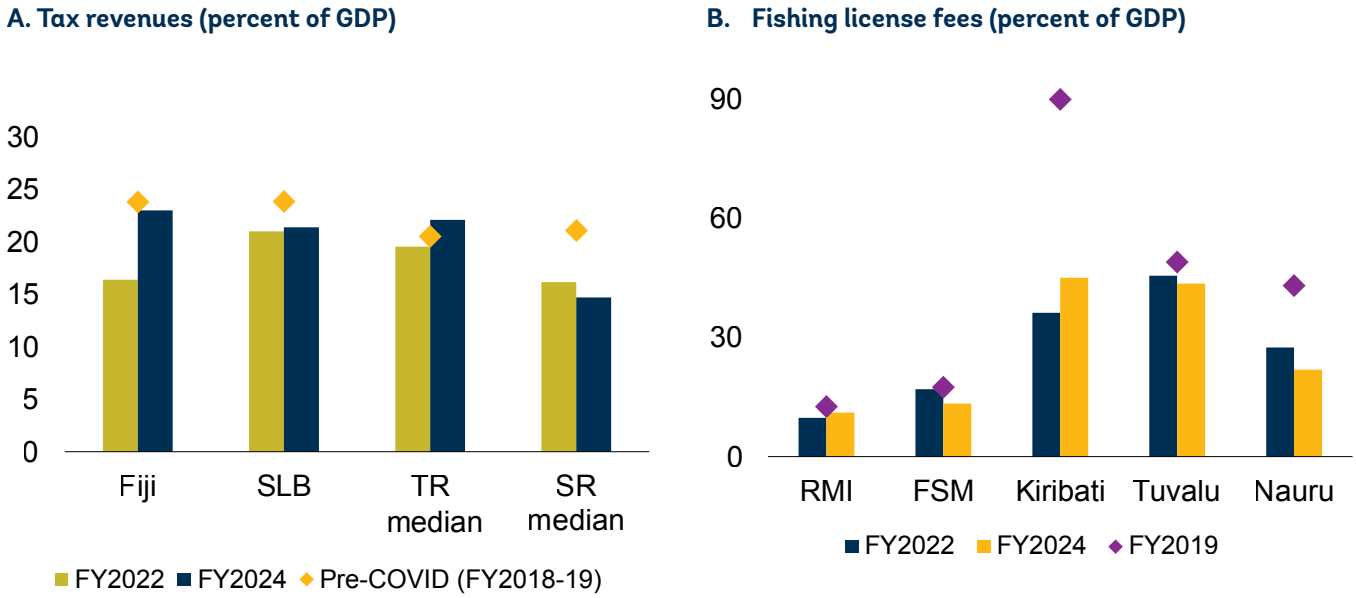
B. Total revenues (percent of GDP)



Sources: IMF Article IV (2023 and 2024); World Bank staff calculations.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands; SR = sovereign rent-led countries; TR = tourism- and remittances-led countries. Data for FSM are based on the latest published IMF Article IV reports. Data for 2024 are estimates.
A. Based on the PIC-9 Public Expenditure Review definition. Sovereign rent includes fishing license fees (FSM, Kiribati, RMI, Nauru, and Tuvalu), Economic Citizenship Program (Vanuatu), TV domain (Tuvalu), and Regional Processing Center revenue (Nauru).
B. Based on FY24 estimates.

33. **Revenues across Pacific countries generally improved in FY24, with most countries seeing an improvement in the government-revenue-to-GDP ratio, except for Solomon Islands, Kiribati, Tonga, and Vanuatu (Figure 1.14.B).** However, some countries remain below their pre-pandemic average, particularly sovereign rent-led countries and Solomon Islands. For Fiji, Solomon Islands, and tourism- and remittances-led countries, tax revenues make up a higher proportion of total government revenue, compared to sovereign rent-led countries (Figure 1.14.A). For all PICs, tax revenues have slowly recovered from pre-pandemic levels, with only three countries—Palau, Samoa, and Tonga—collecting more tax revenue as a percentage of GDP in FY24 than the 2018-19 average (Figure 1.15.A). However, between FY23 and FY24, six countries increased their tax revenues as a percentage of GDP, reflecting the impact of tax administration and policy reforms in several of these countries. For sovereign rent-led countries, fishing license fees make up a substantial portion of government revenue. Over time, these revenues have fallen as a percentage of GDP across these countries, with each recording lower fishing license fees in FY24 compared to FY19 (Figure 1.15.B).

Figure 1.15 Tax revenue and fishing license fees (percent of GDP)

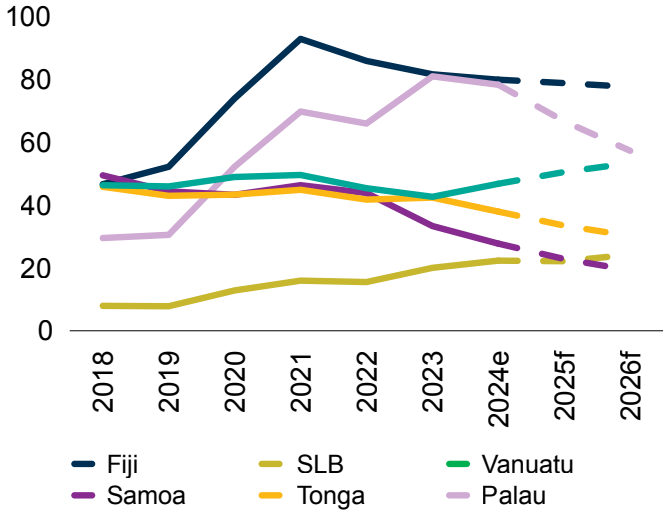


Sources: IMF Article IV (2023 and 2024); World Bank staff calculations.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands; SR = sovereign rent-led countries; TR = tourism- and remittances-led countries.

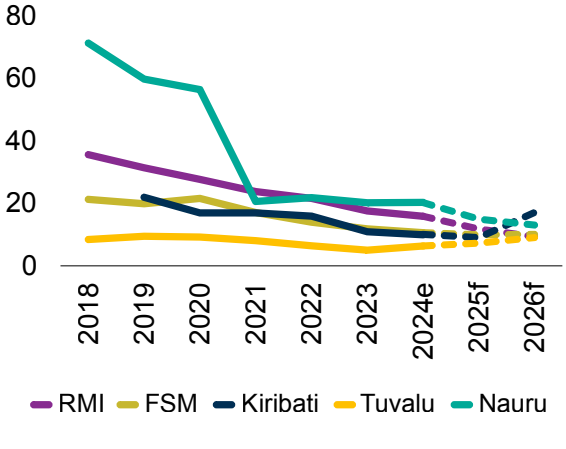
34. **Public debt levels are estimated to have generally declined across the PIC-11, largely due to fiscal consolidation, but increased in Solomon Islands in 2024.** In Fiji, fiscal consolidation and higher growth led to public debt declining to 79.8 percent of GDP in 2024, down from a peak of around 93 percent in 2021. Of its public debt, 64 percent is domestically held. Fiji has been steadily reducing its public debt levels after they rose due to fiscal stimulus measures in response to the COVID-19 pandemic and twin cyclones in 2021. In Solomon Islands, public debt levels rose by 2.0 percentage points to 22.3 percent of GDP to fund the fiscal deficit incurred in 2024, continuing a trend of increasing public debt levels due to persistent fiscal deficits (Figure 1.16.A). In 2024, 60 percent of Solomon Islands' public debt was domestically held.

Figure 1.16 Development of general government debt

A. Development of public debt in Fiji, SLB, and tourism- and remittances-led countries (percent of GDP)



B. Development of public debt in sovereign rent-led countries (percent of GDP)



Sources: International Monetary Fund; World Bank.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.
B. Nauru's large decrease in public debt in 2020-21 was due to the resolution of longstanding external debt obligations as part of Nauru's Debt Action Plan.

35. **Public debt fell across tourism- and remittances-led Pacific countries, excluding Vanuatu, due to strong fiscal balances and ongoing fiscal repair (Figure 1.16.A).** In Samoa, there was a notable decline in public debt from 33.3 percent of GDP in 2023 to 27.7 percent of GDP in 2024, reflecting the fiscal surplus, net amortization, and a substantial increase in nominal GDP. In addition, Palau's public debt declined in 2024 after sharply rising in 2023 due to the uptake of concessional loans. Tonga's public debt fell from 42.3 percent of GDP in 2023 to 37.9 percent in 2024, reflecting prudent fiscal management to ensure debt sustainability, including through a commitment to adhere to a zero limit on new non-concessional external borrowing under the Sustainable Development Financing Policy's Performance and Policy Actions. Vanuatu's public debt is estimated to have risen in 2024, owing to lower revenues and a greater fiscal deficit from the voluntary liquidation of Air Vanuatu (Figure 1.16A).

36. **In sovereign rent-led countries, debt levels generally declined (Figure 1.16.B).** Sovereign rent-led countries are less reliant on debt financing of expenditures due to the presence of Sovereign Wealth Funds (SWFs) or trust funds they can draw upon (Figure 1.17.A). In RMI and FSM, fiscal restraint has resulted in public debt falling to 15.8 percent and 10.6 percent of GDP, respectively, in 2024. In Nauru, public debt was stable at 20.2 percent of GDP in 2024. In Kiribati, large fiscal deficits are currently being funded out of its SWF, the Revenue Equalization Reserve Fund (RERF), which is the largest among the PIC-11 in absolute terms and relative to GDP (Figure 1.17.B). As a result, Kiribati's large fiscal deficit in 2024 did not result in an increase in public debt, which stands at 12 percent of GDP in 2024. Tuvalu's level of public debt in 2024 stood at 6.3 percent of GDP.

37. **Debt sustainability analyses of PICs show that five countries remain at high risk of overall debt distress.** Three of these countries are sovereign rent-led countries, whose dependence on external grants and funding increases their vulnerability to shocks. Over the past two years FSM, Samoa, and Solomon Islands have seen improvements in their Debt Sustainability Analysis (DSA) ratings (Table 1.3), each demonstrating improved performance on debt and fiscal management. Solomon Islands, despite increasing public debt levels in 2024, improved its external debt distress rating due to improved export performance. Vanuatu, by contrast, has seen a deterioration in its DSA ratings. The impacts of the Air Vanuatu voluntary liquidation on growth prospects, tourism, and public debt have increased its risk of overall and external debt distress to high. In Samoa, strong fiscal performance has led to an upgrade in its debt rating, while the renewal of U.S. Compact funding improved FSM's ratings.

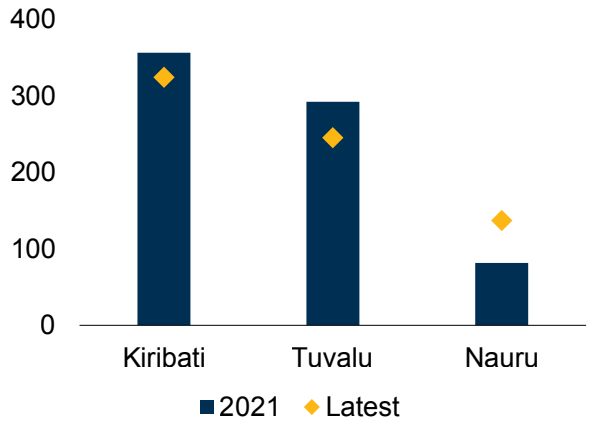
Table 1.3 Debt Sustainability Analysis rating changes

	Overall				External			
	2021	2022	2023	2024	2021	2022	2023	2024
Fiji								
SLB								
Palau					N/A	N/A	N/A	N/A
Samoa								
Tonga								
Vanuatu								
RMI								
FSM								
Kiribati								
Tuvalu								
Nauru					N/A	N/A	N/A	N/A

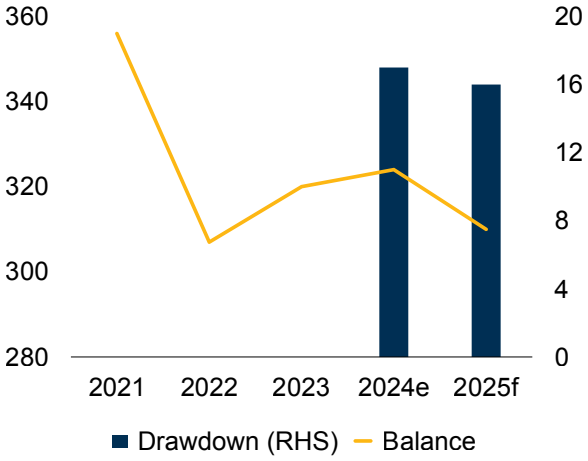
Sources: International Monetary Fund; World Bank.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. Red is high risk; orange is moderate risk; green is low risk; white means no DSA was conducted that year; Palau and Nauru do not have external debt sustainability ratings.

Figure 1.17 Sovereign Wealth Funds

A. Sovereign Wealth Funds (percent of GDP)



B. Kiribati Sovereign Wealth Fund balance and drawdowns (percent of GDP)



Sources: International Monetary Fund; World Bank.
Note: Data as of: Nauru (March 2024), Tuvalu (2023), and Kiribati (June 30, 2024).
B. 2024e is an estimate; 2025f is a forecast. There were no drawdowns in 2021-23.

38. **Across countries with a SWF, fund balances increased in 2024.** SWFs can support small states by providing financial stability and resilience against economic shocks. While they can also support government expenditure, excessive drawdowns on SWFs have the potential to undermine their sustainability and lead to depletion. PICs with a SWF have generally seen balances recover partly after COVID-related shocks, though Kiribati made a sizable withdrawal from its SWF in 2024 to fund recurrent fiscal spending (Figure 1.17.B; Box 2; Figures B.2.A and B.2.B). Other countries have trust funds linked to U.S. Compact funding arrangements, which were renewed in 2024. Increased volatility in 2025 poses a risk to SWF balances.

Box 2. Fiscal spending in Kiribati

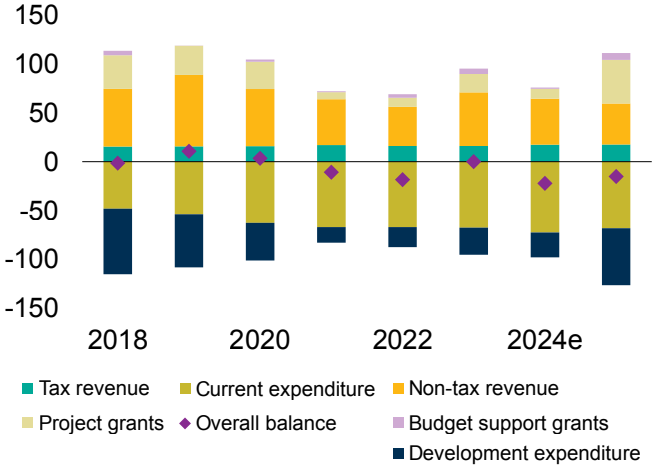
Unlike other Pacific countries which have been consolidating finances post-pandemic, Kiribati has significantly expanded spending, highlighting challenges in managing Sovereign Wealth Fund (SWF) drawdowns. New programs to tackle poverty and address the cost of living included unemployment support, increasing the copra subsidy, private sector leave entitlements, and a 38 percent pay rise for public sector workers. Recurrent spending now accounts for three-quarters of public expenditure.

Kiribati's high recurrent spending is funded by volatile fishing revenues and SWF withdrawals. Fishing license fees, the main revenue source, fluctuate between 35 and 60 percent of GDP. The Revenue Equalization and Reserve Fund (RERF) is worth over 320 percent of GDP. In 2020, a withdrawal rule was introduced which allowed all real annual returns above 5 percent to be withdrawn for development purposes. While the rule provided an important commitment to fiscal prudence, it led to volatile withdrawals. In December 2023, the threshold was lowered to 2 percent nominal, increasing volatility and risking depletion of the RERF's real value. Cash reserves worth another 40 percent of GDP were used to smooth volatile income.

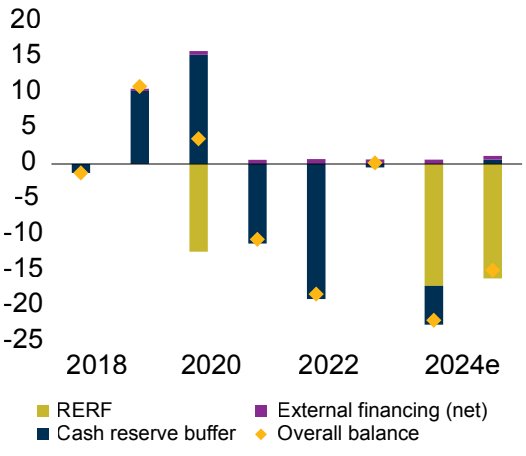
High projected fiscal deficits of 15 percent of GDP until 2030 and potentially low fishing revenues will likely need regular RERF withdrawals. Under the current rule, the RERF cannot fund deficits after poor financial market returns, risking large unfunded deficits. Recent equity market volatility suggests this could be an issue as soon as 2026. Amending the RERF withdrawal rule to permit up to 3 to 5 percent of the RERF's assets to be withdrawn annually for development purposes could stabilize the fiscal position and better meet the goals of addressing poverty and preserving the RERF. Future reforms could consider depositing fishing revenues directly into the RERF and drawing down a fixed proportion, which would further enhance fiscal resilience.

Figure B.2 Kiribati fiscal indicators

A. Kiribati government revenue and expenditure (percent of GDP)



B. Financing Kiribati's fiscal surplus and deficit (percent of GDP)



Sources: IMF; World Bank.
Note: RERF = Revenue Equalization and Reserve Fund.
B. External financing includes uncommitted future grants.

39. **Despite recent improvements in fiscal positions, the region continues to face relatively narrow fiscal space and high exposure to additional shocks.** This limited fiscal capacity constrains the ability of governments to respond effectively to unforeseen economic disruptions, natural disasters, and other external shocks.

Near-term outlook

40. **Fiji is expected to continue with fiscal consolidation in the near term, while Solomon Islands is expected to record fiscal deficits.** In Fiji, a slightly higher deficit is projected for FY25 due to higher expenditures. Tax and expenditure reforms, such as strengthening compliance, rationalizing tax exemptions, and adopting a zero-based budgeting approach should lead to reductions in future fiscal deficits and the paying down of public debt. In Solomon Islands, the fiscal deficit is expected to remain stable over the medium term. This reflects normalization of development grants after the pandemic, while expenditures have also been elevated due to the pandemic, the Pacific Games, and election preparations.

41. **In tourism- and remittances-led countries, fiscal positions are expected to weaken in the near-term with the normalization of grants and increases in capital expenditures.** Samoa and Tonga are expected to report fiscal deficits in 2025 after recording surpluses in 2024. In Samoa, the normalization of grants—coupled with higher expenditures related to the Commonwealth Heads of Government meeting and capital expenditures—will outweigh strong domestic revenue collections. Similarly, in Tonga, a temporary rise in expenditures is expected in 2025 to fund higher public service salaries, while grant revenues are expected to normalize gradually. Domestic revenues are projected to increase in 2025 and 2026, owing to improved tax administration. Palau is expected to record modest fiscal surpluses in 2025 and beyond, supported by U.S. Compact funding and the continued implementation of tax reforms.

42. **Vanuatu is expected to experience a deterioration in its fiscal deficit,** owing to declining revenues from the Economic Citizenship Program and the VAT, as well as increased expenditures, including transfers, support measures, construction expenditure, and one-off costs from the liquidation of Air Vanuatu. The deficit is expected to widen to 7.5 percent of GDP in 2025, then decline but remain elevated in 2026 as capital expenditures remain high. Revenues are expected to recover with economic growth and, combined with stabilizing economic activity, will result in a narrowed deficit in 2027.

