

# What We've Learned

## about development in Pacific island countries

Report of the *What Can We Learn (WCWL)* project, 2012-13

### Volume 2

#### Commissioned symposium papers and reports of discussions

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#### Notes

1. Volume 1 reported on the overall project and the WCWL symposium held in November 2012, at which the papers reproduced here were presented and discussed

2. In this Volume 2, the presented papers are reproduced, with notes of the ensuing discussion made by symposium participants acting as session chair and rapporteurs

3. Footnotes and endnotes to commissioned papers have been omitted. Soft copies of the papers including that material are available on request from [avhughes@solomon.com.sb](mailto:avhughes@solomon.com.sb).

## **What Can We Learn (WCWL) Project**

**Symposium at USP, Suva, 6-8 November 2012**

**Commissioned papers and reports of discussions**

### **Session 1.1**

***Topic: What have been the ‘drivers of change’ in PICs’ relations with other countries, and how have these affected PICs’ development so far? What probably lies ahead?***

**Commissioned paper and presentation by Francis Hezel**

#### ***What we need from you***

##### **Standing Back to Back**

Pacific Island nations are lined up in a circle facing outwards, their backs to one another. It's not that they despise one another. Islanders, of all people, know how to enjoy a party and entertain one another. Pacific Island representatives will meet regularly at the Pacific Forum or other associations to discuss matters on the agenda. But don't expect the representatives of these nations to share intimate details of their struggles to deal with internal problems. Whatever may be accomplished at these meetings, Pacific nations don't look to one another to help them solve their national issues. What can they do to help one another, after all, when each of them faces the same problem, one that can only be resolved with the assistance of richer and larger nations. Hence, their friendly disregard for one another as they position themselves, back to back, looking outside their circle.

The central question for all Island nations is how to provide the income needed to keep their household running. Their posture toward the larger and wealthier foreign nations with a stake in the Pacific can be described something like this: "Let us deal with the internal workings of our own government—the distribution of power and delivery of services. We're independent, after all. We will listen politely as you recommend reforms—and we admit that we might even learn something from what you say—but this is not what we look to you for. We need your support to solve the dilemma of financing a small polity that is struggling mightily to support itself. We need your good will and your financial assistance to become

fiscally viable. We look to you to help us achieve the economic miracle needed to make our political independence stick.”

To achieve this end Island nations will sign on to PICTA or anything else that offers the opportunity to win the good will of richer and mightier powers. They will sign on to regional trade agreements, even if there’s nothing to trade with other Island nations. Likewise, they will ratify the documents on trafficking (in drugs, human beings, or anything else) that have become such a major issue in recent years. These issues are surely far from the top of the priority list for PICs, but they may be instruments for winning the good will of those who will save them from fiscal implosion.

Much the same could be said about the stance of the island nations towards international institutions, whether banks like ADB or global organizations like the UN. The assistance that UN agencies offer small countries in dealing with problems like population control, environmental change and responses to disaster may be good-hearted but wrong-headed at times, as when they insist on plastering tsunami refuge signs around an island that is not even vulnerable because of its geological formation, or when they urge drug control measures on a society that is not known for its illegal “highs.” However irrelevant some of their programs may be, these institutions offer tangible benefits that PICs are bound to find irresistible: jobs and access to international funds.

### The Problem

Pacific Island nations suffer economically from the same geographical disadvantages that endear them to the larger and richer countries of the world: they are small and remote. Epele Hau’ofa famously maintained that the islands weren’t all that small, if you thought of them as a network crisscrossing most of the Pacific. Or, more to the point in today’s world, if you consider them as just the core of an EEZ that extends 200 miles outwards in each direction. But even if the islands still appear small, that might not be as significant a burden as it is sometimes represented. After all, “Small is Beautiful” is the title of the 1973 book by E. F. Schumacher that captured the spirit of that age.

The Pacific Island nations were certainly small and personal when, brimming with hope, they took their leave of their former colonial overlords during the 1960s and 1970s. They had their government systems—their constitutions, their parliaments, their courts—all of which operated in a fascinating blend of Western theory infused by Island practice. All that remained was for the Island nations to prove to themselves and the world that they could become modern nation-states

The problem for each of them was the same: how to support the new nation. It was not a problem of providing the staples of life for its population—Islands had been doing that for centuries. Not even the problem of generating a modest surplus that could be parlayed into tribute to the ranking chiefs—that, too, had been done for ages. The problem was

generating a surplus that was ample enough to pay the salaries of teachers, policemen and other civil servants—and to do this in cash. The public recognition and titles that traditionally had rewarded service and spurred on productivity was no longer effective.

“Small is beautiful”...unless you’re trying to design a modern economy for a Pacific Island society. In that case, more often than not, as the new Pacific Island nations were to learn, “small is broke.”

What has set the agenda in Pacific Island nations’ relations with the outside world? I think it’s safe to say that first and foremost is the need to pay the bills to keep the government running. Simply put, the agenda is driven by the need to obtain assistance in building an economy or, failing this, to secure the grants needed to supplement the revenues that the country is hard pressed to raise. Why should it be anything else? What other issue commands the attention of Island countries like national survival?

### Building an Economy

If the Island nations had doubts about their economic viability due to their small size, donor nations and international financial institutions would assure them that size is not a major consideration in economy building. They would point to the wonders some of the smaller nations like Switzerland and Singapore have achieved, and suggest that they redouble their efforts to reform their foreign investment policy.

So the Pacific countries forged ahead, using the models for economic development provided by the Western world, just as they had utilized Western legal instruments during the prelude to independence and afterwards. Since the conventional pathway to building an economy is expansion of trade, Island nations began the search for exports, either resources or manufactured goods, that could be traded abroad and bring in foreign exchange.

The search for exports was something less than a grand success. The Melanesian countries, favoured by larger land areas and mineral resources, were at the high end of the spectrum. PNG’s exports now measure 80 percent of its total economy, while in Fiji and the Solomon Islands exports come to about one-third of the GDP. Nauru, once a major exporter of phosphate and then one of the richest countries in the Pacific, is a cautionary tale of the dangers of resource depletion. With its phosphate all but exhausted, Nauru has become so desperate that the government approached Australia to negotiate fees for taking refugees off Australia’s hands and harboring them on Nauru.

No other Pacific nation even approaches this level of export production; in all others, exports measure 13 percent or less of their GDP. During the 1980s and 1990s Tonga was dutifully planting squash that could be exported to Japan. Other nations, acting on the advice of consultants, experimented with other small cash crops. Niue planted passionfruit with aid money and the Cook Islands produced orange juice, but both were discontinued when the subsidies dried up (Bertram 2006: 2). Even before nationhood, most island groups

had struggled to find cash crops that could generate export income. In the Trust Territory of the Pacific, agricultural specialists tried cacao, ramie, and dozens of other products. Not only did these fail, but eventually even copra, the one dependable source of ready cash for families, faded as world market prices dropped. This leaves most islands without any viable export crop, the exceptions being sugar in Fiji and palm oil in Vanuatu.

If a large export could not be found, perhaps one could try something small but relatively valuable—a niche product, in other words. There was a spate of these: Pohnpei pepper, noni (with its health claims), tropical fish and marine life for the aquarium, and cultivated pearls. In most cases, however, the reality never quite lived up to the promise.