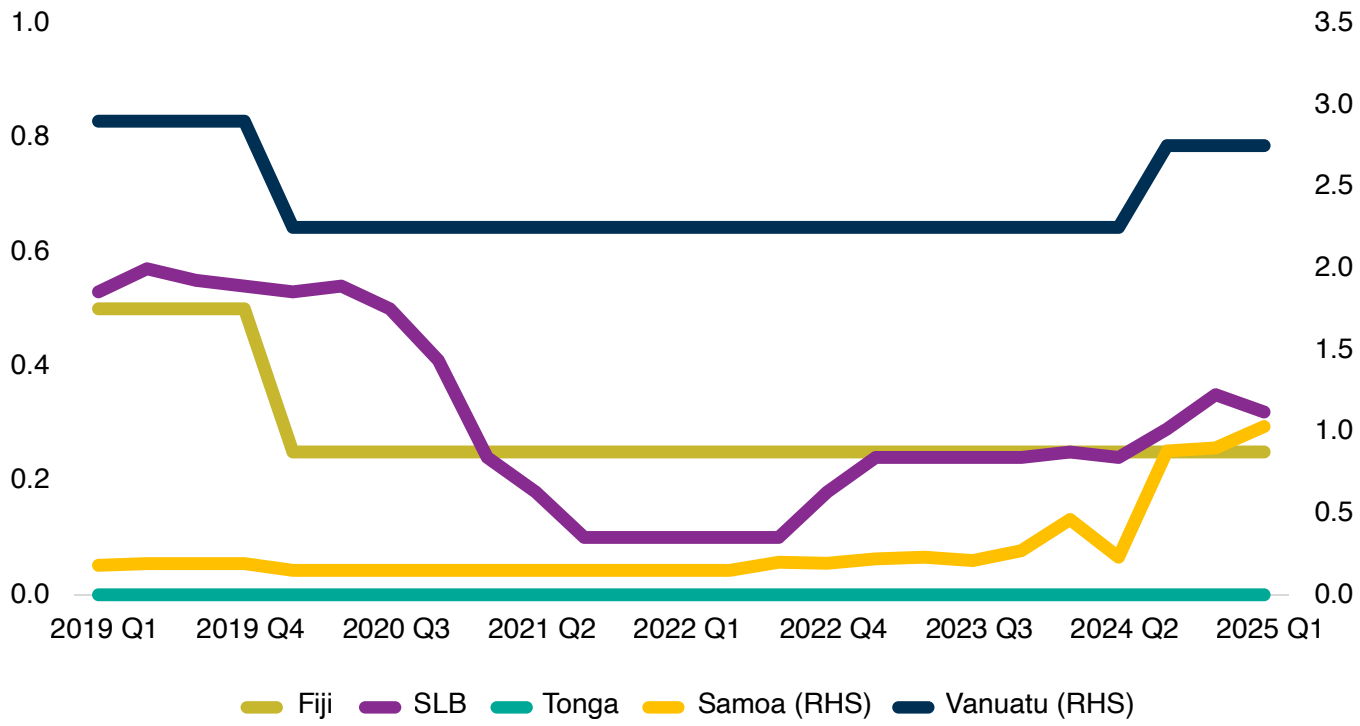
43. **In sovereign rent-led countries, fiscal balances are expected to deteriorate in 2025 in FSM, Nauru, and Tuvalu, and improve in Kiribati and RMI.** Many of these countries face persistent challenges from high recurrent expenditures, particularly on public wages and salaries and government purchases of goods and services. Furthermore, revenues remain volatile, with normalizing grant revenue and fishing license fees posing challenges for fiscal balances.

1.2.4 Monetary Policy and the Financial Sector

Recent developments

44. **Fiji and Solomon Islands currently have accommodative monetary policies.** Fiji has kept its policy rate unchanged since mid-2020, maintaining an accommodative stance despite recent price pressures from tax adjustments (Figure 1.18). Solomon Islands had implemented tighter monetary policies since mid-2022 in response to rising inflation post-pandemic, but in its September 2024 Monetary Policy Announcement, the Central Bank of Solomon Islands (CBSI) adopted an accommodative monetary policy stance in response to recently easing inflation. In line with this accommodative stance, the CBSI reduced its cash reserve requirement from 6.0 percent to 5.5 percent.

Figure 1.18 Central bank policy rates (basis points)



Source: Country authorities.
Note: SLB = Solomon Islands. For Solomon Islands, the policy rate is based on Central Bank of Solomon Islands' 28-day Bokolo Bills.

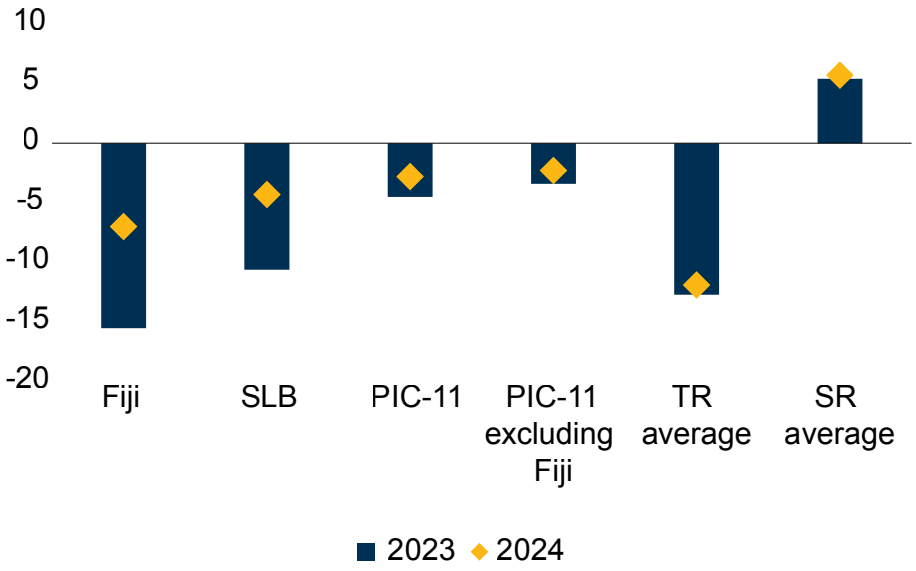
45. **Central banks have started to normalize monetary policy rates in Samoa and Vanuatu, while they remain anchored at 0 percent in Tonga.** In Vanuatu, the central bank in September 2024 increased the policy rate from 2.25 percent to 2.75 percent and the capital adequacy ratio from 10 to 12 percent to control higher inflation and reduce excess liquidity. In Samoa, the central bank reaffirmed its monetary policy stance in December 2024, which involves scaling up its open market operations and gradually increasing the policy interest rate—near zero since 2008—back to its neutral rate of 2-3 percent in the next two years. In Tonga, the central bank (NRBT) reaffirmed its accommodative policy stance in its February 2025 Monetary Policy Statement. The Statutory Reserve Deposit ratio was maintained at 15 percent, and the NRBT will begin introducing a new policy rate—transitioning from a floor rate to a standard mid-rate. The interest rate on bank Exchange Settlement Accounts at the NRBT will remain at 0 percent.

1.2.5 External Sector

Recent developments

46. **In 2024, there was a substantial narrowing of current account deficits in both Fiji and Solomon Islands (Figure 1.19).** In Fiji, the current account deficit was reduced by half—from 15.5 percent of GDP in 2023 to an estimated 7 percent of GDP in 2024—driven by a significant increase in tourism flows and remittance inflows, partly due to Fijians participating in various labor mobility schemes in Australia and New Zealand. This reduced deficit helped maintain a robust level of foreign reserves, covering six months of imports as of end-2024. In Solomon Islands, the current account deficit also narrowed, from 10.6 percent of GDP in 2023 to 4.3 percent in 2024, driven by reduced import demand and rising mineral exports.

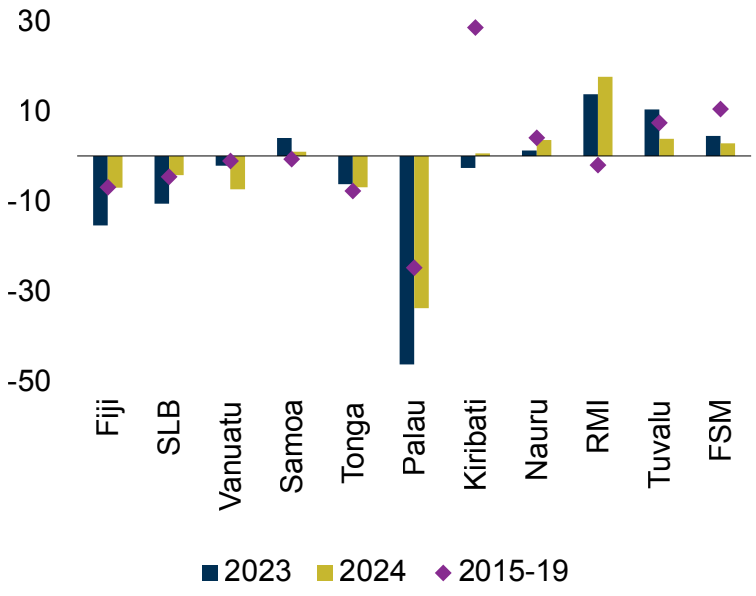
Figure 1.19 Current account balance, 2023 and 2024 (share of GDP)



Source: World Bank staff estimates.
Note: PIC-11 = Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu; SLB = Solomon Islands; SR = sovereign rent-led countries; TR = tourism- and remittances-led countries.

47. **Country-specific factors have resulted in tourism- and remittances-led countries exhibiting contrasting trends in current account deficits (Figure 1.20).** Palau saw an improvement in its large current account deficit primarily due to a delayed recovery in tourism. In contrast, Vanuatu experienced a widening of its current account deficit—from 2.2 percent of GDP in 2023 to 7.4 percent in 2024, driven by a significant decrease in travel receipts following the liquidation of Air Vanuatu. In Tonga, the deficit remained broadly unchanged at around 7 percent of GDP in 2024, due to increased imports for reconstruction spending. Samoa experienced a reduction in its current account surplus in 2024, also largely due to accelerated reconstruction efforts.

Figure 1.20 PIC-11 current account (share of GDP)



Sources: IMF World Economic Outlook (April 2024); World Bank staff estimates.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.

48. **In sovereign rent-led countries, such as Nauru and RMI, current account surpluses continued in 2024, supported by robust fishing license revenues (Figure 1.20).** Meanwhile, increases in the import bill resulted in a modest current account deficit in Tuvalu and a narrowing of the current account surplus in FSM.

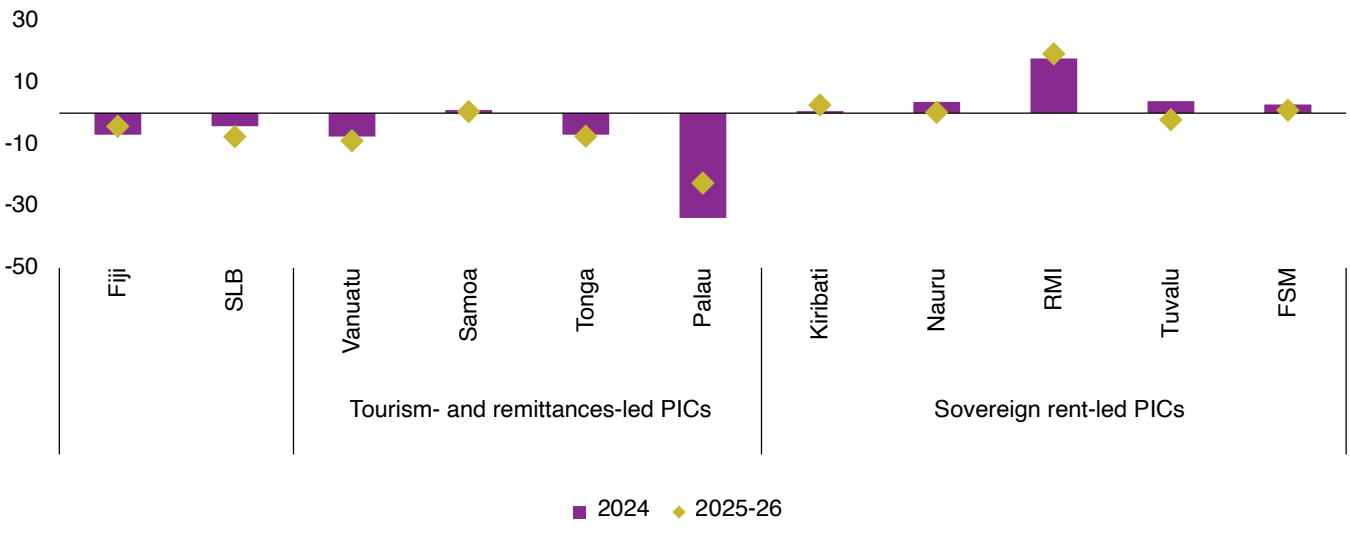
Near-term outlook

49. **The current account deficit is expected to narrow in Fiji in 2025-26 but widen in Solomon Islands (Figure 1.21).** In Fiji, the current account deficit is projected to narrow, driven by a reduced trade deficit and stable tourism receipts and remittances. This will likely lead to an increase in reserves. Remittances are expected to remain robust, reflecting Fiji's high participation in labor mobility schemes. In contrast, the deficit is expected to widen in Solomon Islands over the same period, reaching 7.7 percent of GDP. High deficit levels will be driven by strong import demand related to infrastructure investments and a projected decline in logging exports.

50. **Barring Vanuatu, all tourism- and remittances-led countries are expected to see improvements in their current account deficits in 2025-26.** In Palau, the resumption of flights and additional planned routes from key markets such as Australia, China, Japan, the Republic of Korea, and Singapore are expected to boost tourism arrivals, helping to improve the current account. In Samoa and Tonga, normalizing economic activity, coupled with strong remittance inflows, is likely to support stable external balances. This positive trend is anticipated to help maintain adequate foreign reserves.

51. **Vanuatu's current account deficit is expected to widen marginally in 2025 to 8.2 percent of GDP, compared to a pre-earthquake estimate of 6.5 percent.** Despite the impacts of the earthquake, a higher trade deficit is partially offset by continued high remittances and additional development partner grants to support the recovery effort. A larger deficit is projected in 2026 as imports remain elevated due to reconstruction activity, while grants and remittances gradually decline from their high levels. The deficit is expected to narrow to pre-earthquake levels in 2027 as reconstruction winds down.

Figure 1.21 Current account projections (share of GDP)



Source: World Bank staff estimates.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.

52. **Current account balances are expected to remain stable over 2025-26 in sovereign rent-led countries.** In Kiribati and RMI, large current account surpluses are anticipated to be maintained due to robust fishing license revenues. A small current account surplus is also expected to be maintained in FSM due to development grants and taxes paid by foreign firms. Meanwhile, a modest current account deficit is expected in Tuvalu due to its large import bill.

1.3 Risks to the Outlook

The Pacific region faces significant risks to economic growth and development. Heightened trade policy uncertainty and escalating tariffs stand to slow global growth, with knock-on effects for tourism and remittances in the PIC-11. The potential reduction in grant financing from international donors could impact the PIC-11's ability to fund essential development projects, maintain fiscal stability, and support social programs. Further, the region remains highly vulnerable to natural hazards and climate-related events.[8]

1.3.1 Weaker global growth, a slowdown in major economies, and policy uncertainty

53. **The global economic outlook is subject to several downside risks, and weaker long-term global growth could further compound challenges for the PIC-11.** Global potential growth is projected to fall to a three-decade low of 2.2 percent over the remainder of the 2020s, driven by an aging labor force, slower investment, and weakening productivity. This slowdown could reduce demand for exports from the PIC-11, lower remittance inflows, and decrease tourism-related jobs and revenues—all critical sources of income for these economies.

54. **A sharper-than-expected slowdown in major trading partners and remittance source countries, such as the US, China, Australia, and New Zealand, could severely impact PIC-11 economies through trade and remittance channels.** Weaker global growth would exacerbate these effects, as reduced demand and income could diminish tourism and remittances. Commodity exporters, particularly Solomon Islands, may face decreased demand from China. This reduction in global demand could lead to significant revenue losses, affecting trade balances and fiscal stability. Additionally, the slowdown may impact foreign direct investment flows, as investors reassess risks in a more uncertain global economic environment.

55. **Higher or longer-lasting policy uncertainty, especially related to trade policy in large economies, could further undermine growth by constraining consumption and investment and putting upward pressure on import prices.** Policy uncertainty stands to limit investment due to businesses delaying or canceling projects due to unclear regulatory environments and potential policy reversals. This stifles innovation, reduces job creation, and slows economic diversification efforts. For the PIC-11, these effects are particularly concerning as they rely heavily on external trade and investment to drive growth and development.

1.3.2 Fragmentation of trade and investment networks

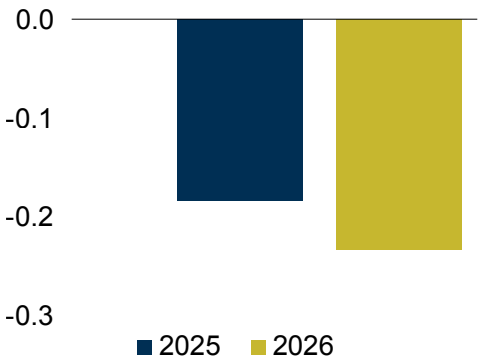
56. **Increasing fragmentation could complicate the outlook for the PIC-11.** It can lead to reduced market access, higher transportation costs, and increased volatility and trade flows (Annex 2). This can raise input costs and reduce the reliability of supplies, further marginalizing the PIC-11 in the global economy. Fragmentation could also disrupt oil supplies and cause spikes in food and fuel prices, especially given PICs' reliance on imported fuel. Increased policy uncertainty could lead to currency depreciations, disruptions to international shipping, higher inflation, and rising external debt servicing costs. Additionally, many Pacific Island nations are important tourist destinations for citizens of directly affected countries, making them vulnerable to declines in tourism.

8. Climate-related disasters pose a significant risk for the PIC-11. The cost of natural disasters, when they do occur, has been around 60 percent of GDP in Vanuatu and 29 percent in Tonga, highlighting their significant impact on livelihoods. Pacific atoll nations—Kiribati, RMI, and Tuvalu—also face considerable risk from climate-related variability and sea-level rise. An analysis of global recessions and natural disasters since 2000 shows that both types of events can lead to a persistent weakening of fiscal balances and increased debt, relative to GDP, in small states. For example, large natural disasters are typically associated with a 0.7 percentage point deterioration of the fiscal balance in the year of the shock, with the negative effects persisting over the following two years.

57. **To assess the potential impacts of increasing tariffs, a set of indicative scenarios is constructed.** These scenarios feature a 10-percentage point increase in tariffs applied by a major economy on its trading partners—both with and without counteractions—starting in 2025**.** The consequences of a rise in tariffs are quantified using a global macroeconomic model. Most Pacific Island economies are sensitive to changes in global trade. The increase in tariffs could affect growth due to weaker exports, lower inbound tourism flows, and reduced remittances inflows, stemming from weaker growth in major source countries. Additionally, trade disruptions could lead to more expensive imports of machinery, equipment, and other capital goods, potentially reducing long-term growth in the region (Figure 1.22).