Fish would have seemed a natural export item since it is the most plentiful resource in the area. During the 1990s, the Federated States of Micronesia, flush with investment money from its Compact funds from the US, decided to capture a greater share of the value of fish exports than the conventional 5 percent. So it invested \$79 million over a ten-year period to establish a fishing industry of its own. It was money wasted: the local fishing industry never developed, the companies went bankrupt, and even the jobs that were created for a time were soon lost. [Jacobs, "Spoiled Tuna," 2002]

At about this same time, the Marshall Islands was experimenting with its own nascent fishing industry. Two fishing fleets were operating in Majuro, one Chinese and the other local. The Marshallese invariably outfished the Chinese, boat for boat, on any given day. But at the end of the month the total catch tallied by the Chinese fleet was always higher than the local one because Chinese boats logged far more days at sea than the Marshallese.

Overall, fish exports do not constitute a significant part of the overall economy of any Island nation. Most countries bring in only a few million a year, if that, through fish exports. A study commissioned by ADB a decade ago reported that the overall contribution of fishing (whether the fish was exported or consumed locally) to the total GDP of these nations did not exceed 13 percent and, in most cases, was much less than 8 percent (Gillette and Lightfoot 2001, 77). Rather than do the fishing themselves, Pacific nations have gradually adopted the strategy of charging other countries to fish in their waters rather than attempt to do their own fishing. In fact, eight of these countries have established a cartel to ensure that prices for fishing rights do not drop as one Pacific Island nation competes against another for subscriptions from other nations.

Here, we might note, Island nations are beginning to change their posture a bit: they are obliged to work jointly on the terms of these fishing agreements in order to enhance the benefits of all. The sale of fishing rights might not save the economies of these nations, but it is forcing them to engage seriously with one another before turning back to the larger nations who hope to use their resources.

## Shift in Strategy: Licenses and Leases

There has been a more general shift in Island strategy toward development: Instead of trying to do everything yourself, why not simply provide access to those who can utilize the resources? This touches more than tuna licensing agreements with other countries. There are all sorts of other licenses offered for sale. Tuvalu and FSM have been offering their domain names (.tv and .fm) for a price; the Marshall Islands has gone into the business of registering foreign vessels; and a few nations have explored the same type of financial services that have made the Cayman Islands a byword for off-shore banking.

Vanuatu sallied into offshore banking a few years ago, but Australia soon intervened to shut down the banks on the grounds that they might be used for money-laundering. Palau once had ten banks registered in the country until the United States put a stop to it for the same reason. Even if offshore banking is not illegal in itself, it is regarded as a threat by those same Pacific Rim countries that provide much of the funding on which small Pacific nations have come to rely.

Rental fees for the use of the islands and their waters are another possibility. The funds that Palau, the Marshalls, and FSM receive from the United States under the provisions of the Compact of Free Association could be viewed as rentals for strategic benefits received by the United States. These benefits include strategic denial, access to airfields and harbors in the islands, and the option to set up military bases when needed. The Compact, which brings Palau, the Marshall Islands and FSM far more money each year than all other inflows combined, has become the pillar of the economy for these three nations.

All of this might seem to fall short of the development ideals proposed by economic consultants and international organizations. But most Island nations seem to realize by this time that conventional doctrine is not going to bring them to their goal of self-sustenance. Pacific countries might continue to chant the mantra of this development doctrine in public gatherings, but they have been forced to follow other avenues that they hope might lead to foreign exchange and jobs for their people.

## Exported Labor

If Pacific Island nations do not have goods to export, they can at least export labor. Those island nations that enjoy established ties with metropolitan countries have done just that. Tonga, Tuvalu, the Cook Islands, the tiny nation of Niue, along with FSM, Palau and the Marshall Islands has been sending their excess population abroad in search of jobs and other benefits.

Tonga and Samoa, each with remittances of over 25 percent of their GDP, are the nations that rely most heavily on remittance flows as a significant part of their economy. Fiji brings in \$150 million a year in remittances, although they amount to only 5 percent of its GDP. In

Tuvalu and Kiribati remittances seem to be on the increase, while FSM and the Marshalls are newcomers to the remittance flow.

But the success of these nations is a function of the open door policy established with a metropolitan country to permit migration that will relieve population pressure and provide needed jobs abroad. For years New Zealand has been doing this in spades for Samoa, Tonga, Niue and the Cook Islands—and more recently for Kiribati also. The US is providing its former wards from Micronesia with an open ticket to live and work in the US just in case sufficient jobs are not available in the islands (and they are not). It is the Melanesian nations of PNG, the Solomon Islands and Vanuatu—virtually the only countries in the Pacific that are showing population growth higher than 1 percent yearly—that have no access to a more developed nation to which they can migrate.

Australia, long reluctant to adopt an open immigration policy towards PNG, its former ward, has recently made some initial halfway measures by adopting the seasonal worker scheme that Canada and other nations have employed. There will be increased pressure on Australia in the years to come to open its doors to migrants, especially in view of the fact that Melanesia is the one area in the Pacific without migration options at present.

#### Foreign Aid

In economies as small as those of the Pacific nations, foreign grants can and do make up the difference between actual economic output and what the nation needs to get along. Foreign aid accounted for 15 percent of the average GDP of the Pacific Island nations in the year 2000 (Rao et al 2007: 4). With no industrial economy to speak of and a tax base too small to sustain a modern government, these nations must depend on foreign aid to make up the shortfall if they are to provide the government services their citizens need in today's world

United States, of course, is the funding source for the northern Pacific—FSM, Palau and the Marshalls. The Compact of Free Association offers these independent nations yearly funding in exchange for concessions to the US in the name of security, thus allowing them a means of paying the bills—at least for the duration of the Compact agreement.

Australia and New Zealand are both valued sources of support for struggling South Pacific economies: Cook Islands, Samoa, Tonga, Kiribati and Tuvalu, as well as the Melanesian countries of PNG, Solomons and Vanuatu. Japan, too, has provided aid for the Pacific, although usually in the form of infrastructure development.

China stands as the promising new source of aid for Island nations, as it bargains with the promise of foreign assistance in return for Island support in the international community. Pacific nations well understand that in today's geopolitical world China and Taiwan can be played off against one another to raise the ante. Over the past decade the North Pacific has seen bidding wars and shifting alliances. Because Taiwan has more ready cash if not deeper

pockets, there has been a reversal of direction away from China and towards Taiwan by Palau, the Marshalls and Kiribati.

Donor nations often complain that their aid is used to support a government that is unnecessarily large and seems more concerned with creating jobs than providing more efficient services. From the point of view of the Island nation, however, this could be viewed as a sound long-term development strategy. How else could the nation provide a modicum of jobs for those who cannot find them in a stunted private sector? How else ensure a stable residual population in a country with a static economy that is watching large numbers of its people leave for other destinations?

Hence, donor nations should not be surprised to find that foreign aid is more often seen as a means of compensating for economic shortfalls than of remedying these shortfalls.

#### Exploiting Disadvantages

The past few years have seen Pacific nations take a new approach toward making up their economic shortfalls. Rather than simply rely on one or two donor nations, they are increasingly turning toward the international community for assistance. In an age that produces resolutions on global warming nearly every week, Island nations are requesting the UN that compensation be awarded small and vulnerable island states for damage done by rising sea levels.

Last month, the Foreign Minister of Tuvalu called on the UN to grant special treatment to “small island developing states.” This might include measures that could offer advantages, including funding, for the island states that fit into this category.

The very smallness and vulnerability of the Islands is invoked as an argument for consideration by the international community. To take this approach, Island nations would be forced to work closely with one another in presenting their case to the international agencies and the world community. They would be required to act as they did in forging the fishing cartel a few years ago: collaborate in promoting their mutual interests.

Does this mean that the posture of Pacific nations, with backs to one another, has changed? To some degree it has. Island nations still negotiate with aid donors individually and will do so for the foreseeable future, but the new opportunities for international assistance will bond them to a degree that has been unimaginable up to now. We can expect that they will be turning toward one another ever more frequently in years to come.



## Session 1.1: Summary of Discussion

**Chair: Transform Aqorau      Rapporteurs: Atanteora Beiatau, Ben Graham**

*Key points made by the Speaker:*

- The PICs are perhaps not as interested in regional cooperation as in linking with larger partners for a very simple reason – They need money to keep the government functioning. This motivation is a key driver in how they view relationships in the Pacific
- Current sources of funds: fisheries, tourism, exports, labor, MIRAB, rental fees; but these are all limited
- Island economies would have to grow significantly if the 5:1 ratio of GDP to Government spending is to be met
- PICs do have wide diversity in geography and endowments
- However, aid will likely be a permanent requirement to support countries

*Key issues raised in discussions and post discussion comments:*

### **Regional Cooperation vs Self-reliance**

- No single country is entirely self-reliant, economically. Interdependence will continue, through aid or trade
- But there are degrees of dependence and PICs very highly dependent
- It's also a matter of using resources more efficiently and effectively; hence the need to reform economies and the management of government.
- The value of working together, either as a region or a sub-region, has long been understood and there is evidence that it can work. The success of the Nuclear Free Zone Treaty and the collaboration among newly independent countries to fight for the independence of others are just two examples of how regional solidarity has worked in the favour of the Pacific.
- Sub-regional approaches such as the formation of the small-island states group or the Melanesian Spearhead group also demonstrate the value of working together for a common purpose. The sub regional approach overcomes the problem of "all of region" involvement that often leads to agreement at lowest common denominator level.
- Recent efforts on regional cooperation eg PIPSO seem to be proving more successfully where more of the management and drive is coming from private sector people themselves.
- We have 14 regional agencies serving 7 million people. Is this appropriate and helpful?

## **Strategic importance of PICs**

- The PICs have a strategic geographic and natural positioning; it is their comparative advantage - fisheries, seabed minerals, location for Pacific surveillance....
- The issue is - how can PICs best leverage these advantages for their own interest? How can PICs convert rising interest in the region to their advantage?
- A driver of change can often be largely opportunistic. For example, the decision by the then President of Kiribati to sign a deal with Russia got the US to the negotiating table and eventual agreement in a multi-lateral fisheries agreement. Use of the domain name .TV was also possible at a particular point in time and allowed Tuvalu to take advantage of a window of opportunity that eventually closed or became less favourable financially.
- Under the Compacts with USA, PICs have no strong incentives to improve performance
- The Compacts are not all encompassing; there is space for other donors to do a lot in north Pacific

## **Foreign aid**

- Some consider aid to the PICs as probably a permanent requirement, given their structural constraints
- There is a need to focus on the appropriateness of the approaches used in aid; what we have done hasn't worked very well
- Often approaches and development models of donor countries are applied and they have not always worked in small island states
- Aid is offered largely to serve the interests of the donors
- On the issue of providing long-term aid guarantees (more predictable long-term programs), donors may be hesitant as this might make PICs complacent
- Aid rules ensure that aid flows back to donor countries
- Perhaps donors should just give money (budget support); modality matters.
- PICs are also donors in a sense, through allowing DWFN access to cheap fisheries (tuna)
- People will continue to desire a higher standard of living, so this demands resources (and aid)

## **Focus on growth**

- Perhaps we're too narrowly focused on economic growth. Social development, basic services are just as important

- It's not the economic models that is the issue; but it's the people implementing them
- We're too preoccupied with growth.

### **Diversity of PICs**

- Diversity among the PICs makes generalizations and regional cooperation sometimes difficult
- Re the analogy of pushing the stone up the mountain top – are we talking about the same height/mountain/pathway?
  - But diversity can also be a strength

### **Politics, governance, leadership**

- Must address governance and corruption. Also the mismanagement of natural resources (eg Nauru)
- Politics is a key issue, not economics. Political reform is important for real development
- Leadership, management, vision are the true drivers of change
- How do we work with elected officials who are not looking for change? Especially if significant amounts of national income (70-80%) are essentially guaranteed by treaties or agreement? Can you teach old dogs new tricks?
- How can we improve monitoring results/outcomes? What can be proactively done?

### **What Have We Learned?**

- Both PICs and development partners will have to accept that some PIC economies will just never be self-sufficient. Revenue will never be able to meet the cost of running government and essential services.
- Aid is here to stay. It is in the interests of both the giver and the receiver.
- Given the above, focus must move to making aid and its use more strategic and effective.
- PICs should leverage their comparative advantages (fisheries, seabed minerals, location..) to better economic advantage.
- Donors need to more carefully consider the economic models and the aid modalities they offer PICs.
- On the PICs part, there needs to be greater accountability, transparency and efficiency in the use of aid.

## Session 1.2

***Topic: What have we learned about the factors that shape the regional institutional structure, and how this structure might be optimised for the benefit of PICs?***

**Commissioned paper and presentation by Kaliopate Tavola**

### **The regional institutional structure**

#### *Approach*

This paper discusses Pacific Regionalism in all its stages and offers answers to the two questions posed in the title above. What we have learned about the factors that have shaped the regional institutional structure is a product of what regional commentators, including officials – former and current, have been saying and writing and which have resonance with me, firstly as a practitioner of regional affairs in a previous life and as a keen observer in my current engagements. The answers to the second question on how the regional structure can be optimised for the benefit of PICs have also profited from these same sources. The paper has thus assumed the responsibility of bringing lessons learned and the concerns raised for public debate to add to the general discourse. The slant however taken by the paper which points to a possible re-configuration of Pacific Regionalism as a way forward, remains the writer's responsibility. Such a statement is bold. However, it is no longer a lone voice in the regional wilderness.

The discussions on Pacific Regionalism benefit from the Asian Development Bank (ADB) and Commonwealth Secretariat's Pacific Studies Series 20051. The paper adheres, for example, to the various stages of Pacific Regionalism discussed in the Series. This is intended as instructional in terms of the structure of Pacific Regionalism as it grows and deepens. The paper thus seeks answers to the two questions posed from an exploration of these stages of Pacific Regionalism, enriched by what the writer has been able to glean from interactions with regional commentators. However, the paper prefaces these discussions by a conceptual discourse on what the Pacific Islands Forum (PIF) is all about, its structural significance, its origin and the lessons we can draw from it.

*What have we learned about PIF, and how might it be optimized for the benefit of PICs?*

PIF and PIF Leaders specifically direct the course of Pacific Regionalism and are collectively responsible for its current status. As it will be clear from the discussions below, at every stage of regionalism, Pacific Regionalism is floundering. Moreover, PIF's own official and ministerial meetings<sup>2</sup> are speaking out indicating dissatisfaction and unhappiness on how PIF and Pacific Islands Forum Secretariat (PIFS) are run on the basis of 'business as usual',

fuelling public speculations<sup>3</sup> that all is not well and that a new modus operandi may be beckoning.