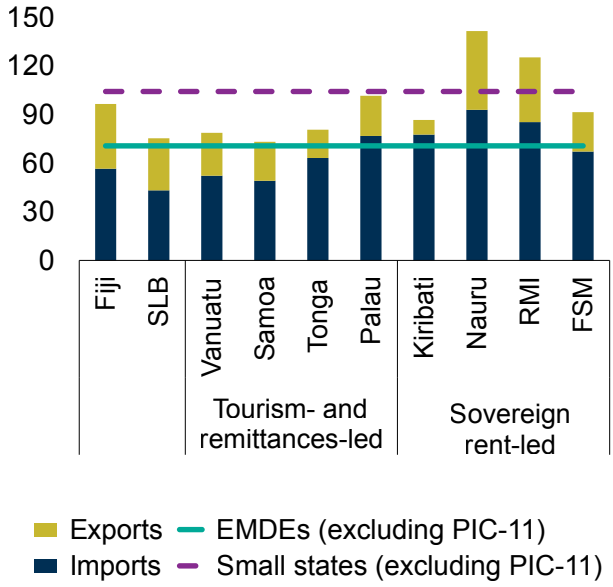
Figure 1.22 Impact of tariff increases on annual growth in PIC-11 and trade openness

A. Impact of tariff increases on annual growth (percentage point)



Sources: Oxford Economics; World Bank.
Note: Based on the average estimated impact in Fiji, Kiribati, Solomon Islands, Tonga, and Vanuatu. Chart shows the impact on annual growth under an indicative scenario involving a 10-percentage-point increase in U.S. tariffs, accompanied by counteractions.

B. Trade openness



Source: World Bank.
Note: EMDEs = emerging market and developing economies; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. Data not available for Tuvalu.

58. **PICs' trade openness amplifies their vulnerability to global trade and supply chain disruptions.** PICs are highly reliant on trade, with total trade averaging over 90 percent of GDP in recent years, compared to about 70 percent for other EMDEs (Figure 1.23.B). Import reliance is especially elevated in PICs, at 63 percent of GDP, against 38 percent for other EMDEs, exposing these economies to potential global price increases resulting from tariff increases and supply chain fragmentation. Several PICs are highly dependent on specific trade partners as a destination for goods exports, although export destinations are heterogeneous across PICs (Figure 1.23.A and 1.23.B).

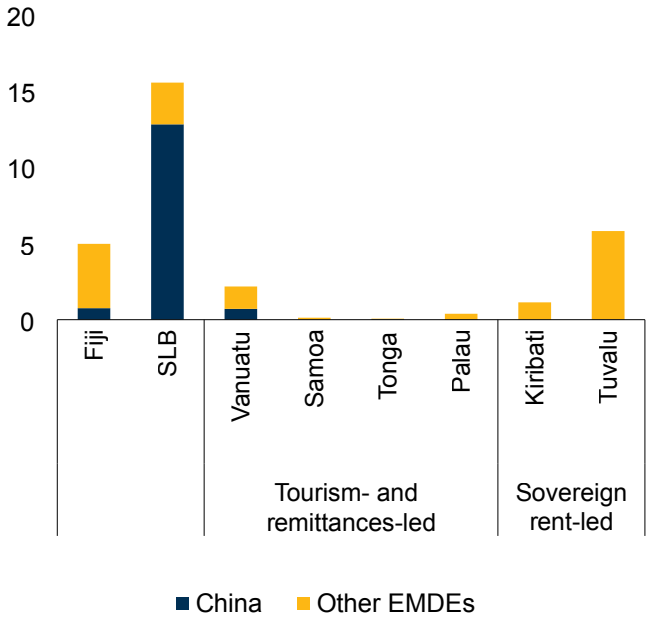
59. **Volatility in foreign direct investment (FDI) inflows amid rising global uncertainty would threaten capital formation in tourism-dependent PICs.** While PICs are not as reliant on FDI inflows as other small states, they are as dependent on such inflows as other EMDEs. In particular, tourism-led economies such as Fiji and Palau face severe investment disruption risks, with FDI dependency of 6 percent and 18 percent of GDP, respectively. Deteriorating investor sentiment could trigger capital flight, amplify economic downturns, and permanently damage long-term growth prospects in tourism-dependent PICs.

60. **High dependency on remittances in PICs creates exposure to economic conditions in source economies.** On average, PICs are twice as reliant on remittances as other small states and EMDEs. Remittance-dependent economies such as Tonga (where remittances were equivalent to 40 percent of GDP from 2019-23) and Samoa (24 percent) face acute vulnerability to labor market disruptions in key partner economies (Figure 1.23.C). On average, remittance dependency in PICs, measured by remittance inflows as share of GDP, increased by 85 percent from 2002 to 2022, intensifying their vulnerability to economic slowdowns in Australia, New Zealand, and the United States.

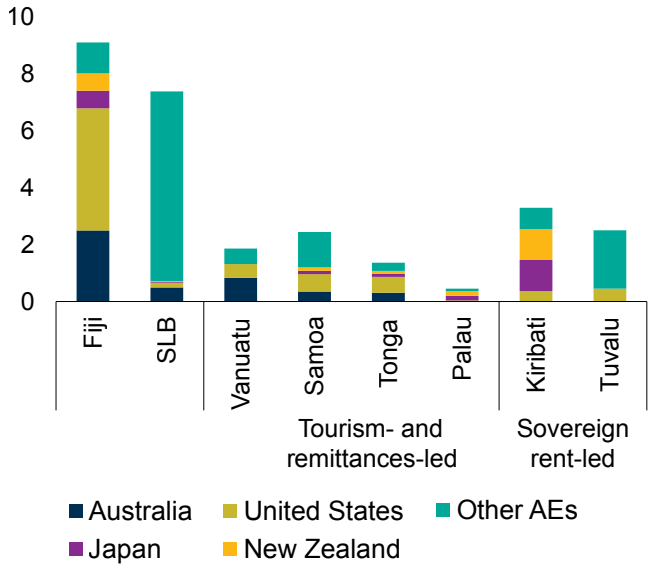
61. **High levels of aid dependency make PICs, especially sovereign rent-led PICs, vulnerable to donor countries' shifting policy priorities.** Several PICs face critical risks from aid volatility, with official development assistance (ODA) inflows equivalent to nearly 40 percent of the gross national income of RMI and FSM, about 35 percent in Tuvalu, and 20 percent in Palau (Figure 1.23.D). The origin of ODA inflows varies, with RMI and FSM particularly reliant on the United States and the rest of the PICs more exposed to geographically closer countries such as Australia, China, Japan, and New Zealand. Policy changes and fiscal pressures in donor countries amid global trade policy uncertainty could severely constrain aid flows to PICs.

Figure 1.23 Risks and spillover channels

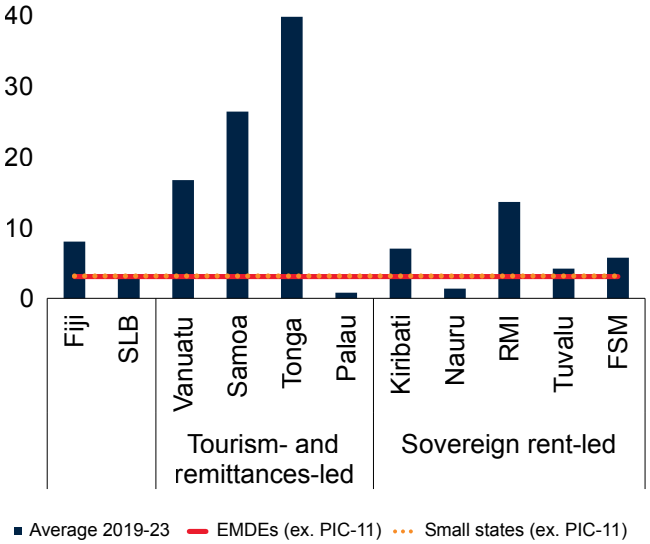
A. Goods exports to EMDEs, by destination (as share of GDP, 2018-22)



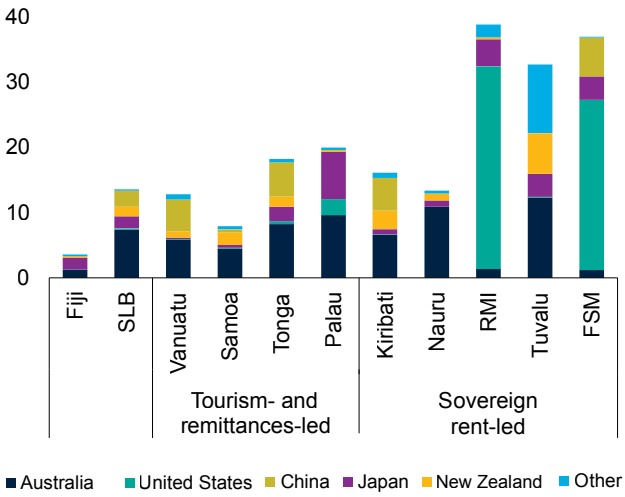
B. Goods exports to advanced economies, by destination (averages for 2019-23)



C. Remittance inflows (as share of GDP, 2019-23)



D. Official development assistance and other grant inflows, by donor (averages for 2018-22)



Sources: Baker, Bloom, and Davis (2016); Caldara et al. (2020); Haver Analytics; Lowy Institute; World Bank; World Integrated Trade Solution (WITS).
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.

A. and B. Exclude FSM, Nauru, and RMI due to issues with data consistency.
C. Note that bars show country averages of received remittances as a share of GDP for 2019-23, except for Tonga, which reflects the average for 2019-22.
D. Data include ODA from Development Assistance Committee (DAC) and non-DAC entities. All ODA data indicate amounts spent (not committed).

Table 1.4 Heatmap of potential spillover channels

		Exports as % of GDP	Imports as % of GDP	ODA as % of GNI	Remittances as % of GDP	FDI as % of GDP
	Fiji	40	57	6	8	6
	SLB	32	43	15	3	2
Tourism- and remmittances-led	Vanuatu	26	52	13	17	4
	Samoa	24	49	15	26	1
	Tonga	17	63	29	40	1
	Palau	25	77	21	1	18
Sovereign rent-led	Kiribati	9	78	17	7	0
	Nauru	49	93	19	1	
	RMI	40	85	39	14	2
	Tuvalu			55	4	
	FSM	24	67	30	6	
	Median PIC-11	26	65	19	7	2

Source: World Bank.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. For each variable, the economy's average between 2018-22 is standardized using the EDME's (ex.PIC-11) averages for the same period and within the PIC-11 standard deviation. Yellow represents that for the variable, that the economy is as exposed as the median EMDE (ex. PIC-11). Red/green represents that for the variable at hand, that economy is more/less exposed as the median EMDE (ex.PIC-11). Gradients stop at +/- 2 standard deviations. Grey represents unavailable data. The median PIC-11 is the median exposure of each variable across the PIC-11.

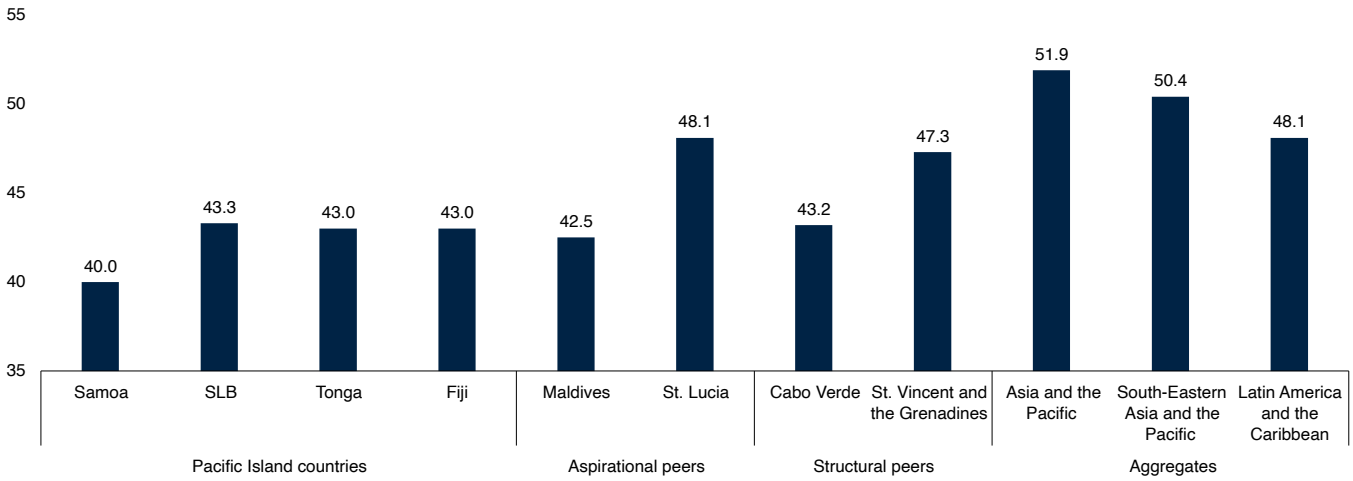
1.4 Leveraging Untapped Economic Potential to Build Resilience

62. **The challenging medium-term growth outlook in PICs, along with the multitude of risks that threaten economic stability and development, underscores the need to build fiscal resilience.** Without it, these countries risk being trapped in a vicious cycle of worsening economic divergence and increasing reliance on external support, intensifying challenges to achieving sustainable growth. For PICs specifically, this means enhancing the ability of governments to anticipate, absorb, and adapt to external shocks—all without compromising development goals or requiring external intervention. By creating fiscal buffers, diversifying revenue sources, improving expenditure flexibility, and developing robust institutional frameworks, PICs can strengthen their capacity to withstand and recover from economic shocks while preserving their core functions and financial health.

63. **Alongside this, the PIC-11 need to build the resilience of their populations, and one way to do this is by improving the quality and accessibility of jobs, which, in turn, would boost overall wage income.** By creating more waged work opportunities and ensuring that these jobs are accessible to a larger portion of the population, the PIC-11 can increase overall wage levels within their economies. Higher wages not only improve the standard of living for individuals but also enhance economic stability by reducing vulnerability to economic shocks and poverty. This approach will help the PIC-11 build a more resilient and self-sufficient economy.

64. **Labor income as a share of GDP indicates that the PIC-11 tend to produce lower overall wages than the regional average.** The scarcity of data prevents a complete picture for all PIC-11; however, in Fiji and Solomon Islands, the two largest PIC-11, as well as in Tonga, wages are estimated to amount to around 43 percent of their respective GDPs. This ratio is around 40 percent in Samoa. In contrast, labor income accounts for around 52 percent of GDP in the East Asia and Pacific (EAP) aggregate, and 48 percent in the Latin America and Caribbean aggregate (Figure 1.24). This low share of labor income is seriously limiting economic growth for households, therefore PIC-11 economies must ensure growth translates into more waged jobs, particularly in underserved groups such as women and youth.

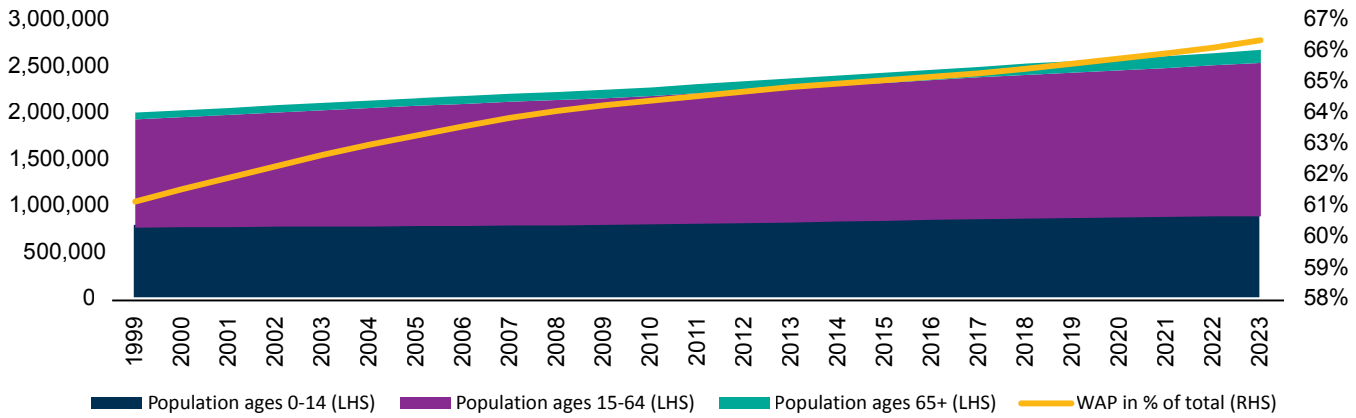
Figure 1.24 Labor income, 2024 (percent of GDP)



Source: ILOSTAT, ILO modeled estimates.
Note: SLB = Solomon Islands.

65. Headline population data from PIC-11 indicate that the low level of wage income is not due to a declining population or other unfavorable demographic trends. Over the last 25 years, the total population of the PIC-11 increased from 2.0 million to almost 2.7 million. In parallel, the share of the working-age population increased from 61 percent to 66 percent (Figure 1.25). This means that today there are over half a million more working-age individuals in the PIC-11 compared to the beginning of the millennium.[9]

Figure 1.25 PIC-11 population by aggregated age groups, and the working-age population (WAP) ages 15 and over to total population ratio, 1999-2023 (percent)



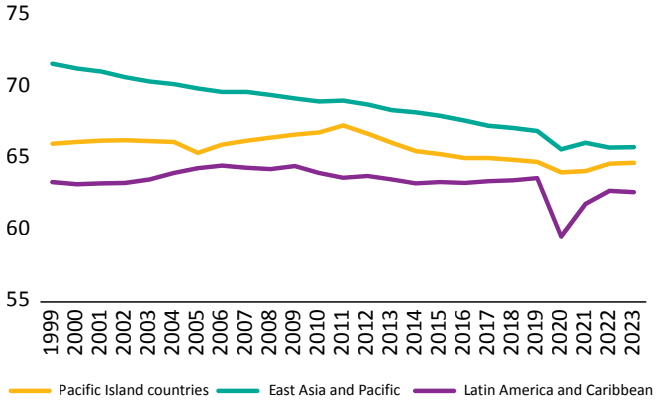
Source: World Development Indicators (database).
Note: WAP = working-age population.

66. Despite an increasing working age population, labor force participation in PIC-11 is low and declining. According to the latest ILO modeled estimates, labor force participation rates vary greatly across the PIC-11, between 43 percent and 84 percent, while the PIC-11 average is 65 percent.[10] In international comparison, PIC-11 labor force participation rates are in between the EAP and Latin America and Caribbean (LATAM) aggregates. The rate of youth not in employment, education, or training (NEET) paints a bleaker picture. While EAP is showing constant improvement in this respect, and so is LATAM since a temporary setback during the pandemic years, PIC-11 NEET rates have stayed constant at around 20 percent in the past two decades (Figure 1.26).