Fiji's suspension from the PIF in 2009 under the Biketawa Declaration, changing the modality of decision-making by PIF from a voluntary approach regarding its implementation since inception to one of binding<sup>4</sup>, has intensified the introspection currently underway. Moreover, the perception that Australia and New Zealand (ANZ) may have pushed their own national agenda leading to Fiji's expulsion has only led to a re-intensification of the examination of their role in Pacific Regionalism. Out of this re-intensification, questions on the merit and the wisdom of their dominance and influence in regional decision-making have re-gained more currency in the minds of regional commentators. Popular views are that ANZ have behaved in domineering ways, reflecting their financial contributions to the PIFS budgets, to the extent that PICs' real interests and issues may have been sidelined on occasions in favour of promoting ANZ's national, extra-regional and geo-political interests. This has caused a degree of unease amongst PICs.

Such introspection has gone further where previous efforts had been. Whereas past efforts had been directed at the restructuring of the Pacific Islands Forum Secretariat (PIFS)<sup>5</sup>, current effort is directed at the Forum itself. The structure of PIF is under threat.

This period of introspection has brought greater clarity to any re-examination of Pacific Regionalism, enabling the critics to draw valuable lessons and proffer proposals for the restructuring of the region, going forward, and in the real interests of the PICs. Clarity has also induced a sense of realism in that the pathway to the re-configured Pacific Regionalism will not be easy in the immediate and medium terms. However, it can be envisaged that the longer term holds much promise and fulfilment of our collective regional aspirations.

Thus a lesson that can be drawn from the introspection referred to above is that the involvement of ANZ in Pacific Regionalism was a mistake. PIC leaders responsible from the Cook Islands, Fiji, Nauru, Tonga and Samoa (Western Samoa at the time) should have put their collective feet down<sup>6</sup>. They should have trusted their intuition and not extended an invitation to ANZ to join the group that developed into the PIF. It can be envisaged that it was a mix of over-deference to ANZ and the unique island way of being inclusive, which was later styled as part of the 'Pacific Way'<sup>7</sup>, that finally tipped the scales toward extending the invitation to ANZ. This is typically "Pacific Way". The island leaders wanted their own group to get away from the clutch of the South Pacific Commission (now the Secretariat of the Pacific Community) and the metropolitan powers there (including ANZ) but ended up with invitations to their two regional neighbours.

Even though the PICs are island states, there are still wide differences between them in terms of population, size, resource endowment and developmental status. The inclusion of ANZ, two developed states, exacerbated these differences and made management of Forum issues and general operations that much more difficult. ANZ, as it turned out and as

expected, have provided the lion's share of the funding for PIF and PIFS. Moreover, they remain as major sources of bilateral overseas development assistance (ODA) for the PICs. This fact is of critical importance in decision-making in the region, and PICs have tended to opt for decisions that do not jeopardize the flow of ODA into their national or regional coffers.

To wean Pacific Regionalism from ANZ in the long-term interest of the region, there is much sense and wisdom in pursuing and supporting the newly-formed Pacific Islands Development Forum (PIDF)<sup>8</sup> which is to comprise only the Pacific Small Islands Developing States (PSIDS)<sup>9</sup>, recognised under the UN system. PIDF's structure provides for greater meaningful engagement with Non-Governmental Organizations (NGOs), Non-State Actors (NSAs), private sector and faith-based organizations. It will also provide mandates for the PSIDS grouping at the UN, a function that is not performed by any regional body currently existing. A major role of the PSIDS will have to be sourcing development assistance from the global partners in the UN system.

ANZ will remain major development and trade partners in the region. It is envisaged that their bilateral relations with each of the PSIDS will grow. Furthermore, there will also be opportunities for PSIDS-ANZ regional integration arrangements.

The emerging sub-regionalism<sup>10</sup> in the region is a new phenomenon. In the reconfigured Pacific Regionalism, sub-regionalism has to be encouraged for it is a means whereby members can address their common interests a lot more effectively than the status quo. The bigger regional and global issues can then be left to Pacific Regionalism.

The 'Pacific Way', as a concept, has been either praised or abused, depending on use and context. However, the writer believes that the concept has merit especially if further developed and refined as a characteristic nomenclature for how we carry out our consultations and interactions with the aim of achieving our targets in the Pacific. This can then inform future work on the conceptualization of Pacific leadership in this modern era. It is recommended therefore that the concept be retained and be more clearly articulated and to be factored into future work on the formulation and operationalization of structures and institutions aimed at advancing Pacific Regionalism.

*What have we learned about Regional Cooperation, and how might it be optimized for the benefits of PICs?*

Whilst the benefit of regional cooperation has been tangible from the PICs' perspectives, it is suggested that it has not been cost-effective. Costs outweigh the benefits. Opportunity costs are high. This is due to serious lack of capacities at the national levels and to geographical factors contributing to, for example, diseconomies of isolation. Costs have thus been subsidized. This situation gives rise to 'price distortion' where beneficiaries or

participants of regional meetings are not the financiers but are usually incentivized to attend meetings even if outcomes of the meetings are not immediately relevant.

The lack of benefit is structural to a large extent. Implementation of the decisions of PIF and its various committees is voluntary. This voluntary approach has meant that leaders, ministers and officials have no legal responsibility to carry out the decisions they make. Whilst they make the decisions, they do not generate a sense of ownership and thus are not motivated to carry them out. There are no political costs to offset. No challenges are thus posed to the members. Consequently, benefit hardly accrues<sup>11</sup>. Furthermore, due to weak monitoring and evaluation (M&E) measures, it has often made establishing non-compliance difficult.

This voluntary approach has led to more ambitious decisions being made. For some PICs, especially the 7 Small Island States (SIS), it has become a huge challenge and a cost given the sparse resources in those countries. Consequently, decisions are either implemented very slowly and partially, if at all, or they just accumulate as unfinished business.

For the future, regional cooperation is still imperative, more so in the context of the reconfigured Pacific Regionalism discussed above. Proper and rigorous cost and benefit analysis should precede establishment of any regional cooperation measures. But the exercise has to go beyond conventional assumptions. Geographical features of the Pacific and its islands, taking into account the tyranny of distance, fragmentation and isolation have a built in disadvantage to costs in regional cooperation activities. Reducing costs and maximizing benefits must be factored into determining the modality and operational aspects of the cooperation. Creative ways of conducting meetings fully utilizing ICT features must be explored. Furthermore, creative ways of resourcing regional cooperation, e.g. multi-donor trust funds, must be found.

Moreover, a degree of 'bindingness' in some decisions can be experimented with in order to render responsibility and ownership of those decisions, and thus better implementation. The concept of the 'Pacific Way' must be fully analysed and special features taken advantage of to render increased utility of an inclusive peer review of compliance to decisions and their implementation.

*What have we learned about the regional provision of services and how might this be optimized for the benefits of PICs?*

Cost-ineffectiveness of regional services has been an important feature. Pre-establishment analysis and preparation of these services may have been responsible. Questions abound on the rigour of any cost and benefit analysis carried out; the suitability of the regional intervention in the context of the relevant wider markets and the characteristics of those markets; the rigour of the financial analysis undertaken and compatibility with the imperatives of the markets; the reality of costing for the short term as against long term –

increased costs due to the initial upgrading of the services as against longer term costs due to diseconomies of isolation and possibly lack of economy of scale, and the confidence of offsetting these costs.

There is also the question of commitment to regionalism when national interests still pervade decision-making and perceived loss of sovereignty work against the feasibility and operational efficiency and efficacy of regional interventions. National interests prevail over regional interests due to the financial authority that they entail. The non-binding nature of regional decisions works against building commitment to regionalism.