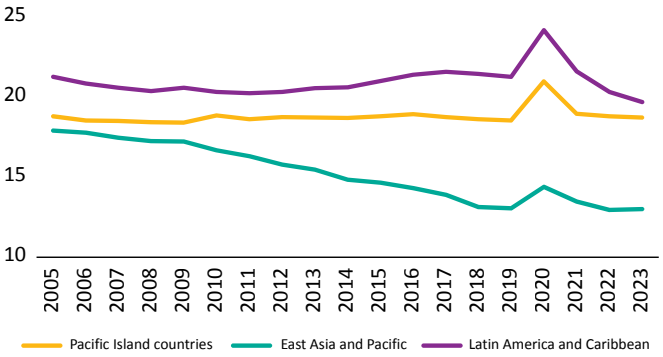
9. Defined as ages 15 and over.
10. Modeled ILO estimates use 13th ICLS definitions, which considers persons involved in own-use production of goods as employed. It is not uncommon that ILO-modeled estimates differ from actual survey data, labor force or household income and expenditure surveys, particularly for countries with weak data, subject to frequent shocks, etc. For more information: https://ilostat.ilo.org/methods/concepts-and-definitions/ilo-modelled-estimates/#elementor-toc_heading-anchor-5

Figure 1.26 Declining rate of labor force participation in PICs

A. Labor force participation rates (percent)



B. NEET rates (percent)



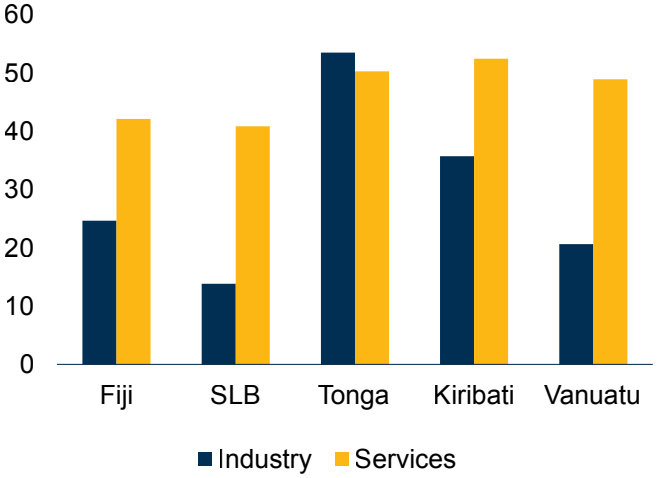
Source: ILO modeled estimates accessed via World Development Indicators (database).
Note: NEET refers to "not in employment, education, or training."

67. **Meanwhile, the gender gap in labor force participation between male and female remains extremely wide—at 22-percentage points in the PIC-11, compared to 15 percentage points in EAP.** This represents crucial untapped potential when it comes to boosting PICs' wage output and, in turn, building resilience. Improving women's labor force participation can have significant impacts for women, their families, and PIC economies. Increased economic participation by women leads to improved household financial stability and more equal participation in decision-making (Pacific Women Lead 2023).

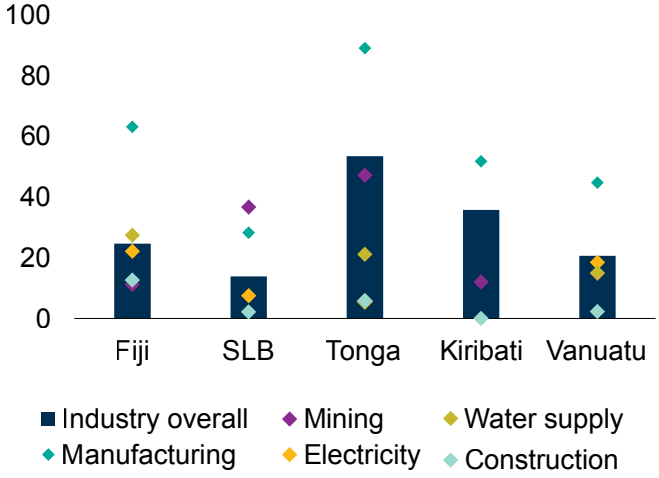
68. **Employment figures by economic sectors shed light on the uneven gender distribution of the labor force in PICs.** Gender disaggregated employment data by the three main sectors of the economy (agriculture, industry, and services) reveal the following: the share of agriculture, while in constant decline, is still substantial in several PICs and, except for Solomon Islands, is heavily dominated by men. In several cases this is due to land laws preventing women from land ownership. Services on the other end of the scale show slow but steady growth, with gender rates between 40-50 percent, which often exceeds gender rates observed in the total labor force. Industry, while slightly underdeveloped and stagnating, shows a very strong male dominance (Figure 1.27.A)

Figure 1.27 Sectoral employment disaggregated by gender

A. Share of female employment in industry and services sectors (percent)



B. Percentages of female employees by industry sub-sectors



Sources: Fiji LFS16 report; Solomon CENSUS19 report; Tonga LFS23 report; Kiribati HIES19 report; Vanuatu Census20 report; authors calculations.
Note: SLB = Solomon Islands.

69. Women are nearly "invisible" in many sub-sectors within industry. Male dominance is prominent in all industry sub-sectors apart from manufacturing, which in most countries employs more women than men in absolute terms. The energy utilities sub-sector, while not large in terms of employment, displays very low female engagement. Understanding key barriers to female employment in this sub-sector could yield valuable lessons for several other sectors with similar structural challenges (Figure 1.27.B).

70. Part Two of the *Pacific Economic Update* offers an overview of female labor force participation (FLFP) in the Pacific and then provides a sectoral analysis of constraints in relation to the energy sector, based on the World Bank *Pacific Women in Power: Women's Employment in the Pacific Power Sector* baseline report.[11] It highlights the barriers that have led to women being underrepresented, offers deep insights, and then recommends three overarching policies to improve FLFP in the Pacific.

11. The report was prepared in close collaboration with the Pacific Power Association.

Box 3. Demand-side policies to address challenging growth outlook

The current *Pacific Economic Update* focuses on supply-side policies, specifically targeting the untapped potential of low female participation to boost growth. In contrast, previous updates have concentrated on demand-side policies to address the challenging growth outlook and stimulate economic expansion. Specifically, the last update emphasized investment acceleration and recommended several demand-side strategies aimed at fostering growth and job creation (World Bank 2024c). These strategies include adopting an integrated approach in key areas to reverse economic trends and promote investment:

1. **Enable investment into high-potential sectors:** This involves modernizing agricultural practices with a focus on high-value crops such as organic vanilla and noni juice, while fostering agribusiness development to enhance market opportunities. Additionally, developing the blue economy through marine protected areas can improve sustainable fisheries management and marine conservation alongside sustainable tourism initiatives. Diversifying the tourism sector and developing sustainable commodity production and mining are also crucial, ensuring these sectors synergize to attract investment and foster inclusive economic growth.

2. **Address infrastructure deficiencies:** Enhancing road infrastructure and connectivity is vital to improve access to markets and boost economic dynamism. Expanding and upgrading port and airport facilities can facilitate trade and attract investment, promoting competitiveness in the global market. Prioritizing energy and internet access, and leveraging the potential for renewable energy development, supports a market-driven economy and sustains growth.

3. **Build resilience against disasters:** Investing in climate-resilient infrastructure, including coastal protection and enhanced drainage systems, can mitigate the impacts of natural hazards. Allocating funds to disaster preparedness and early warning systems ensures timely responses through improved risk assessments. Promoting investment in sustainable land use and environmental conservation reduces vulnerability to disasters and supports long-term economic growth.

4. **Build fiscal resilience:** Strengthening fiscal buffers to manage volatility and respond to external shocks is essential. Expanding fiscal space through domestic revenue mobilization and establishing contingency funds can improve fiscal, financial, and investment management, including procurement standards and practices, for more effective budget planning and execution. Accumulating fiscal reserves ensures the continuity of critical public investment during downturns or emergencies.

5. **Establish a regulatory and supportive framework to attract private investment:** Establishing a robust legal and policy framework for State-Owned Enterprises (SOEs), including regular audits, transparent reporting, effective internal controls, and clear definitions of ownership, is crucial. Improving public-private partnerships, reducing red tape, and adjusting investment incentives can attract private investors to high-potential sectors.

6. **Improve the availability of financing and insurance products:** Developing long-term, innovative financial instruments provides stable funding for major private or public investment projects, and finances post-disaster infrastructure recovery projects and climate-related investments. Creating insurance products tailored to infrastructure development and disaster risks in PICs is also important.

7. **Leverage global support:** Securing funding from International Financial Institutions (IFIs), technical expertise, and risk-sharing mechanisms is essential for high-impact projects. Ensuring funding is timely and aligns with broader developmental goals, alongside engaging in collaborative approaches with global and regional partners, facilitates knowledge exchange and enhances investment strategies.

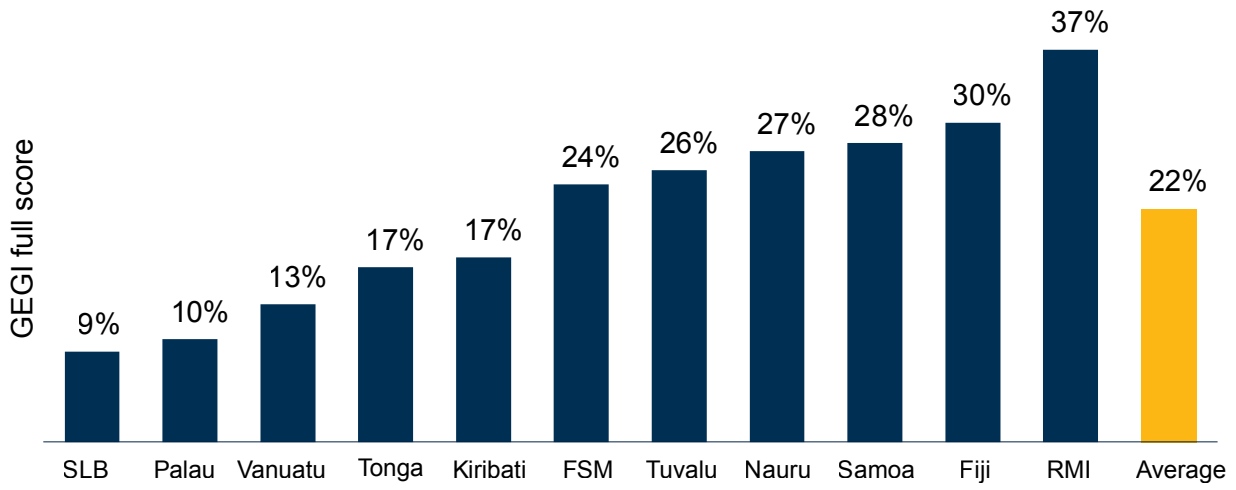
PART 2

Enhancing Pacific Female Workforce Participation: Special Focus on the Energy Sector

2.1 Context[12]

71. **Increasing Pacific female labor force participation (FLFP) can yield significant economy-wide returns.** The PIC-11 face underutilized human capital, particularly among women, whose low labor force participation limits wage growth and household resilience. Research has found that closing gender gaps in employment—especially in better-paid non-agricultural work—could raise GDP per capita on average by 22 percent across the PIC-11 (Pennings 2022). The potential economic gains vary widely by country, from 9 percent in Solomon Islands and 10 percent in Palau, to 30 percent in Fiji and 37 percent in RMI (Figure 2.1).[13,14]

Figure 2.1 Increase in long-term GDP per capita if the full gender employment gap is closed (Gender Employment GAP Index)



Source: World Bank (2022).
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.

72. **Economic gains from access to jobs can be attributed to several key factors, including higher household income.** When women participate equally in the workforce, household incomes rise significantly. This increased income can improve the standard of living for families, allowing for better access to goods and services, and providing a buffer against economic shocks (World Bank 2011).[15] Higher household incomes often lead to greater investment in children's education which, in turn, is likely to lead to the next generation securing better-paying jobs—creating a virtuous cycle of economic growth and development.[16]

12. The analysis in Part 2 borrows the framework of the 2012 World Development Report on Gender Equality, which emphasizes that households do not act as unitary decision-makers, but rather women's (and men's) individual bargaining power is influenced by markets and institutions (World Bank 2011). Intra-household bargaining perspectives help explain why quality jobs for women hold unique development value. Pacific women's lower status in public and private decision-making constrains their access to resources (e.g., social protection) and take-up of education and work opportunities. Aligned to the WB Gender Strategy 2024–2030, Part 2 addresses the interactions between women's economic opportunities, human capital accumulation, gender-based violence, decision-making and leadership.
13. The PIC-11 refers to the Federated States of Micronesia (FSM), Fiji, Kiribati, Republic of the Marshall Islands (RMI), Nauru, Palau, Samoa, Solomon Islands (SLB), Tonga, Tuvalu, and Vanuatu.
14. The Gender Employment Gap Index (GEGI) is defined as the difference between male and female employment, as a share of total employment. It can also be interpreted, through the lens of a standard neoclassical growth model, as the gain in long-run GDP per capita from an exogenous increase in female employment to erase gender employment gaps, keeping other things equal.
15. In the Pacific context, increased economic participation by women has led to both improved household financial stability and more equal participation in decision-making (Pacific Women Lead 2023; World Bank 2023a).
16. For evidence from various country contexts, see Attanasio and Lechene (2002); Doss (2006); Duflo (2003); Katz and Chamorro (2002); Rubalcava, Teruel, and Thomas (2009); and Schady and Rosero (2008).

73. **Closing gender gaps in employment can also significantly reduce poverty levels.** With more women earning an income, families are less likely to fall below the poverty line, and the overall economic stability of communities improves. For example, increased female labor force participation contributed to the reduction of extreme poverty by 30 percent in Latin America and the Caribbean between 2000 and 2010 (World Bank 2012). Esther Duflo's research demonstrates that increasing women's income has a measurable impact on reducing household poverty and enhancing economic stability. She finds that a $7 per month (10 percent) increase in women's income leads to a 1 percentage point decrease in the likelihood that a household falls below the poverty line (Duflo 2012).

74. **Other factors influencing the economic gains of increased FLFP include increased productivity in the workplace, improved revenue collection, and stronger consumer demand.** Gender diversity in the workforce can lead to increased productivity.[17] Women bring different perspectives and skills to the workplace, fostering innovation and improving problem-solving capabilities. Their contributions can enhance overall business performance and economic output in contexts where gender diversity is accepted (Zhang 2020). With more women in the workforce, the tax base expands, leading to improved revenue collection for governments (De Henau 2017). This additional revenue can be used to fund public services and infrastructure projects, further stimulating economic growth. Increased employment among women can lead to stronger consumer demand. As women earn more, they spend more on goods and services, driving economic activity and supporting businesses.

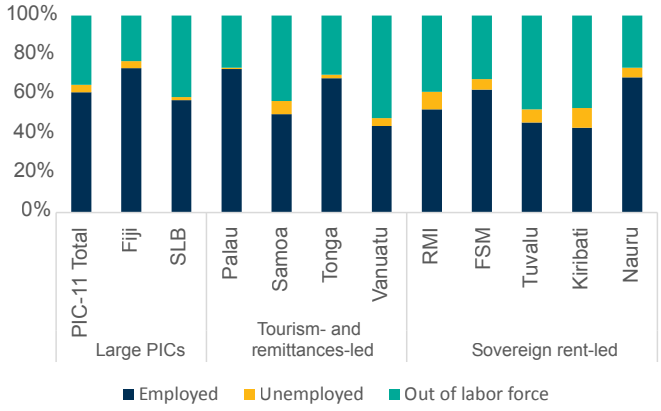
2.1.1 The low levels of female labor force participation in the Pacific

75. **Women's labor force participation has remained stubbornly lower than that of men's, despite recent economic growth and job creation in the PIC-11** (World Bank 2024c). Fewer women than men are employed, and more women are out of the labor force across all countries, including tourism- and remittance-led, and sovereign rent-led economies alike (Figure 2.2). Compared to the broader East Asia and Pacific region, FLFP is lower on average in the PIC-11 by about 5 percentage points, and the gender gap in labor force participation is larger by 4 percentage points. The weighted average labor force participation (LFP) rate is 53.7 percent overall and 42.7 percent for females, meaning 57.3 percent, or around 516,000 of the sub-region's working-age women are out of the labor force.[18] When women do work, excluding in Tuvalu, Tonga and Samoa, they are more likely than men to hold vulnerable jobs, defined as own account workers or contributing family workers (ILO 2025) (Figure 2.3) particularly among younger and rural women.

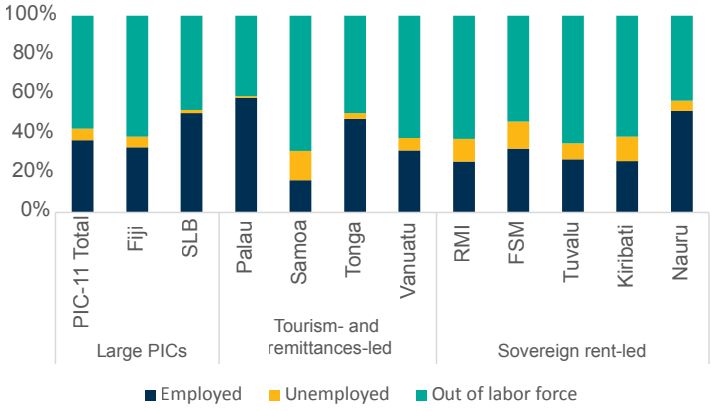
17. In the latest in their series investigating the business case for diversity, McKinsey found that companies in the top quartile for female representation in leadership had a 39 percent greater likelihood of financial outperformance than bottom quartile peers (McKinsey 2023).
18. ILOSTAT, latest actual survey data except for Solomon Islands which is based on 2019 Census https://statistics.gov.sb/download/60/solomon-islands-2019-population-and-housing-census-national-report_volume-1-and-2/1208/solomon-islands-2019-population-and-housing-census_national-report-vol-1-2

Figure 2.2 Labor force status of men and women

A. Labor force status of males (percent)

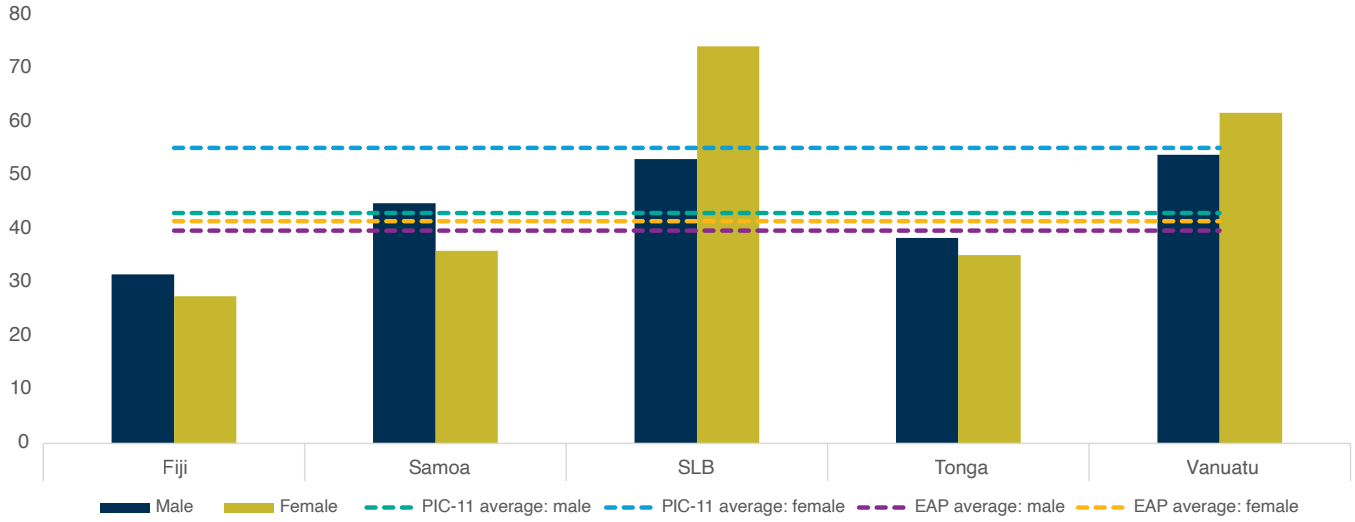


B. Labor force status of females (percent)



Sources: Latest national survey data (using 13th ICLS definitions) accessed via World Development Indicators (database); World Bank staff calculations.
Note: FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands.

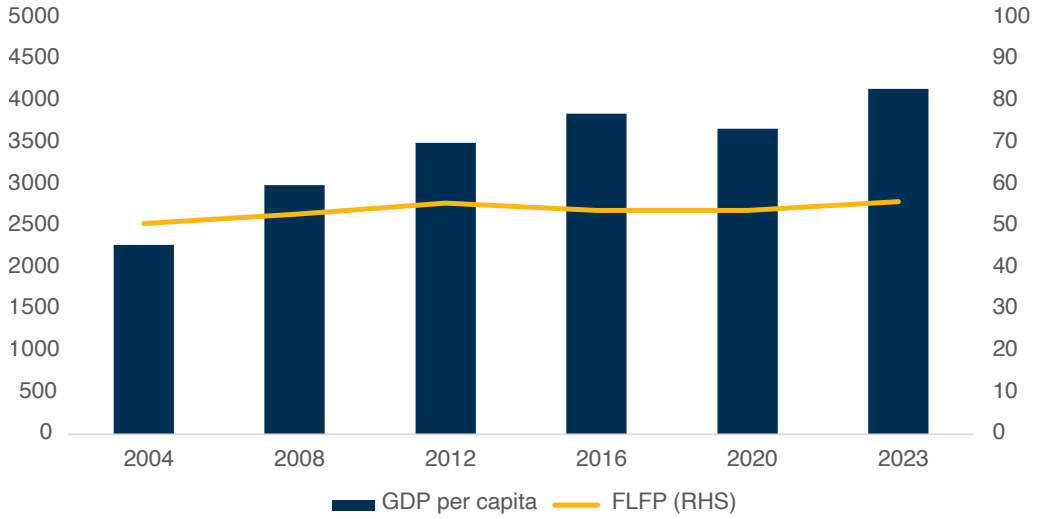
Figure 2.3 Vulnerable employment, male and female (percent of male/female population ages 15+)



Source: ILO, latest modeled estimate.
Note: EAP = East Asia and Pacific SLB = Solomon Islands.

76. **Globally, female labor force participation follows a U-shaped relationship with economic development, but in the Pacific it has plateaued despite growth.** Typically, FLFP is high in the poorest economies dominated by agriculture, decreases in middle-income economies with less agricultural activity, and rises again in high-income economies with a shift towards service sectors and higher education levels among women. However, despite improved education and economic growth in the Pacific, FLFP has flattened due to historic, economic, and social structures and norms that limit women's economic participation (UN Women 2018). Understanding these frictions is key to improving women's economic empowerment. Figure 2.4 shows average GDP per capita and FLFP in the PIC-11 (excluding Fiji and Solomon Islands, although they are experiencing similar trends) over the last 20 years and demonstrates this trend of increasing GDP but flat FLFP.

Figure 2.4 Female labor force participation (percent of female population ages 15+) and GDP per capita in PIC-11, excluding Fiji and Solomon Islands



Sources: ILO, modeled ILO estimates; World Development Indicators (database).
Note: FLFP = female labor force participation.

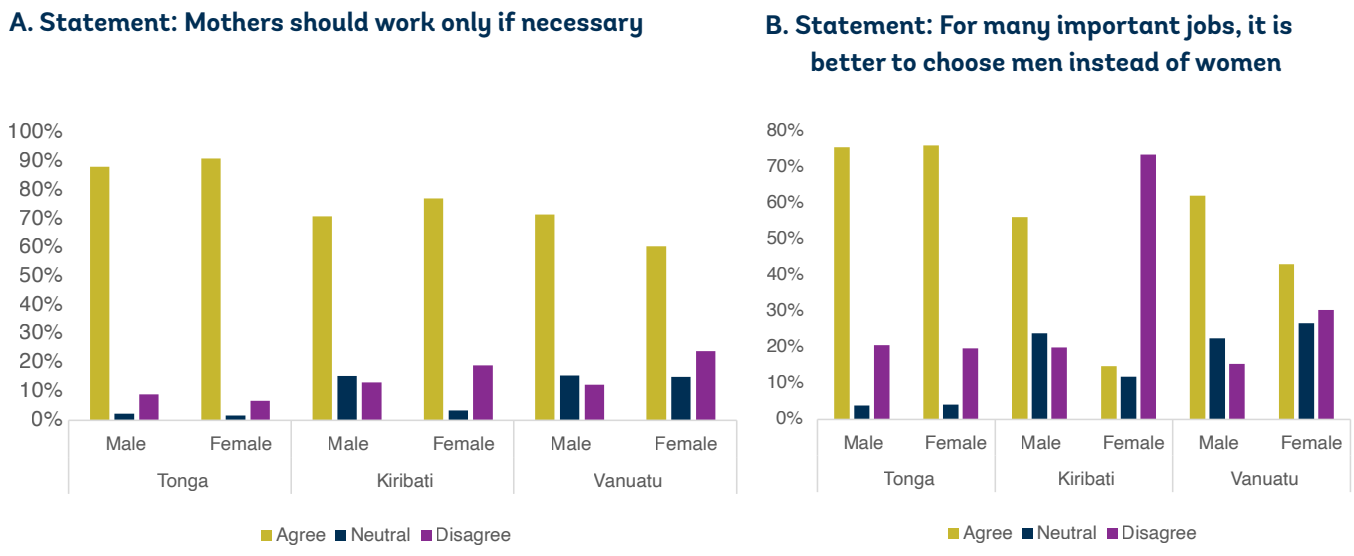
2.1.2 There are many barriers that are preventing women from participating in the labor market in the Pacific

77. **Female labor force participation in the Pacific is hindered by a range of cross-sectoral challenges.** Women's participation is hindered by an absence of formal institutions to support their participation. Many countries lack comprehensive family-friendly policies, including affordable quality childcare, adequate maternity leave, and structured re-entry programs for women returning to work after childbirth. Six of the nine Pacific countries (RMI, FSM, Palau, Solomon Islands, Tonga, and Vanuatu) included in the Women, Business and the Law 2024 report received a Parenthood Index score of zero out of 100, reflecting the complete absence of paid parental leave in these countries (World Bank 2024a). Only Fiji currently meets the internationally recommended 14 weeks of government-administered maternity leave, and only Fiji and Samoa have provisions for any paid paternity leave, highlighting a stark gender imbalance in parental responsibilities. The absence of such provisions often forces women to never enter the workforce, or to leave it temporarily or permanently, leading to career interruptions that limit their earning potential and economic security.

78. **Legal protections for women in formal and informal work are weak and there is an absence of supportive mechanisms to ensure legislation is enforced.** Only two of the nine Pacific countries with data (Fiji and Kiribati) have explicit legislation addressing sexual harassment in the workplace. While some progress has been made in areas such as marriage, mobility, and pensions, these legal provisions often lack the supportive mechanisms necessary for effective enforcement. According to the Women, Business and the Law 2024 report, the PIC-11 continue to score below global and regional averages in workplace-related legal protections (World Bank 2024a). The highest scoring country, Kiribati, achieved a workplace score of 75, while FSM, Palau, Solomon Islands, Tonga, and Vanuatu all scored 25, with an average of 38.9 across the region, compared to the global average of 60.

79. **Across the Pacific, gender norms prioritize girls' and women's roles as caregivers, limiting their participation in paid employment—and those women who do work are disproportionately concentrated in lower paid sectors such as domestic labor, caregiving, education, and hospitality.** Gender gaps in labor force participation are consistently higher among men and women with young children (below age 6) across PICs.[19] Time use data from Fiji show that women spend 2.9 times more on unpaid domestic and care work than men. In Vanuatu, 70 percent of females cited domestic work as their main reason for not looking for paid work in the past week (UN Women 2022). Multiple Indicator Cluster Survey (MICS) data from Fiji, Kiribati, Nauru, Samoa, Tonga, Tuvalu, and Vanuatu reveal that female children between age 5 and 17 are, on average, 14 percentage points more likely to be engaged in cooking, washing dishes, washing clothes, or caring for other children at home than their male counterparts, suggesting that these norms are embedded from an early age. Data from the Pacific Labour Mobility Survey in Kiribati, Tonga, and Vanuatu highlight deeply entrenched attitudes toward women's employment, with the majority of survey respondents, who were worker participants in the program, agreeing with the statements that "Mothers should work only if necessary" and "For many important jobs, it is better to choose men instead of women" (Figure 2.5).

Figure 2.5 Survey responses related to mothers working and men in "important" jobs in the workforce

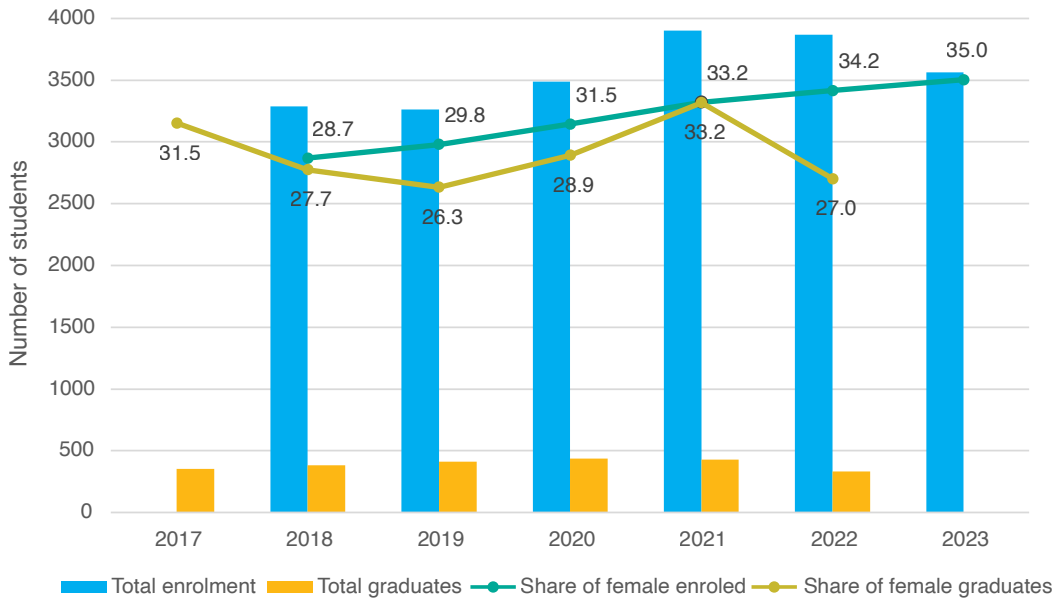


Source: World Bank and Australian National University (2023).
Note: 1555 male survey respondents, 530 female survey respondents. Respondents were asked, "In general, do you agree or disagree with these statements?"

19. ILOSTAT, latest national survey estimates from Samoa, Kiribati, FSM and RMI.

80. **Gender gaps in educational attainment have largely closed, and even reversed, however, there remains a mismatch between the skills women have and those demanded in the labor market.** MICS data on the highest level of education achieved reveal that women are less likely than men to stop education after the primary level and are more likely to have completed senior secondary or tertiary education. However, businesses report that, particularly in industries related to science, technology, engineering, and mathematics (STEM), people are not leaving school with the right skills for the jobs available (Buchhave, Angelou and Schomer 2024). The persistent underrepresentation of women in STEM education is a critical barrier to their increased participation in sectors dependent on STEM skills. Globally, only 35 percent of STEM graduates are women, a figure unchanged for a decade (UNESCO 2024). These disparities are mirrored in the Pacific, where female enrollment in STEM and technical university programs remains low, despite steady increases in recent years. At the University of the South Pacific, women comprised just 35 percent of STEM students in 2023, with even lower graduation rates (Figure 2.6). Women are also underrepresented among STEM faculty (Casad et al. 2021). At the University of the South Pacific, women make up only 18 percent of teaching staff, with no female lecturers or teaching assistants in physics and key engineering areas (Buchhave, Angelou, and Schomer 2024). This absence of female role models hinders aspiring female students and perpetuates underrepresentation (Lockwood 2006).

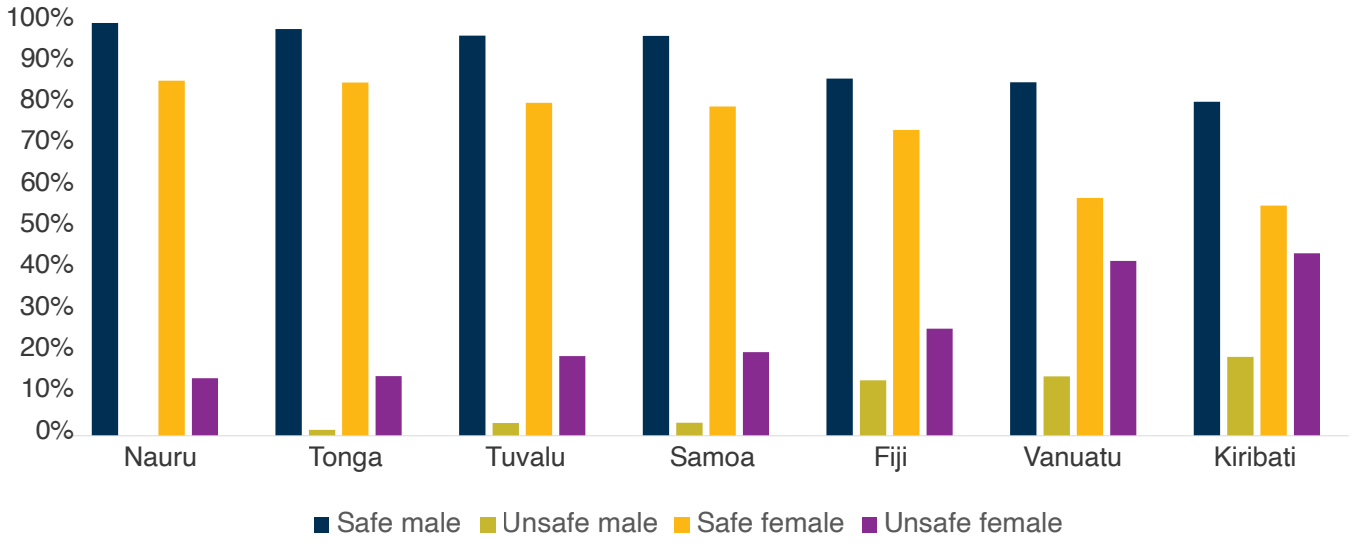
Figure 2.6 Enrollment and graduation data, School of Information Technology, Engineering, Mathematics and Physics at the University of the South Pacific, 2017-23



Source: Buchhave, Angelou, and Schomer (2024).

81. **The prevalence of gender-based violence (GBV) both inside and outside the home is a pervasive issue across the PIC-11 and one that impacts female labor force participation.** On average, 40 percent of women across the region have experienced intimate partner physical and/or sexual violence in their lifetime, 13 percentage points higher than the global average (WHO 2021). The remoteness of Pacific countries means travelling to work can involve long distances, poorly maintained infrastructure, and other safety concerns. When asked about feelings of safety walking alone in their neighborhood after dark, 29 percent of women in MICS data from Fiji, Kiribati, Nauru, Samoa, Tonga, Tuvalu, and Vanuatu felt unsafe, very unsafe, or would never walk alone after dark, compared to just 11 percent of men (Figure 2.7).

Figure 2.7 Proportion of men/women feeling safe/unsafe when walking home alone in the dark



Source: UNICEF, latest available MICS data.

82. **In addition to its devastating impact on survivors, GBV also imposes substantial economic and social costs on countries and businesses.** Intimate partner violence (IPV) affects women's labor outcomes through a psychological and physical toll, and through women's subjection to coercive control.[20] In 2014, the World Bank estimated that globally, violence against women costs countries up to 3.7 percent of gross domestic product, more than double the expenditures on education of most countries (Hanmer et al. 2014). The UN Women and the Spotlight Initiative estimates that in Solomon Islands annual productivity loss of women in the formal sector due to intimate partner violence is approximately $15.1 million, which is equivalent to 1 percent of the country's GDP (UN Women 2023b). In RMI, the annual productivity loss of IPV was estimated to be almost 0.26 percent of the country's GDP (UN Women 2023c).

2.1.3 Exploring female labor force participation through a sectoral lens: Spotlight on the energy sector

83. **This latest edition of the *Pacific Economic Update* shines a spotlight on female labor force participation in the energy sector.** Investing in and modernizing the power sector should be part of a broader growth-driven effort by PICs to create sustainable economic growth. Reliable and affordable electricity is essential for businesses to operate efficiently, for schools and hospitals to function effectively, and for households to improve their quality of life. Moreover, advancements in the power sector can spur innovation, attract foreign investment, and create job opportunities, thereby stimulating economic activity across various industries. Integrating renewable energy sources will also enhance energy security and reduce environmental impact, aligning with global sustainability goals. Therefore, a comprehensive growth strategy should include the development of the power sector alongside other critical infrastructure and sectors, ensuring a holistic approach to economic development that benefits all segments of society.

20. IPV can encompass men's exertion of power to keep women in the home; force them to bear children (or terminate pregnancies); control how they dress and who they speak to; monitor their movements and phone and internet access; interferes with their earnings, etc.

84. **In the context of this report, the assessment of the Pacific energy sector serves as a sector-level example to unpack constraints to FLPF in the PIC-11 and to explore the policy implications for the sector and national governments.** It addresses retention challenges and the growing skills gap by tapping into an underutilized talent pool and enriching the sector with diverse perspectives. Attracting and retaining female talent then becomes crucial for meeting workforce demands and fostering innovation. By broadening the talent pool, the sector can mitigate labor shortages and ensure a skilled workforce for the future. It is important, however, to recognize that energy sector jobs represent a relatively small portion of total national employment. Therefore, while growth in energy sector employment, including increased female participation, can significantly enhance sector functionality, it is unlikely to substantially shift the overall labor market dynamics at the national level.

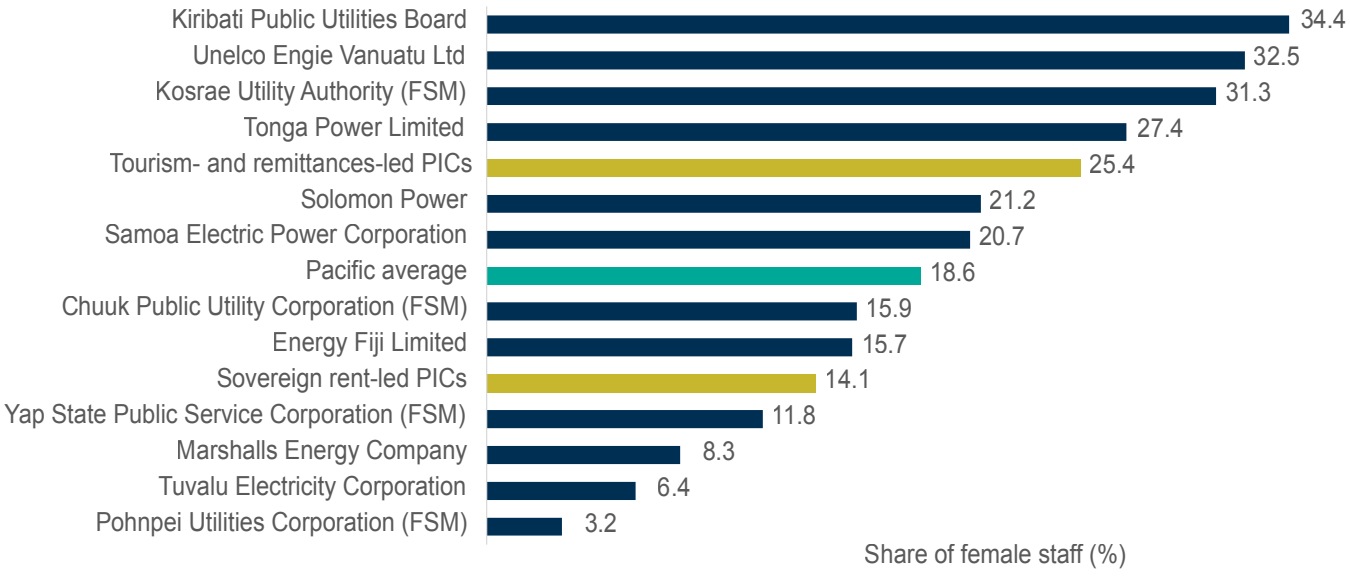
2.2 Understanding Women's Participation in the Pacific Energy Sector

85. **The Pacific energy sector is at a turning point.** Escalating energy demand, fueled by population increases, economic growth, and the need for sustainable development, necessitates substantial energy infrastructure expansion and transition in the Pacific (ADB 2019). Many PICs have adopted ambitious renewable energy targets to address climate-related vulnerability and fossil fuel dependence (ADB 2021a; SPREP 2021). Expanding and transitioning the energy sector requires workers. While PICs have an abundance of unskilled labor, they face critical shortages in technical, vocational, and managerial talent (ILO 2017), which is creating difficulties for the sector in terms of sourcing specialized skills (IRENA 2012). Faced with these challenges, the energy sector—which is not traditionally an employer of women—cannot afford to ignore 50 percent of the workforce. Women represent significant and crucial untapped potential when it comes to the sustainable future of energy in the region. To prepare for tomorrow, the sector must harness the full spectrum of talent available in the Pacific.