The Air Pacific case tells us that whilst it passed the subsidiarity test, the initial equity capital structure of the company, including individual shareholders as against regional governments, was a factor that had worked against its regional initiatives. Its failure to remain a regional airline led to the establishment of a number of national airlines, some of which have subsequently failed. In any case, the projected cost-ineffectiveness of a wider regional intervention resulting from diseconomies of isolation would have doused any corporate expansionary enthusiasm that may have been evident at the time

The Pacific Forum Line (PFL) case, established as a regional shipping line in the mid-1970s, has not been able to effectively deliver its regional expectations for reasons of economics and financial viability. High costs, resulting from, inter alia, diseconomies of isolation have been responsible. The recommended solution of subsidization did not get to see the light of day, probably because such measures did not sit well in the context of the prevailing mainstream economics. Instead, further capitalization through a loan was negotiated. Consequently, PFL has strengthened its commercial focus to the detriment of non-economic routes.

There have been regional bodies that are both cooperative in nature and as well as service providers. From observation, it may be concluded that PICs may have not taken full advantage of these bodies with the aim of maximizing the pool of benefits accruing to them. PICs need to change tack on this matter to increase the benefits to them.

On the other hand, there has been growth in the number of the Council of Regional Organizations in the Pacific (CROP) agencies and the general feeling is that some have been allowed too much latitude to grow unregulated and undirected. So much so that the attempt in 2005 to rationalize and better manage them proved too political or controversial and implementation has fallen far short, or has strayed from the recommendations. The duplication and costly management structures in these agencies thus continue. Furthermore, recent attempt to review the Pacific Islands Forum Secretariat (PIFS) was met with resistance from PIFS Secretary General. The report was hardly discussed by the PIF Leaders at their meeting in Rarotonga last August. Instead, the PIF Leaders have delayed any deliberation on it to await the discussions on the review of the Pacific Plan which is yet to get off the ground.



Pacific Regionalism, reconfigured or otherwise, needs to be further consolidated so it can grow and deepen. Providing regional services is very much part of the regional integration, and deeper regional integration, that are needed. There has to be a lot more serious thinking and analyses that needs to precede establishment of regional services. More rigorous cost-benefit analyses, creative and more strategic awareness of the markets, our peculiar geography have to be all factored in with openness to accepting alternative economic and financing principles that will increase the pool of benefit to PICs. All interventions can be properly and realistically costed out. Recurrent costing has to be attempted with long-term sources of funding identified. Cost-effectiveness should be targeted with an innovative approach to financing proposals. Moreover, we have to learn from the Air Pacific and PFL experiences.

Commitment to regionalism and a sense of greater togetherness with increased solidarity and an elevated sense of achievements through concerted efforts have to be our modus operandi. We have to increase and consolidate ownership of our own decisions. Furthermore, we need a more serious attempt at further rationalizing the management and operations of the CROP agencies, especially in the context of the reconfigured Pacific Regionalism.

*What have we learned about regional market integration and how might it be optimized for the benefits of PICs?*

The negotiated trade agreement, Pacific Island Countries Trade Agreement (PICTA), signed by many PICs in 2001, is still not being implemented by all to date. Its trade in services protocol was only signed before the PIF Leaders meeting last August and is yet to be ratified and implemented. This means that its expected benefits from increased trade in goods alone, and concomitant regional integration amongst the members have yet to accrue. Whilst it can be said that there is logic and a sense of purpose behind its conception, there has not been the required capacity, competence, commitment and political will at the national levels to expedite its full realization.

The negotiations on the Pacific Agreement on Closer Economic Relations Plus (PACER Plus), a Free Trade Area (FTA) agreement provided for under PACER started before the conclusion of the EU-Pacific ACP (PACP) Economic Partnership Agreement (EPA) negotiations. That is, before lessons and experience could be drawn from the latter. Whilst consistent with the provisions of the PACER agreement, it would have been more strategic to use the initial period of PACER Plus to continue the informal consultations that were underway and to allow all PICs to effectively complete their respective national consultations. These national consultations would have provided opportunities for national trade officials to thoroughly examine all the economic analyses that were carried out during the preparatory phase. Had they had these opportunities, they would have developed a more informed appreciation

that the benefit from PACER Plus (with the exception of labour mobility) is going to be asymmetrical favouring not the PICs but the two developed countries, Australia and New Zealand.<sup>14</sup> Furthermore, they would have developed further appreciation also of the substantial adjustment costs that PICs will have to have to incur, especially in the short term, in opening up their markets to the two developed countries.

The Office of the Chief Trade Advisor (OCTA), to spearhead the PIC negotiations, opened for business in Port Vila in 2010 but with considerable budgetary difficulties - a repeat of the experience on the implementation of the trade facilitation under Article 9 and Annex 1 of the PACER when the lion's share of the funding was scheduled to have been sourced from Australia and New Zealand.

OCTA was intended initially to be the Office of the Chief Trade Negotiator (OCTN). The idea was to professionalize the role of the negotiator and bring in much skills and innovation to the position, similar to the situation in the Caribbean. The idea did not see the light of day.

Market integration work in the region, going forward, is going to involve continuation of the negotiations and implementation of EPA, PICTA and PACER Plus. Improving EPA to incorporate development issues as envisaged by the PACPS seems to be a lost cause. The PACPS are best advised to carry out damage control – opt for either the interim EPA (iEPA) or any of the alternative trade arrangements being on offer and conclude. Their energy should be directed at trying to configure a new kind of relations with the EU post-2020 when the existing relations will end.

As regards PICTA, there is no turning back. The damage control however is for the PICs to learn where they have gone astray<sup>15</sup> and put in place recovery and restorative measures to try to steer the execution of the agreement to areas where maximum benefit can effectively accrue. This introspection should precede and to inform the implementation of the trade in services protocol, recently signed. Furthermore, the same introspection can focus further on the merit and demerit of providing further regional trade and other sectoral institutions needed immediately and in the medium to longer term for deeper regional integration – see below.

*What have we learned about regional integration and how might it be optimized for the benefits of PICs?*

The comments in the two previous sections also apply here. Specifically, this section would necessarily discuss advanced stages of market integration and provision of regional services. For example, when a trade agreement has deepened to incorporate more integrative sectors like investment and labour mobility and when more trade-related services are provided to support the increased trade and integration resulting from the implementation of the trade agreement. Pacific Regionalism, on the whole, has yet to get there. Therefore,

there is no foreign direct investment (FDI) to speak of, for instance, flowing into the PIC economies as a result of increased integration and competitive markets.

Clearly, for the purpose of this symposium, there may not be any lessons to draw on. However, this section is included here to signpost the way forward and to herald the process of deeper regional integration and more advanced forms of regionalism. Deeper regional integration is the target in the foreseeable future, and the region has started to deliberate on prospective services and institutions relevant for this stage.<sup>16</sup> It should be noted that work on some of these initiatives is already underway. However, it should be further noted that some work already started may be experiencing difficulties.<sup>17</sup>

If we were to draw any lesson at all, it may be that in regional integration, the region should cautiously proceed stage by stage, build up competence and experience and then move forward. Our regional history of low economic growth and governance failures justify such caution. In the area of labour mobility, however, given its potential benefit to PICs, it can be seen as more cost-effective than continuing high levels of aid in perpetuity, especially if barriers to capital flows are removed.

*What have we learned about deeper regional integration and how might it be optimized for the benefits of PICs?*

This remains a learning curve for the region. And there have been useful lessons drawn from previous stages that can effectively inform this stage and help in designing the regional institutions that will be needed.