2.2.1 The underrepresentation of women in the energy sector

86. **Women are significantly underrepresented in Pacific power utilities.** Across 12 utilities with 2,529 employees, women make up less than 19 percent of the workforce (Figure 2.8). While this level exceeds South Asian utilities (8 percent), it falls below the African average (21 percent) (Baldinger, Vaidya, and Schomer 2020; World Bank 2020).[21] Female employment in power utilities varies across the Pacific (14 percent in sovereign rent-led PICs to 25 percent in tourism- and remittances-led PICs), and among utilities (3 percent in FSM to 34 percent in Kiribati), with no correlation to utility size.

Figure 2.8 Female representation in Pacific power utilities, 2023



Source: Buchhave, Angelou, and Schomer (2024).

21. Women are vastly underrepresented in the global energy workforce, comprising only 16 percent (IEA 2022a). While more prevalent in renewables (32 percent) than in oil and gas (22 percent), women still face significant barriers in this historically male-dominated industry (IRENA 2019). The gender gap is most pronounced in leadership and technical positions, where women hold only 14 percent of senior management roles globally and 16.5 percent in key sectors such as electric utilities and independent power producers (Pilgrim et al. 2021).

87. **Women's representation in technical and management positions within the Pacific energy sector is severely limited.** In the power sector, where STEM positions make up 65 percent of the roles, women hold just over 5 percent of these positions, a level that has remained largely stagnant over the past decade (Figure 2.9).[22] Their representation in management positions is also limited, at just 22 percent. This starkly contrasts with their non-technical/administrative roles, which account for only 28 percent of total employment in the sector but where women hold almost 50 percent of positions regionally.

Figure 2.9 Female employees in Pacific power utilities, 2023

	Pacific	Fiji and Solomon Islands	Sovereign rent-led PICs	Tourism- and remittances-led PICs
Total workforce	18.6%	17.1%	14.1%	25.4%
Stem jobs	5.2%	3.9%	2.8%	9.9%
Management	22.1%	19.0%	21.3%	30.8%
Board	17.5%	16.7%	20.5%	8.3%
Non-Technical/Administrative	49.8%	52.2%	35.8%	57.9%

Source: Buchhave, Angelou, and Schomer (2024).

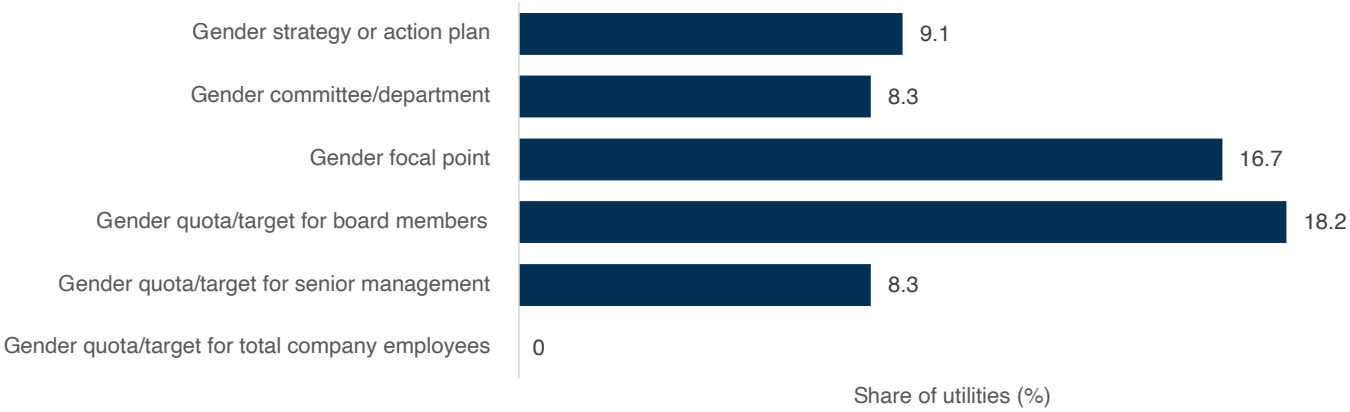
22. Based on data in Pacific Power Association benchmarking reports.

2.3 Barriers to Women's Employment in the Pacific Energy Sector

2.3.1 Limited gender equity policies and procedures

88. **A lack of concrete policies, measurable targets, and reporting severely restricts women's employment in the Pacific energy sector.** Despite expressed commitments to having more female employees, few utilities or government entities implement formal gender strategies or action plans, hindering progress on systemic challenges (Figure 2.10). The absence of targeted policies and proactive recruitment, coupled with national energy policies that overlook gender equality and data, severely limits women's access and advancement in the energy sector (Buchhave, Angelou, and Schomer 2024). Many organizations lack systematic data collection and reporting due to limited resources and expertise. Without reliable data, identifying disparities, tracking progress, and enforcing accountability becomes impossible. For instance, while 42 percent of Pacific power utilities conduct staff surveys, only 8 percent carry out gender safety audits, leaving critical workplace safety, harassment, and women's specific needs unassessed (Buchhave, Angelou, and Shomer 2024).

Figure 2.10 Pacific power utilities with gender-sensitive organizational frameworks



Source: Buchhave, Angelou, and Schomer (2024).

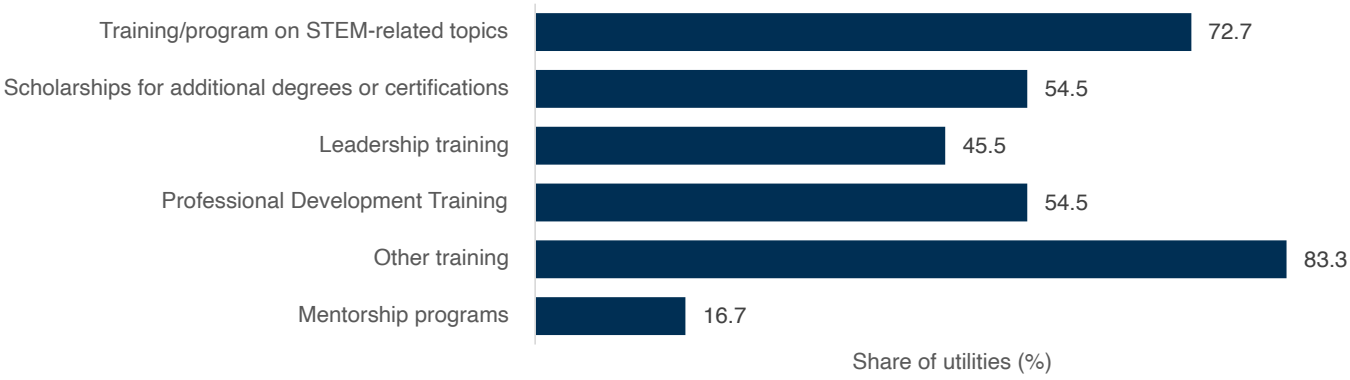
89. **While Pacific power utilities often express commitment to equal rights, legal and regulatory barriers in several PICs impede women's full participation in the workforce.** Although power utilities' policies generally align with regional data indicating no explicit legal restrictions on women's ability to obtain employment, discriminatory laws remain in place in some PICs (World Bank 2024b). For instance, restrictions on women working at night exist in Solomon Islands and Vanuatu. Fiji and Solomon Islands restrict women's participation in certain industrial jobs. Critically, five PICs (FSM, Palau, Solomon Islands, Tonga, and Vanuatu) lack legal protections against gender-based discrimination in employment. Only Kiribati explicitly prohibits discrimination in recruitment based on marital status, parental status, and age, highlighting a significant gap in legal protections across the region.

2.3.2 A lack of education and training opportunities

90. **Pacific power utilities rarely offer structured school-to-work pathways and mostly rely on informal university connections, limiting opportunities to attract female talent.** While most offer apprenticeships (73 percent) and technical internships (73 percent) (Buchhave, Angelou, and Schomer 2024), structured programs remain limited, and women's participation is notably low—30 percent of apprentices, 20 percent of interns, and just 13 percent in non-technical roles. Promising practices exist but are sporadic. This gap reflects broader structural barriers for women in the Pacific, including limited access to training, networks, and financial resources, as well as high unpaid care burdens.

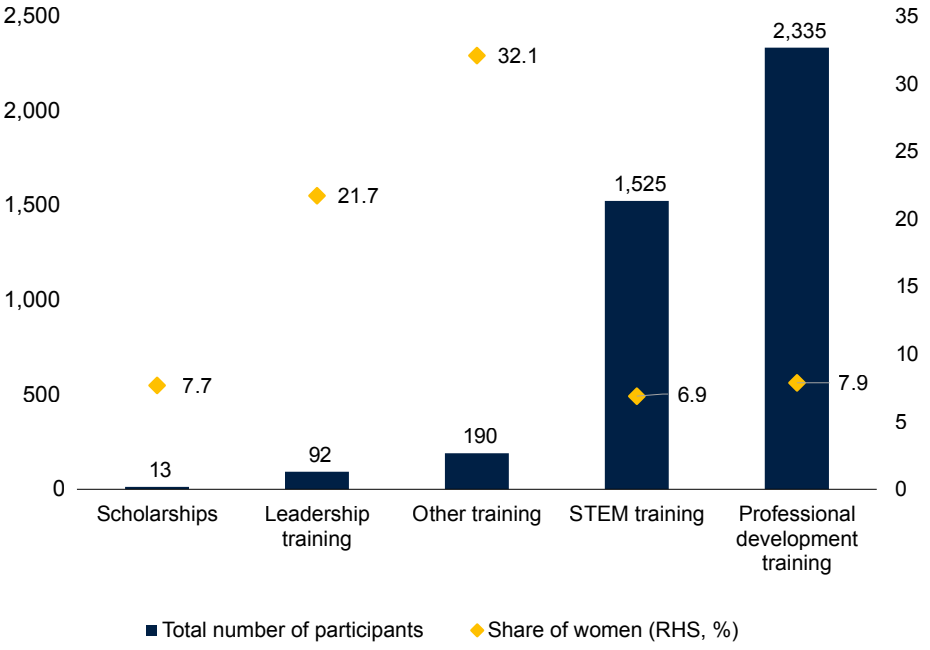
91. **Even after entering the energy sector, women in the Pacific face limited opportunities for continued education and professional development.** Only 7 percent of STEM training and 8 percent of professional development participants are women, and they receive just 8 percent of scholarships. Mentorship opportunities are similarly scarce, with only 10 percent of participants (7 out of 67) being women in the two utilities that offer such programs (Figure 2.11 and Figure 2.12). This inequitable access to professional development and the absence of strong support networks significantly hinder women's skills and career advancement opportunities.

Figure 2.11 Pacific power utilities offering training and mentorship programs



Source: Buchhave, Angelou, and Schomer (2024).

Figure 2.12 Training and education participation in Pacific power utilities (past 12 months)

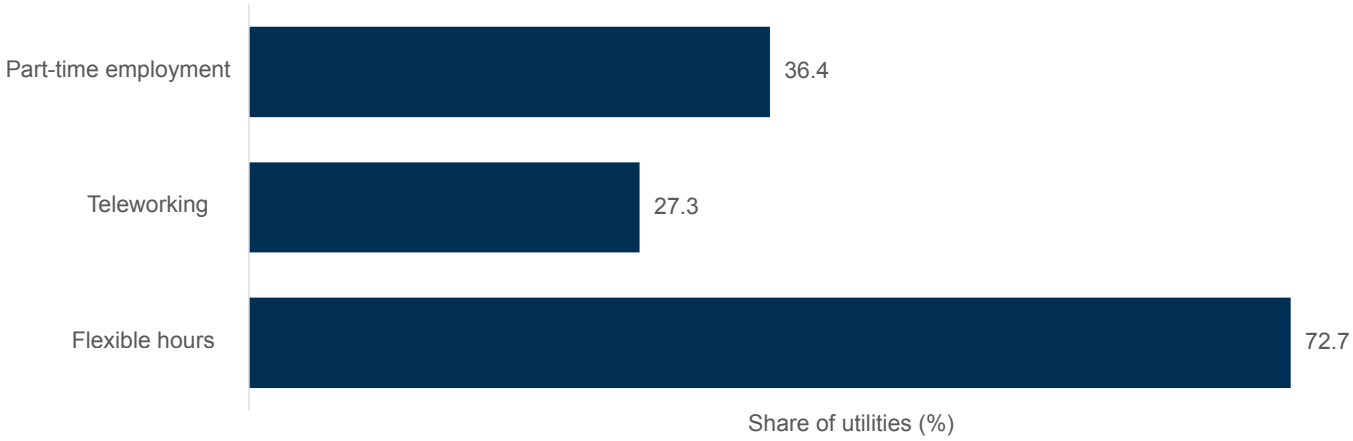


Source: Buchhave, Angelou, and Schomer (2024).

2.3.3 Ineffective retention policies

92. **Solutions are needed to retain women who have children once they are in the energy workforce.** While many energy utilities offer some form of flexible work arrangement that, in principle, could help support redistribution of care responsibilities (Figure 2.13), expanding the range of options is crucial for retention of women in the workforce.

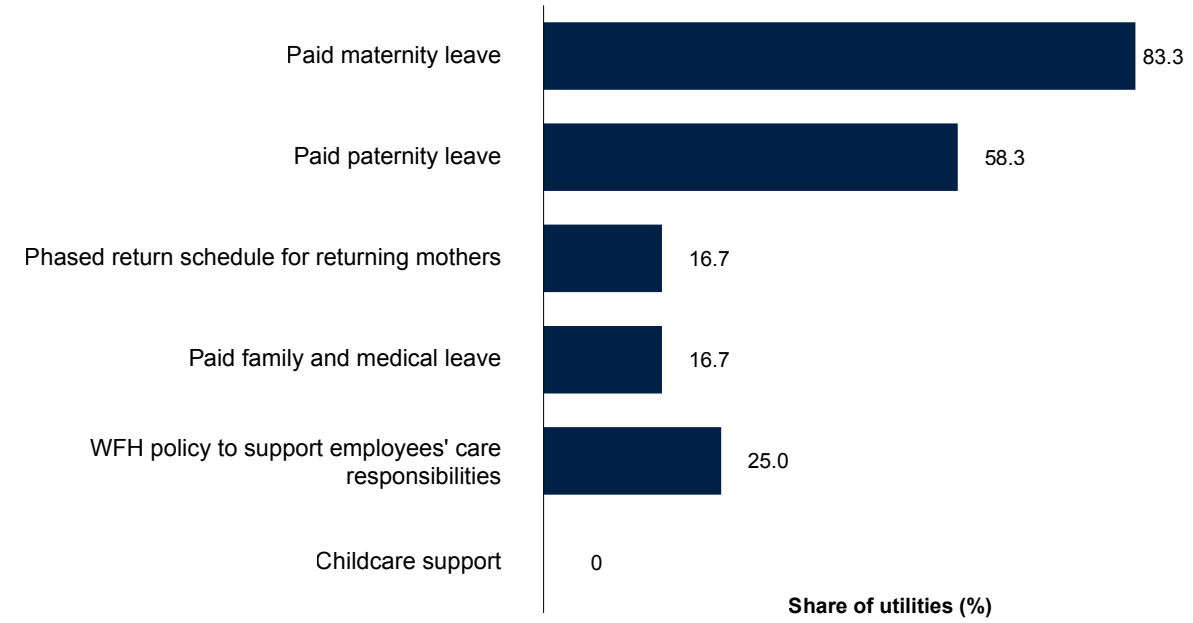
Figure 2.13 Pacific power utilities with flexible work arrangements



Source: Buchhave, Angelou, and Schomer (2024).

93. **Insufficient family and medical leave, coupled with a complete absence of childcare support, threatens women's retention in Pacific power utilities.** While maternity leave is standard, often lasting one to three months, and some paternity leave is offered, these benefits fall short of meeting the complex needs of working parents. Reflecting national policies, extended family and medical leave, crucial for managing illness or caregiving responsibilities, is virtually non-existent, with only two surveyed utilities offering it (Figure 2.14). Furthermore, the complete lack of childcare support, whether on-site or through partnerships, leaves parents, particularly women, struggling. The reliance on informal care arrangements adds further strain, ultimately impeding women's full engagement in the workforce. This absence of essential support forces many women to resign, hindering their career progression and long-term workforce participation.

Figure 2.14 Pacific power utilities with leave benefits and childcare support

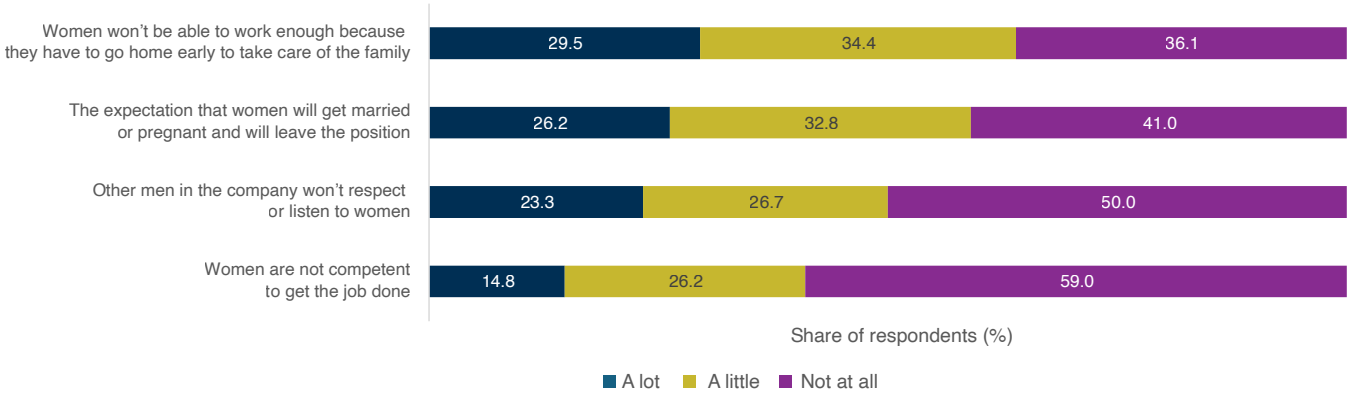


Source: Buchhave, Angelou, and Schomer (2024).
Note: WFH = work from home.

2.3.4 Prevalence of cultural stereotypes in society and biases in the workplace

94. **Cultural norms create a significant barrier to women's participation and advancement within male-dominated energy sector careers.** These deeply ingrained social norms and gender roles significantly restrict women's access to education, paid employment, and entrepreneurial opportunities within the sector (Boccuzzi 2021; ILO 2018). A survey of Pacific energy sector leaders revealed that family obligations and concerns about women leaving employment due to marriage or pregnancy are believed to be significant social norms limiting women's entry into energy careers (Figure 2.15).

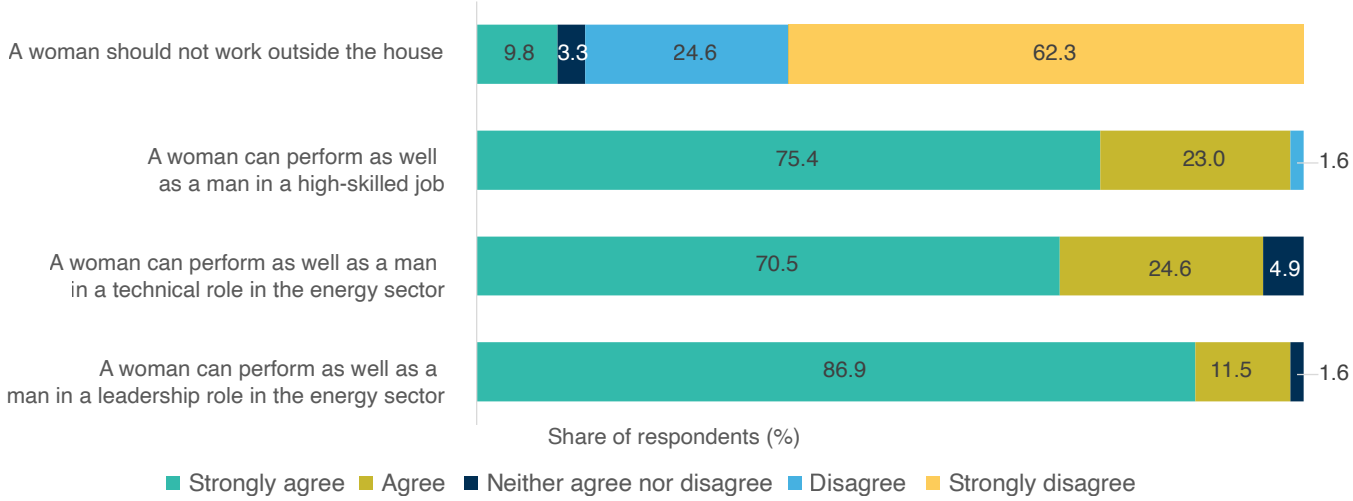
Figure 2.15 Respondents' beliefs on social norms limiting women's entry into the energy sector



Source: Buchhave, Angelou, and Schomer (2024).
Note: Respondents are asked: "From the following list, choose and rank what are the three most common social norms found in the Pacific Islands/the country you represent that are reasons why women don't consider a career in the energy sector" (see options in the figure).

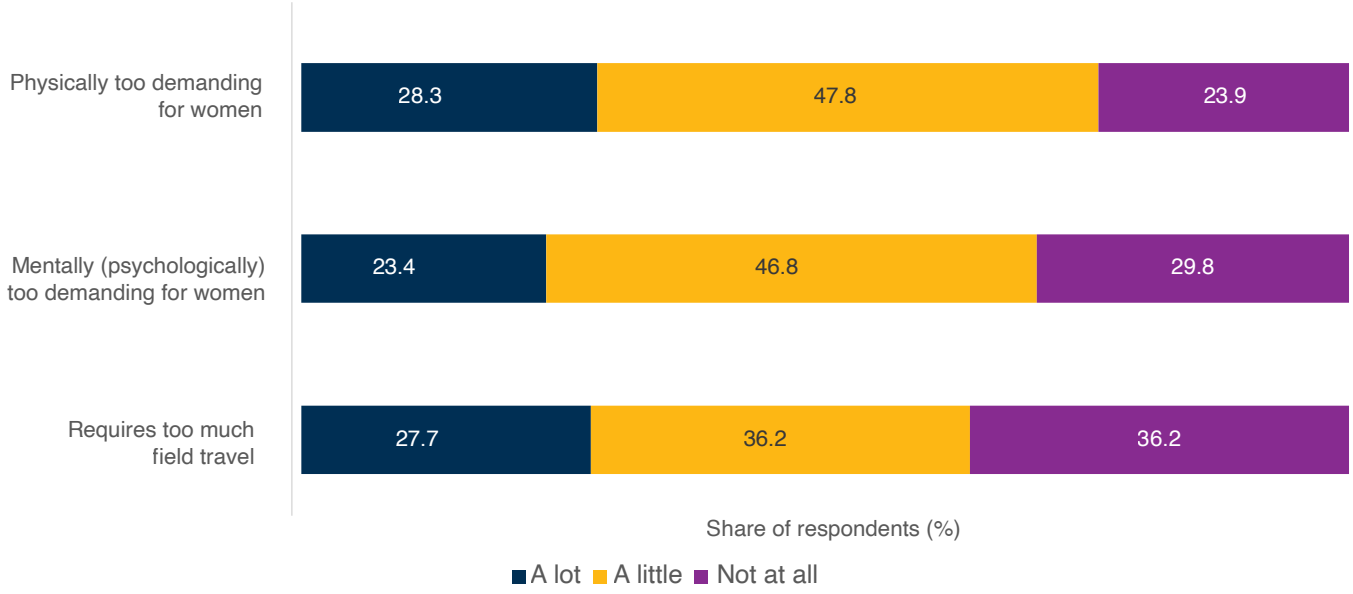
95. Despite Pacific energy leaders supporting women in high-skilled energy jobs (Figure 2.16), they felt that views in society persist that the field is unsuitable for women due to perceived physical demands, travel, and potential disrespect from male colleagues (Figure 2.17).

Figure 2.16 Respondents' beliefs on social norms limiting women's entry into the energy sector (cont.)



Source: Buchhave, Angelou, and Schomer (2024).
Note: Respondents are asked: "To what extent do you agree or disagree with the following statement" (see options in the figure).

Figure 2.17 Perceptions of social norms hindering women's entry into energy careers



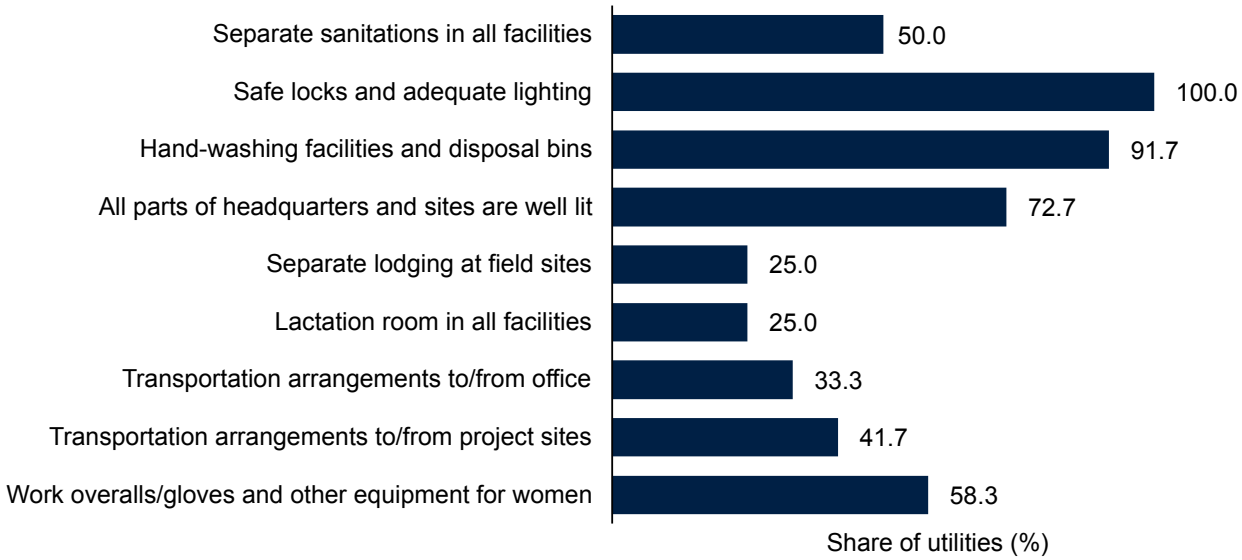
Source: Buchhave, Angelou, and Schomer (2024).
Note: Respondents are asked: "To what extent do you believe the following statements are a prevailing social norm in the Pacific Island region you represent that make it difficult for women to consider a career in energy related fields: a) There is a general belief that energy related fields are not for women (yes/no); b) If yes, note which of these apply" (see options in figure). About 39 percent of respondents answered "yes" to the first question.

96. **Unconscious biases during recruitment can significantly hinder women's access to employment opportunities, particularly in male-dominated sectors like energy.** Perceptions and social norms play a critical role in shaping these biases (ECONOLER 2020). Even when possessing the necessary qualifications, women may encounter prejudice during the hiring process (ADB 2017). Furthermore, job postings may employ language and requirements that implicitly favor stereotypically "masculine" traits, discouraging women from applying (Gaucher, Friesen, and Kay, 2011). Only four Pacific power utilities (33 percent) released job advertisements specifically targeting or encouraging women to apply, mainly by mentioning both genders, highlighting the need for more proactive and inclusive recruitment practices (Buchhave, Angelou, and Schomer 2024).

2.3.5 Workplaces that are not safe and inclusive

97. **Many workplaces are designed primarily for men, lacking specific provisions for women.** Only half of Pacific power utilities provide separate sanitation facilities and crucial menstrual hygiene provisions (Figure 2.18). Additionally, 27 percent do not offer sufficient lighting, and 42 percent do not provide appropriately sized personal protective equipment. Safe transportation and separate lodging arrangements at project sites are not provided by the majority of utilities. These inadequacies create an uncomfortable and unsafe work environment, deterring women from staying in the energy sector.

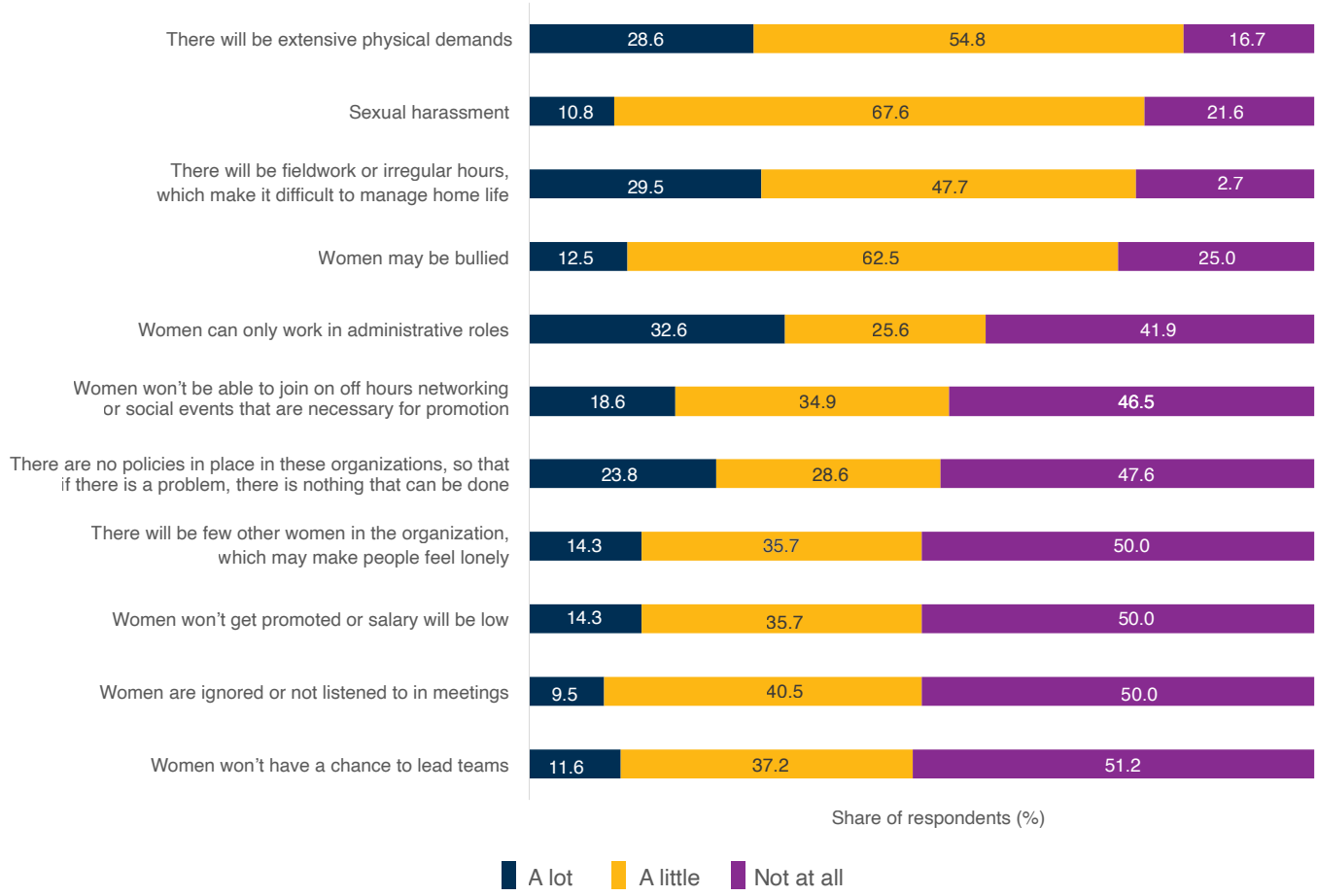
Figure 2.18 Pacific power utilities with gender-sensitive workplace facilities



Source: Buchhave, Angelou, and Schomer (2024).

98. **Workplaces in Pacific utilities are perceived as unwelcoming or even hostile to women.** In a recent survey, 61 percent of management and technical leaders in the Pacific energy sector acknowledged the prevailing social norm that male-dominated workplace cultures are perceived as unwelcoming or even hostile to women (Figure 2.19). Key informant interviews conducted under the World Bank Pacific Women in Power program across six Pacific power utilities reinforce this concern, with women reporting feelings of marginalization, being unheard, and undervalued in the sector's predominantly male environment. While many utilities have established policies to address workplace bullying and sexual harassment, their effectiveness is often undermined by weak implementation mechanisms, such as insufficient training. The data suggest a clear hierarchy in how these issues are addressed—formal rules tend to be prioritized over practical tools like training materials, and formal grievance procedures are more commonly in place than accessible focal points for support (Figure 2.20) (Buchhave, Angelou, and Schomer 2024).

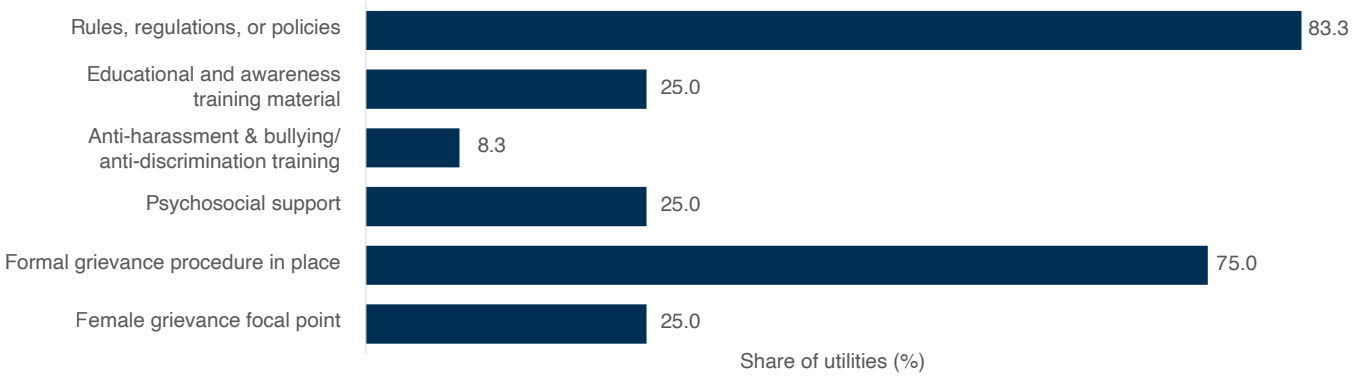
Figure 2.19 Perceptions of male-dominated workplace culture



Source: Buchhave, Angelou, and Schomer (2024).

Note: Respondents were asked the following questions: "To what extent do you believe the following statement is a prevailing social norm in the Pacific Island region you represent that make it difficult for women to consider a career in energy related fields: "A male-dominated workplace culture can be unwelcoming or even hostile to women". If yes, why, and how much? (see options in the figure). About 61 percent of respondents answered "yes" to the first question.

Figure 2.20 Pacific power utilities with policies on workplace sexual harassment



Source: Buchhave, Angelou, and Schomer (2024).

2.4 The Way Forward for Pacific Women in Power

99. **The following recommendations, based on the Pacific Women in Power baseline report, aim to increase FLFP in the region's energy sector:** (1) Build the pipeline of women in power; (2) Adopt policies and procedures for increasing women's employment; (3) Implement effective retention policies for women in the power industry.

2.4.1 Build the pipeline of women in power

100. **A skills mismatch persists between the education system and energy sector needs due to limited industry input and weak training-job linkages** (ADB 2021b; Boccuzzi 2021). This is compounded by inadequate vocational training support, a fragmented TVET system, and the absence of industry-validated standards, apprenticeship schemes, and certification regimes (World Bank 2021).

101. **Formal partnerships between energy organizations and universities are crucial for developing specialized skills.** These collaborations, encompassing curriculum development, research, and tailored training, can create a pipeline of specialized talent. Utilities can also support STEM education for female students through scholarships and grants. They can engage in university career fairs and recruiting events and implement gender-targeted campaigns featuring role models. For example, the energy company E.ON uses interactive STEM workshops to engage children and youth (E.ON Energy UK 2018). To address remoteness and resource limitations, Pacific utilities can leverage regional university associations and international organizations.

102. **Practical examples showcase the results of energy-university partnerships.** In Delhi, BSES Distribution partnered with the National Power Training Institute (NPTI) for training in emerging technologies and launched scholarships for underprivileged students, including laptops for female Delhi University students (Buchhave, Angelou, and Schomer 2024). Similarly, South Africa's SENTECH provides scholarships to disadvantaged female students in electronics and IT engineering. In Lao PDR, an Asian Development Bank project supported women in water-related STEM careers with scholarships and job opportunities. The pilot program's 26 female scholarship recipients all earned STEM degrees and successfully entered the water sector workforce (Schomer and Hammond 2020b).

103. **Apprenticeships and internships provide essential practical skills and industry exposure.** Energy institutions worldwide are prioritizing women in apprenticeship and internship programs. For example, the WePOWER Partners' program in South Asia, focused on gender and youth, provides opportunities to female students (World Bank 2022; World Bank 2023b). Their efforts include 690 internships from 2019 to 2021, and 373 women's internships in 2023. Tanzania's Structured Engineers Apprenticeship Program supported 300 women in engineering apprenticeships with living expenses and mentorship.[23]

104. **Proactive outreach, inclusive recruitment approaches, and progress monitoring are key to attracting and hiring female candidates.** This includes updating career web pages with welcoming imagery and messaging, crafting job ads that encourage female applicants, and using gender-neutral language to eliminate potential bias. It is also important to advertise job vacancies through multiple channels and track gender data at each recruitment step.

23. This program is run by the Engineers Registration Board (ERB), a statutory body in Tanzania responsible for regulating and controlling the engineering profession in the country.

2.4.2 Adopt policies and procedures for increasing women's employment

105. **To advance gender equality in utilities, governments should revise legislation and regulations and ensure their enforcement.** Policymakers should consider laws promoting redistribution of unpaid work, including equal and sufficient parental leave (ILO 2023), and mandate equal pay. Anti-discrimination laws must explicitly prohibit gender bias in employment.