The pool of benefit from regional efforts has to expand and deepen to share amongst the members. This is a valuable lesson. Deeper regional integration should aim to increase the pool of benefit. Studies discussed in “Toward a New Pacific Regionalism” conclude that large benefits can come from focusing on the type of regionalism that addresses our fundamental challenges, and that is not necessarily trade. In the Pacific, we have a number of fundamental issues that can substantially shape and impact Pacific Regionalism, e.g. capacity building, climate change, environment, and governance. Future integration efforts can be designed on this basis. Coupled with this can be efforts at improving the enabling environment for an efficient, effective and responsive regionalism: ownership of decisions, regional commitment, building trust and confidence.

Given that the reconfigured Pacific Regionalism is the pathway to future solidarity and prosperity for the PSIDS, it remains imperative that they continue to seek large global partners for both intra-PSIDS integration and inter-Global Partner-PSIDS integration. PSIDS' first effort is to engage with Australia and New Zealand, not only for bilateral relations but more importantly for an inter-PSIDS-ANZ integration framework.

## Summary of Discussion

**Chair: Makurita Baaro**

**Rapporteurs: Seve Paeniu, Tommy Scanlan**

Key points made by the Speaker:

- Fiji's suspension from PIF under Biketawa Declaration changes the modality of decision-making by PIF from a voluntary to a binding one
- ANZ role and influence in Pacific Regionalism has limited the advancement of the real interests of PICs in favour of promoting ANZ's national and geo-political interests
- As a result, there is unease amongst PICs and the structure of PIF is under threat
- A lesson drawn here is that the involvement of ANZ in Pacific Regionalism is a mistake
- There is merit to support the newly-formed PIDF, recognized by the UN (as PSIDS), which can provide a greater meaningful engagement with NGOs, NSAs, private sector and faith-based organizations
- Sub-regionalism under the reconfigured Pacific Regionalism needs to be encouraged
- The "Pacific Way" concept needs to be retained but be more clearly articulated and factored in any future structures and institutions aimed at advancing Pacific Regionalism
- Regional cooperation has not been cost-effective: costs outweigh benefits
- Opportunity costs in PICs are high due to lack of capacities and geographical factors. Thus, costs have been subsidized and price distortions exist
- Lack of benefit is more structural: mainly as a result of the non-binding nature of PIF decisions, so there is no sense of ownership and no motivation for PIC to implement those decisions
- For the future, regional cooperation is still imperative. However, cost-benefit analysis should precede establishment of any regional cooperation measures, and must be factored into determining the modality and operational aspects of the cooperation
- A degree of bindingness in some decisions within the "Pacific Way" approach will need to be explored in order to render ownership of those decisions and thus better implementation
- The presenter proposes the following actions:
  - i. Wean Pacific Regionalism out of ANZ in the long term

- ii. Support establishment of PIDF
- iii. Formalize links between PIDF and PSIDS
- iv. PIDF to support Green Growth policy integration into PICs as one of its main focus
- v. PIDF to support growth of sub-regionalism

*Key issues raised in discussions / post discussion comments:*

*Lack of Regionalism is PICs' responsibility*

- Because of the diversity among the island countries of the region (in terms of resource endowments, geographical characteristics, social and cultural norms, etc), the reality is that regionalism has little meaning in the minds of the island leaders; there are inadequate common interests; the island countries often do not seek each other out to try and work together to address common issues
- Influenced by colonial history, PICs still persist with the mindset that they would continue to rely on outside assistance and advice, even though there is already capacity within and among the PICs to tap into
- PICs still mistakenly puts the blame on donors such as ANZ when in actual fact the problems the PICs continue to face are self-generated; the problem has been and continues to be caused by the island countries themselves. PICs need to alter their approach to dealing with developmental issues. Facilities such as the ADB PEMTA program can be useful in helping PICs to deal with these kinds of issues. So the idea to establish a new PIDF cannot be justified or supported on the grounds that the exclusion of ANZ would resolve the problems facing PICs.
- Regionalism often leads to the lowest common denominator.

*PIC – ANZ Relations*

- Australia /NZ have an economic approach bias which favours the Washington consensus.
- The ODA provided by ANZ has also become a 'stifler' of open comment.
- PICs need to undertake careful self-examination on how they engage in regional negotiations. PICs often do not speak out in regional meetings when they hold differing viewpoints to ANZ. For example, at the conclusion of regional meetings it is usually the ANZ delegations that end up drafting the meeting communique; hardly any island delegates remain behind to contribute to the drafting process. As a result, the outcomes in the communique often reflect or are biased toward ANZ interests.
- The proposition of weaning Pacific Regionalism out of ANZ should be considered in a realistic and constructive manner. It should be viewed more in terms of re-balancing PIC and

ANZ influence in the PIF. This obviously means strengthening PIC leverage in the shaping of agendas and regional positions.

- The sticky issue is that ANZ leverage their financing support for the PICs and the regional institutions for a larger say on regional positions. On the other hand, the PICs cannot pick up the tab if ANZ are left out. What are the alternatives then? Retain ANZ financing support but reduce their influence to some extent? How? Requires more thinking and discussions. Should PIFS open up to the other bilateral donors like China, Japan and USA?
- Is there any guarantee that the new PIDF would be able to avoid the kinds of problems associated with the current regional structure? Perhaps some elements of its decision-making should be made binding. This will potentially generate increased ownership and commitment among PIDF members and thus address many of the issues currently being faced with the existing structure

#### *The Merits of Sub Regionalism*

- While regionalism may still be relevant in some certain situations, not all national interests and objectives can be served by regionalism. The emergence of sub-regional groupings such as the PNA group is a result of the fact that the current regional structure has not met the PNA objectives. Furthermore, the PNA secretariat has shown that establishment of a regional structure without ANZ can be done. Thus, there is merit to explore the establishment of sub-regionalism as the way forward in addressing the problems associated with the current regional structure and the diversity across the region
- In any new regional structure, it needs to have a strong conflict resolution mechanism with clear penalties for non-compliance, as is the experience with the PNA subregional structure

#### *The Merits of PIDF*

- What guarantee is there that the interests of the weaker or smaller members within the new PIDF will be safeguarded? Under the new PIDF there would be more openness and a lot more commitment by members to addressing common issues that would ensure all the members' interests are addressed
- Under the current regional structure there have been numerous mandates that have been issued by leaders but not implemented: how could the new PIDF avoid this problem? The problem with the existing structure is that decisions are not binding. Under the new PIDF there would be some elements of decision-making that would be made binding, and a monitoring and evaluation mechanism built-in to ensure there is follow through with implementation

- Under the new PIDF set-up there would need to be some form of a “Niue test” criteria built-in to its decision-making process to assess particular program initiatives that may benefit only a few members
- The PIDF concept will need to be marketed. Discussions will need to be initiated with ANZ that it is in the long term interest of PICs to have this PIDF set-up, and especially in terms of addressing global issues. There will need to be an inter PIDF-ANZ arrangement put in place. All this marketing work can be done say through the appointment of a Special Envoy as in the case of the MSG experience
- The “long-term” timeframe for the transition to the new PIDF arrangement will need to be defined more clearly

### *What Have We Learned?*

#### *On Regionalism*

- Regionalism has not lived up to its potential. PIF decisions are not enforceable and hence are generally not implemented since PICs are not keen on accepting the economic cost involved.
- PICs need to rebalance their influence vis a vis Australia/NZ in the PIF. They need to become more proactive, collaborative among themselves and assertive on their positions.
- While there may be a sense of unease among PICs about the involvement of ANZ in the current regional structure, the idea to establish a PIDF without ANZ involvement will need very careful consideration for a number of reasons:
  - ☐ will the new PIDF resolve the problems currently facing PICs, when in fact a lot of these problems have to do with PICs themselves?
  - ☐ will there be a level playing field in the new PIDF, and how could the interests of the weaker or smaller members be safeguarded?
  - ☐ it needs to have a strong conflict resolution mechanism
- Rather than creating another regional structure, there may be merit in looking at subregional approaches targeting specific sectors or areas of priority need, as shown by the PNA subregional arrangement
- At the same time, there needs to be something done to address the problems with the existing regional structure. For example, PICs need to be more engaging and to be able to voice their viewpoints in regional fora more assertively and effectively, so they can yield more influence on shaping regional agendas and priorities

### *On the Regional Provision of Services*

- The lessons drawn from the experiences of regional initiatives such as the Air Pacific and PFL point to the need to carefully consider issues of cost-effectiveness, financial viability, characteristics of the market, etc prior to establishment of any regional service-provision initiative
- Proliferation of CROP agencies has resulted in duplication and costly management structures. In these bodies to continue, there needs to be a more serious attempt at rationalizing the management and operations of CROP agencies within the context of the reconfigured Pacific Regionalism.
- The PFTAC model where technical resources are shared by participating countries has proved to be a useful approach.
- There are regional agencies such as USP that still play a very important role and are very much relevant to meeting the unmet needs of its members; these agencies need to continue

### *On regional market integration*

- PICs have yet to benefit from PICTA
- For PICTA, PICs need to steer the execution of the trade agreement to areas where maximum benefit can accrue.
- Negotiations on PACER Plus would have been better off if they had awaited completion of national consultations thus providing PICs with more informed appreciation of the benefits of PACER Plus and the adjustment costs PICs would have to incur
- Improving EPA to include development issues seems a lost cause. The PACPS are best advised to carry out damage control: opt for either the interim EPA, or any of the alternative trading arrangements being on offer. PICs energy should be directed at trying to configure a new kind of relationship with EU post-2020 when existing relations will end.

### *On deeper regional integration*

- Deeper regional integration through a reconfigured Pacific Regionalism aimed at increasing the pool of benefit to PICs is the way forward
- Studies in “Toward a New Pacific Regionalism” conclude that large benefits can come from focusing on the type of regionalism that addresses PICs fundamental challenges,: These are capacity building; climate change; environment; and governance.



## Session 1.3

***Topic: What can we learn from interventions by PIC and other governments in regional trade in goods, services and natural resources?***

### **Commissioned paper and presentation by Roman Grynberg**

#### Introduction

The paper first considers the basic facts of economic activity in the Pacific Islands. The great lesson to be learned from experience is that only a limited range of interventions have been successful in generating economic activity that integrates the Pacific islands into the global economy. Smallness, physical dispersion and isolation are immutable factors in both economic and aid policy in the region, and the successes and failures outlined below can be divided between those that have succeeded because they recognized the economic facts and those that failed because they did not, and were driven other interests. The political reality of the Pacific where 12 island nations, all very small with the exception of PNG. These nations have been traditionally dominated by the two regional Anglonesian powers i.e. Australia and New Zealand (ANZ), whose foreign and domestic agendas remain central to national and regional policy formation.

Successes, by the definition used here, have been very limited in terms of state interventions and failure has been generally more widespread. The Pacific Islands, as a region, are not unique in this outcome and other developing regions such as Africa and the Caribbean have a similar record. The successes outlined below are those that have created the minimal economic distance between donor and beneficiary and have simultaneously created a commercial advantage that was of commercially conditional, of sufficient duration and order of magnitude as to ultimately be transformative in nature. By nature of these interventions were large but invariably did not involve a bureaucratic intermediary that stood between donor and beneficiary.

#### **Background**

##### Economic Conditions

The inherent economic conditions of Pacific island states are well known but the consequences of these conditions remains poorly understood. Smallness and the resulting absence of economies of scale, physical dispersion of often tiny pockets of population over wide expanses of ocean, and remoteness from markets have typified the conditions prevalent in large parts of Polynesia and Micronesia Melanesia with its relatively large population and proximity to Asia and Australia suffers less from these characteristics and it explains its relatively greater concentration of economic activity. While these characteristics

are recited as mantra in economic presentations by officials and policy makers alike, their commercial implication and meaning are not well understood. Each of these immutable physical characteristics is reflected in the commercial costs of starting and operating a business in the Pacific islands . In their most extreme manifestations found in the smallest and most isolated of countries like Niue and Tuvalu, commercial activity that is oriented towards exports in effect ceases to exist. Amongst other countries as well as these two in particular, it can be argued Ricardian comparative advantage is meaningless where the magnitude of the absolute cost disadvantage is too large to be covered by cost adjustment . In other words in many of these countries and islands there exist no above zero factor prices that will compensate a commercial investor for locating in those countries. Only through subvention i.e. negative economic prices would such commercial activity occur.

If this is the case then what commercial activity has occurred in the islands? Only where there is a quasi- rent in the price of the product that is exported onto the international market can competitive economic activity occur in such highly disadvantaged island states. Thus Tuvalu could, for a period, export copra but this was only where the EU provided it with both trade preferences and Stabex funding for the state. Three sources of economic rent exist. These are created by nature through abundant natural resources eg fisheries, forestry or minerals or through the state through preferences and tax concessions and subsidies or those that stem from market based niches eg squash exports to Japan in November or Fiji Water, that are largely transitory in nature and generally constitute a poor long term basis for development.

It is the long term forms of economic rent that are the most effective are those created by the state but not captured by intermediaries as will be discussed below. The interventions into the global market in favor of the Pacific islands by the EU and to a lesser degree by the US and Australia and New Zealand through Spartecca and MFA provisions, have over the last generation been the most effective forms of donor state intervention and have had the longest lasting effects on the economic transformation of the islands. What they have in common is that the quasi-rents that were created had no intermediary between the beneficiary and the donor. There was no aid agency with a gaggle of consultants that stood between the beneficiary of the Sugar Protocol and the cane farmer- the benefit of the transfer from the European consumer to the Pacific island producer had profound economic consequences in Fiji but only if the recipient produced a commercially significant product ie sugar. It will be argued that the rents derived from aid programs require no such commercial activity and are often captured by donor or local intermediaries with often no lasting effects upon productive activity in the islands, aside from local consulting counterparts.

#### Political Circumstances

The political background is just as significant to understanding the failure of international policy interventions to have a significant impact on development outcomes. Two

overarching facts dominate policy making in the region. The first is the smallness of national bureaucracies and their resulting inability to cope with the ever increasing number and complexity of national and international issues that are required of them. The second is that these countries have since independence formed regional bodies to pool resources and to address some of these issues. However, these institutions were born with fundamental birth defects because the PICs agreed to include ANZ in them. This has almost invariably meant that these regional institutions have been funded by ANZ and have had a final veto on policy measures implemented by the islands regionally.

What is of greater concern is that certainly Canberra and to a lesser degree even Wellington has no vision for the islands beyond being quiet and peaceful neighbors that are too small to be significant markets but small and poor enough to be sources of geo-political instability. It has been the avoidance of the instability that has been the central theme of Canberra's thinking about the islands and the reason why the instruments of regionalism have so completely lacked vision and foresight. There is no need for bold initiatives that resolve real problems when the only national aid objective of the donors is to maintain 'peace, order and good government'.