106. **By implementing competitive workplace benefits, utilities can build strong employer-employee relationships and position themselves as responsible employers.** Flexible working arrangements are a cost-effective strategy to retain female employees and improve work-life balance for all. Expanding flexible working options is crucial, as rigid hours contribute to women leaving infrastructure jobs due to caregiving responsibilities. Part-time and flexible work can reduce attrition, while alternative options like compressed schedules should be considered for roles where teleworking is difficult.

107. **Utilities can support women by providing practical benefits that address work-family conflicts** (ILO 2022). Paid family and medical leave offer financial security for women who are often caregivers in their family. Comprehensive parental leave, including maternity and paternity leave, supports new parents and promotes gender equality. While on-site childcare may be challenging, financial assistance for existing services is a viable solution (IFC 2019). Collaborating with local entities can expand childcare options. Flexible scheduling options, like phased returns, can be integrated into parental leave. Clear policy communication, including eligibility, duration, and benefits, is essential. Within the South Asia WePOWER network, various childcare initiatives showcase effective approaches. In Bhutan, hydropower company Druk Green Power Corporation Limited provides Early Childhood Development and Daycare Facilities, serving around 100 employees (Buchhave, Angelou, and Schomer 2024). K-Electric in Pakistan offers monthly caregiver-at-home reimbursements and pregnancy support through its health team.

2.4.3 Implement effective retention policies for women in the power industry

108. **A dedicated strategy for increasing women's employment is essential for driving change.** Effective initiatives rely on institutionally supported plans that are data-driven, targeting specific challenges and outcomes (USAID 2023). Stakeholder engagement and gender focal points are essential for implementation. An example of this is Ethiopia Electric Utility's gender program which closed employment gaps and addressed gender-based violence, raising female employment from 20 percent in 2017 to 22.5 percent by 2020, and female senior managers from 5.8 percent to 18.5 percent (Schomer and Hammond 2020b).

109. **Resourced policies and procedures, alongside robust monitoring and evaluation, are fundamental for creating an enabling environment that promotes women's employment.** Such frameworks enable organizations to identify areas for improvement, track key performance indicators, measure the effectiveness of implemented strategies, and make data-driven decisions. Measuring employee engagement through a gender lens and transparently communicating results are key to success. Informed by an IFC-supported corporate gender assessment, Lekela Power—a wind energy company operating in Africa—was able to identify specific barriers women face, implement interventions such as targeted recruitment and unconscious bias training, and track impact on its organizational performance and the economic empowerment of women in its communities (IFC 2022).[24]

24. Between 2019 and 2021, women's representation on the company's board rose from 12.5 percent to 29 percent, and in senior management from 29 percent to 37 percent, and the proportion of female new hires significantly increased from 43 percent in 2019 to 53 percent in 2021. In Senegal, building modern markets near the company's wind project created safer work environments for women traders, increasing their numbers by 25 percent in Taiba Ndiaye and 80 percent in Mbayenne. In 2022, solar power for three women-owned businesses improved product quality, market access, and incomes.

110. **Governments and energy ministries play a key role in driving gender equality accountability in utilities.** Policymakers can directly increase female representation in public energy institutions, by mandating gradual increases in female employment, setting clear targets, and implementing a monitoring plan, as demonstrated by the Economic Community of West African States (ECOWAS) initiative (ECOWAS 2017). Effective strategies also include Kenya's Ministry of Energy Gender Policy (GWNET 2023), and Chile's dedicated Gender and Human Rights Office (IEA 2022b).[25, 26] Mandating public reporting on gender metrics and establishing industry-wide platforms enhances transparency. The 2018 French law requiring Engie to disclose and address pay gaps under threat of financial sanctions demonstrates the power of legislation to drive transparency and accountability. Recognition programs that reward progress further incentivize utilities to adopt best practices. Moreover, gender quotas and targets are impactful when implemented as part of a broader strategy addressing systemic barriers.

111. **Organizations increasingly acknowledge the need to address gender-specific occupational health and safety, including gender-based violence.** There is a need to identify hazards unique to men and women in specific tasks, enabling tailored workplace adjustments. This includes addressing physical demands, ergonomics, and the impact of caregiving responsibilities on work. Occupational health and safety policies, including those addressing gender-based violence, must reflect these differences (IFC 2023). Organizations should integrate these considerations into engineering, procurement, and construction contracts and site-level requirements, such as the provision of separate toilet facilities. Embedding this focus throughout all operational levels fosters a safer, more inclusive workplace. The IFC-supported Gender Smart Safety Program in Papua New Guinea exemplifies how companies can identify and mitigate risks for women. Practical measures include offering trousers as an option, designating trained contact officers for reporting, implementing night shift safety signage, addressing harmful gossip, and providing dedicated transportation seating. These interventions have been shown to improve safety; one company saw an 18 percent increase in the number of women who felt safe following the implementation of audit recommendations (IFC 2023).

112. **There is a need to create an equitable and merit-based promotion system in order to boost women's representation in management.** While promotions should be based on merit, women often face barriers to top positions despite equal qualifications (ILO 2019). Ambiguous evaluations are prone to bias, with women often receiving less specific feedback. Standardizing performance reviews and skills assessments can mitigate this. EVN Macedonia, for example, implemented a panel-based candidate assessment process with competency exercises to attract more female applicants for technical and managerial roles (Schomer and Hammond 2020b). This shift from individual hiring managers to a panel and the use of competency-based exercises aims to reduce bias and broaden the pool of qualified female candidates.

113. **To ensure equitable career advancement, equal access to training is crucial.** Training should cover both technical and leadership skills, boosting women's confidence for promotions. The Ethiopian Electric Utility (EEU) offers university scholarships and on-the-job training for women (Schomer and Hammond 2020b), while UNELCO Engie Vanuatu Ltd provides technical scholarships (Buchhave, Angelou, and Schomer 2024). Leadership development should include networking and industry event participation, expanding women's professional networks and career opportunities.

25. Kenya has made significant strides in mainstreaming gender into its national energy policy, marked by the 2019 'Gender Policy in Energy' and resulting in increased awareness, strengthened partnerships, political will, institutional mechanisms like the Energy Sector Gender Committee, and the integration of gender considerations into energy planning at various levels.

26. In July 2022, Chile's Ministry of Energy created a Gender and Human Rights Office to monitor the Energia + Mujer program and promote gender goals in the National Energy Policy. This office aims to meet ambitious targets, including achieving parity in pay and senior positions by 2040, implementing gender equity policies in all medium and large energy companies by 2030, and increasing women's participation in clean energy to 30 percent by 2030 through training and certification.

114. **Mentoring and sponsorship programs, proven to boost performance and retention (Shah, Bin Othman, and Mansor 2016), are valuable for utilities.** These programs should be open to all, with a structured matching process involving both genders (Vance et al. 2017). For example, EEU is developing a women's mentoring program, partnering with relevant associations (Schomer and Hammond 2020b). Mandating mentorship for new hires and providing mentor/mentee training can significantly strengthen these programs (Labin 2017). It is also vital that men in the workplace are encouraged to champion gender parity. Pacific power utilities can leverage resources from the Global Women's Network for Energy Transition, including mentoring, training, and networking, to implement best practices for inclusive workplaces.

115. **Dedicated diversity champions are a critical strategy in driving impactful change.** By appointing specific individuals to lead diversity initiatives and mentorship programs, organizations provide essential support and cultivate cultural shifts. These champions offer visible leadership and establish accountability, ensuring that gender equality efforts are not only maintained but also deeply embedded within the organization's core culture.

2.5 Framework for Priority Gender Policy Interventions to Increase Female Labor Force Participation in the Pacific

116. **The lessons and solutions developed for addressing barriers to women's employment in the energy sector hold significant value for other infrastructure sectors**. Water, transport, and digital development, among others, share similar characteristics and challenges, such as their dependence on STEM skills and the persistent underrepresentation of women in traditionally male-dominated roles. Transferring these insights presents an opportunity to create an increased number of better jobs for women.

117. **This section outlines three overarching gender priority policy interventions** that countries in the Pacific could consider adopting, grounded in Pacific data, lessons from the Pacific energy sector, and global evidence. These priorities are: (1) Close skills/education gaps; (2) Restructure care responsibilities; (3) Ensure equal rights and protections in the workplace.

118. **Drawing on global research and evidence, the World Bank finds that addressing one constraint to FLFP is often necessary but insufficient.** Even when one-off interventions effectively address one constraint to increase FLFP, these effects typically do not persist over time. Interventions that address multiple constraints, including norms, in combination with policy reforms have the potential to shift the economic future of women to a new equilibrium (Halim, O'Sullivan, and Sahay 2023).

119. **Increasing female labor force participation in the Pacific is not just a matter of gender equity—it is an economic imperative.** Taking action on the three gender priority policy interventions highlighted below will offer Pacific nations the highest return on investment, ensuring long-term economic growth, resilience, and improved livelihoods for women, their families, and communities.

2.5.1 Close skills/education gaps[27]

120. **Governments could enhance STEM education, actively encourage women and girls to pursue technical careers, and expand high-quality vocational training programs tailored to industry needs.** Strengthening partnerships between public and private sectors can facilitate mentorship and apprenticeship opportunities, ensuring that more women gain hands-on experience in fields traditionally dominated by men. Collaborating with industries is key to successful curriculum development, improved alignment between training and employment opportunities, good vocational guidance, more integrated and efficient TVET systems, the adoption of industry-recognized standards, and robust certification processes. These measures help ensure that workforce skills meet industry demands, driving economic growth and long-term sustainability by increasing women's participation in high-value sectors.

121. **Addressing cultural norms that limit women's career choices is essential.** Societal beliefs often discourage women from pursuing careers in fields like engineering and energy. Shifting these perceptions requires public awareness campaigns, community engagement, and the promotion of positive role models (Schomer and Hammond 2020a). Creating long-lasting changes in attitudes towards women's roles in the workforce can only be done with interventions that address multiple constraints—including cultural norms (Halim 2023).

27. Examples of World Bank projects in the Pacific that support this policy entry point include energy and water projects that integrate job training and employment targets for women. These projects are the Renewable Energy Generation and Access Increase projects in the Republic of the Marshall Islands (P181250), the Federated States of Micronesia (P181253), and Tuvalu (P181607). Additionally, the South Tarawa Water Supply and Sanitation Project in Kiribati (P162938, P176478) serves as an example of an infrastructure initiative that incorporates gender-responsive employment policies.

122. **The provision of information is a low-cost and scalable way to address social norms around women's work and to help women choose sectors with higher employment prospects.** For example, there is evidence from the Republic of Congo that providing young women with insights into the earnings potential of various trades has shifted their career preferences, encouraging them to pursue opportunities in sectors typically dominated by men (Gassier, Rouanet, and Traore 2022). In India, providing young women with information about sectors experiencing growth significantly increased their employment rates, delayed marriage and childbearing, and encouraged greater family investment in younger girls (Jensen 2012).

2.5.2 Restructure care responsibilities

123. **To support working women, governments should expand childcare provision and initiatives that address social norms around unpaid care work responsibilities.** This should include the implementation of comprehensive paid parental leave policies that enable both mothers and fathers to share caregiving responsibilities, thereby challenging traditional gender norms and contributing to a more equitable distribution of domestic work. Analysis of policies that encourage fathers to take leave has shown positive impacts on men's time spent on housework and improvements in attitudes towards women's equality in the workplace (Gonzalez and Zoabi 2021; Omidakhsh, Sprague, and Heymann 2020). Investing in affordable quality childcare infrastructure is also crucial, as it enables women to remain in the workforce without sacrificing their family responsibilities.

124. **Investing in childcare is a win-win-win for families, businesses, and economies.** There is increasing evidence that daycare and preschool programs can help reduce women's unpaid work, increase access to jobs and challenge traditional social and cultural expectations surrounding their caregiving roles. The extent of these benefits depends on the specific context (Nguyen, Dang, and Hriaga 2019; Evans, Jakiela, and Knauer 2021; Martinez and Perticara 2017; Halim, Perova, and Reynolds 2021; Ajayi, Dao, and Koussoube 2022). To maximize the impact of these services, it is essential to overcome barriers to their use such as accessibility, affordability, and operating hours of childcare centers, as well as prevailing norms about outsourcing childcare (Devercelli and Beaton-Day 2020). Return on-investment estimates by Fraym, a preeminent global provider of hyperlocal population data, suggest that every $1 invested in quality childcare generates $3 in anticipated income in Nigeria and Indonesia, and $7 in South Africa and Kenya (Ahmed et al. 2023).

2.5.3 Ensure equal rights and protections in the workplace

125. **To create a more equitable work environment, governments must take proactive measures to eliminate discrimination and strengthen protections for women in the workplace.** This involves enacting targeted hiring policies that ensure equal access to employment and advancement opportunities for women, helping to close persistent gender gaps in labor force participation and leadership.

126. **Labor legislation must explicitly prohibit all forms of workplace discrimination, including dismissal on the basis of pregnancy.** Wage transparency regulations are also critical to narrowing the gender pay gap and promoting equitable remuneration practices. Clear definitions and prohibitions of sexual harassment should be codified in law, accompanied by safe, accessible reporting channels and strong enforcement mechanisms. These legal frameworks not only improve working conditions but also contribute to better business outcomes—reducing absenteeism, turnover, and productivity losses.

127. **Beyond the workplace, governments need to expand women's economic empowerment and gender-based violence (GBV) prevention and response programming.** In contexts where women's employment outside the home challenges entrenched gender norms, and in the absence of strategies to shift those norms, women may face an increased risk of GBV, particularly in the short term (Bhalotra et al. 2021). For example, qualitative evidence from the Pacific highlights how women's participation in paid work can provoke spousal backlash and jealousy (Eves 2018; Eves and Lusby 2018). Importantly, in settings with low social or legal barriers to divorce, or where interventions are explicitly designed to shift harmful norms, increasing women's employment and earnings has been shown to reduce GBV risks in the short term (Bhalotra et al. 2021; Anderberg et al. 2016; Aizer 2010).

128. **Women's economic empowerment programming has the potential to challenge restrictive gender norms and rebalance power relations.** By equipping women with economic resources and decision-making power, such programs can provide women with the means to leave abusive relationships and pursue safer, more autonomous lives. Comprehensive services must be available to support women recovering from violence—whether experienced at work or at home—and legal mechanisms must hold perpetrators accountable. Therefore, efforts supporting women's employment must go hand-in-hand with broader social and economic empowerment programming.

Table 2.1 Summary of policy recommendations for increasing FLFP in the PIC-11 and energy sector

Overarching policies	Sector-specific application (energy sector)	Partners/key stakeholders
Close skills/ education gaps	**Build the pipeline of women in power:**	Government, Ministry of Education, energy organizations, utility/power sector companies, schools, universities.
	Establish formal partnerships between energy organizations and universities to develop specialized skills.	
	Support STEM education for female students through scholarships and grants.	
	Implement apprenticeship and internship programs.	
Restructure care responsibilities	**Adopt policies and procedures to increase female employment:**	Civil society, government agencies, labor unions/worker groups, utility/power sector companies.
	Implement comprehensive paid parental leave policies that enable both mothers and fathers to share caregiving responsibilities.	
	Provide maternity leave benefits.	
	Prohibit dismissal of pregnant workers.	
	Expand access to affordable quality childcare services to employees (e.g., onsite, through partnerships, or financial assistance).	Civil society, childcare providers, labor unions/worker groups, local governments, utility/power sector companies.
Ensure equal rights and protections in the workplace	**Implement effective retention polices for women in the power industry:**	Utility/power sector companies, labor unions/ worker groups.
	Enact targeted hiring policies that ensure equal access to employment and advancement opportunities for women, helping to close persistent gender gaps in labor force participation and leadership.	
	Create an equitable and merit-based promotion system.	
	Promote a safe and inclusive work environment to enhance productivity and address gender-based violence (GBV).	

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Annexes

Annex 1: Growth Forecast Summary (based on fiscal year information)

(Real GDP growth at market prices in percent, unless otherwise indicated)								Percentage point difference from March 2024 projection	
	2020	2021	2022	2023	2024e	2025f	2026f	2024e	2025f
PIC-11	**-10.2**	**-2.8**	**9.6**	**5.4**	**3.8**	**2.6**	**2.7**	**0.2**	**-0.8**
Fiji	-17.0	-4.9	19.8	7.5	3.8	2.6	2.9	0.7	-0.7
SLB	-3.4	2.6	2.4	2.7	2.5	2.6	2.7	0.0	-0.3
Tourism- and remittances-led PICs	**-3.2**	**-4.8**	**-0.2**	**4.5**	**4.9**	**2.6**	**2.4**	**-0.7**	**-1.5**
Palau	-5.8	-13.8	-1.3	1.9	9.3	8.6	3.5	-2.7	-2.4
Samoa	-3.1	-7.1	-5.3	9.2	9.4	5.3	2.6	-1.1	-0.2
Tonga	1.3	-1.3	0.0	2.0	1.8	2.2	1.8	0.0	-0.2
Vanuatu	-5.0	-1.6	5.2	2.2	0.9	-1.8	2.3	0.0	-3.3
Sovereign rent-led PICs	**-1.5**	**4.1**	**0.9**	**0.3**	**2.9**	**2.5**	**2.2**	**-0.2**	**-0.5**
Kiribati	-0.6	8.5	4.6	2.7	5.2	3.9	3.0	-0.6	-0.2
RMI	-2.8	1.2	-1.1	-3.9	3.4	3.3	2.7	0.0	-0.7
FSM	-1.9	3.0	-0.9	0.8	1.1	1.3	1.4	0.0	-0.4
Nauru	2.0	7.2	2.8	0.6	1.8	1.4	1.3	0.0	-0.6
Tuvalu	-3.3	0.2	0.4	3.9	3.5	2.8	2.3	0.0	-0.2

Source: World Bank.
Note: e = estimate; f = forecast; FSM = Federated States of Micronesia; RMI = Republic of the Marshall Islands; SLB = Solomon Islands. Data and projections are based on fiscal year information.
For the following countries, values correspond to fiscal years: the Republic of the Marshall Islands, the Federated States of Micronesia, and Palau (October 1–September 30); and Nauru, Samoa, and Tonga (July 1–June 30).

Annex 2. The Rapid Increase in Policy Volatility and Uncertainty Regarding Trade Policies

The global economy has seen significant changes in trade policies in 2025. A series of policy actions implemented early in the year have highlighted this dynamic environment. The recent discussions on tariffs have created a complex and fluid landscape for international trade, prompting some countries to explore policy reassessments and other strategic adjustments. These discussions have led to market adjustments, reflecting the proactive measures taken by investors and businesses to adapt to potential changes in trade policies. This may encourage firms to reassess their capital expenditure plans and supply chain strategies to align with the new trade landscape. This evolving situation, characterized by its fluidity, makes it difficult to make any assessments with certainty.

Various studies have attempted to estimate the reduction in global growth from a broad increase in tariffs, with a 10-percentage point increase leading to as much as a 0.3 percentage point reduction in global growth (World Bank 2025). The impact on individual countries could be more significant depending on the level of bilateral tariffs introduced (McKibbin, Hogan, and Noland 2024). Even as the largest trading partners are likely to be the ones most significantly affected, other economies are expected to feel the impact of global trade uncertainty. First, the interconnected nature of global supply chains is likely to spread the impacts to countries not directly targeted by higher import tariffs, as witnessed by supply chain bottlenecks leading to sharp increases in inflation globally (Diaz, Cunado, and de Gracia 2024). In addition, broader spillovers could be expected from a slowdown in growth resulting from higher global prices for imported goods, particularly in the context of a sharp rise in policy uncertainty. In contrast, some countries may find themselves benefiting temporarily from trade diversion flows that attempt to circumvent the imposed tariffs.

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