To suggest, as some do that, that the outcomes observed in the islands are simply a reflection of exogenous economic and political factors not only stretches credulity it also leaves the Pacific island elites portrayed as passive victims of circumstances. Such a characterization would not only be grossly inaccurate it would miss the fact that in many cases the Pacific island elites have been willing participants and often beneficiaries in a process that has left them politically emasculated and incapable of policy action that is not explicitly in the interests of Canberra and Wellington. As a counter-point these elites almost invariably lack any regional vision themselves. What regional vision exists amongst Pacific island elites is increasingly sub-regional in nature i.e. Melanesia, Polynesia and Micronesia. However, this in part stems from the perceived control of peak regional for a by ANZ. More generally their political focus is national or even clan based. Any genuinely pan-Pacific island vision largely died with an older generation of post-independence leaders who ironically were the very ones who bowed to ANZ pressure to allow their entry into the Forum which commonly referred to as the 'original sin'.

Five of the smallest Pacific island countries remain in free association with either the US or New Zealand. Though some of these countries are attempting to dilute metropolitan control five, are de jure obliged to follow the foreign policy of the former metropolitan power. Tuvalu the only small state that has recognized sovereignty is too small and fragile to exercise it effectively. Only six countries are sufficiently large to have administrations that can address a wide range of international issues. These include PNG, Solomon Islands, Vanuatu, Fiji Samoa and Tonga. Two of these Solomon Islands and Tonga are very highly dependent upon Australian aid and hence have only the most limited potential for independent regional action. Furthermore Samoa frequently aligns itself with Australia and

New Zealand. Therefore pan-Pacific islands regional action that is anything other than a reflection of ANZ policy is highly improbable. As a result of the domination of the paramount regional agency, sub-regional institutions which exclude ANZ are increasingly taking its place as fora for regional discussions.

### **Successful International Interventions in the Pacific**

The history of international interventions in the Pacific Island region are littered with actions that have led to no perceptible long run change in the overall economic outcomes in the country concerned. For the purposes of the discussion below, the definition of a successful intervention is one that has led to a protracted change over a period of time. A failure is when an intervention does not result in the continuation of change following the intervention. In the case of some interventions the results have not been what some economists call 'unsustainable' in a narrow sense in that they have not resulted in the continuation of the specific activities once the intervention ends. However, what is relevant in gauging success is not the continuation of a specific activity but whether the intervention gives rise to a process. For example the 24% margin of preference for canned tuna gave rise to both a capture fishery as well as a canned tuna industry. The cannery sector may not be sustainable i.e. continue once the preference is gone or has been eroded but it has spawned a capture fishery which, with managed in a sustainable manner, has resulted in a sustainable industry in a number of PICs.

#### **i) Temporary Movement of Seasonal Fruit Pickers to New Zealand**

This intervention in the New Zealand labor market through a selective market opening in favor of some Pacific island workers in the New Zealand fruit and vegetable harvest has already had significant longer term effects in the countries which are selected beneficiaries. It fulfills all the economic conditions for a successful intervention. First, it created an economic rent stemming from the difference in wages between New Zealand harvesters and what could otherwise be earned in similar economic activities in the islands. The second condition is that it has been a direct transfer without intervention resulting in a loss of quasi rents by the beneficiaries. While several New Zealand institutions have been involved this has not been at the expense of the beneficiary ie. the worker. It has therefore been a transfer from the preference donor, in this case New Zealand to Pacific island harvesters.

The various analyses undertaken by researchers since the commencement of the program suggest that it has already set in train a series of economic effects of long lasting effect in countries like Vanuatu where relatively large numbers of workers have been involved in the Recognized Seasonal Employers Scheme (RSE). Under pressure from both the World Bank and neighbors, Australia has also implemented a much smaller scheme.

While the adage that 'success has many fathers and failure is always an orphan' is certainly true in the case of the RSE program its origins need to be documented. First, Pacific island

leaders have frequently requested precisely such programs for many years from Australia and New Zealand since the 1980's. Their requests had never been successful as Australia argued that, since the abandonment of the White Australia Policy in the 1960's they had an 'ethnically blind' immigration program and where it needed labor it wanted migrants and not a program based on temporary movement. The economic boom of the mid-2000s along with unfavourable demography in most OECD countries meant that there was a surging demand for young semi-skilled and unskilled workers. Since 2000 the Commonwealth Secretariat had provided important leadership on the issue which resulted in very important academic work that influenced the thinking of many policy makers and thinkers in the area. Professor Alan Winters, the principle academic author, fortuitously went on to become head of Trade Research at the World Bank where he influenced policy makers in the area. It was this that emboldened World Bank staff to push Australia to also open its market which they have done with the greatest reluctance. It was this that was very much at the forefront of thinking of the ways in which countries that are highly disadvantaged could benefit from globalization. The alternative to temporary movement of labor to where the capital was located was the movement of capital through subsidies which was far greater an economic anathema to those mainstream thoughts about such issues.

ii) The Sugar Protocol of the Lome Convention/Cotonou Agreement

Perhaps of even greater significance to the long term development of Fiji was the Sugar Protocol of the Lome Convention which from 1975 onwards provided a substantial and fixed quota to Fiji and the other ACP beneficiaries of the agreement and which allowed them a fixed EU market at prices that were between 2-3 times the world price. This intervention made it profitable to produce cane sugar in remote locations such as Mauritius, Fiji and Guyana and ship it for refining to the UK. This was perhaps the single greatest act of generosity of the EU to its former colonies. This generosity however stemmed not from any natural European bonhomie but the insistence that the UK, which was in the process of accession to the Treaty of Rome continue to have access duty free to cane sugar from Commonwealth countries for what were then two sugar refineries in the UK. Some 4,000 jobs were at stake and an election was planned along with record high prices for sugar on the world market.

This intervention also provided a quasi-rent to sugar producers and like the RSE scheme created no intermediary who could capture that rent. It was pure transfer between the European sugar consumer and tax payer to sugar farmers in Fiji and other ACP countries. But it was a transfer conditional on the production and delivery of cane sugar to EU refineries. It therefore created a commercial discipline in the transfer while simultaneously providing a price that enabled the continuation of production and exports from remote locations.

The Sugar Protocol was of course unilaterally abrogated by the EU in 2005 after 40 years. That the arrangement lasted so long when the EU was importing some 2Mt of cane sugar

from the ACP while simultaneously exporting up to 6 Mt (2002/3) of beet sugar surpluses made the arrangement commercially questionable if not irrational. Irrespective of the sustainability of the arrangement there is little doubt that the surpluses that were created in the hands of Fiji cane farmers were, like the rents of the RSE, transformative in nature. They allowed not only the maintenance of a living standard well above what would otherwise have been possible but permitted the funding of an entire generation of students through the university and tertiary system. It was this investment that helped generate a partial transformation of Fiji.

At the high water mark of the free market resurgence in the 1990's neo-classical economists argued that the Sugar protocol was unsustainable which was, of course, the case. However, the argument was largely irrelevant as it was transformative because it allowed the creation of a surplus for a long enough period that was vital to economic development. The quasi rents of the Sugar protocol were certainly never as effectively invested in Fiji as was the case in other ACP countries. In Mauritius, where racial politics was more constructively managed, the Sugar Protocol was the basis for the creation of surpluses among that country's 'Sugar Barons' for the economic transformation from sugar to tourism and garment exports.

### iii) The EU Tuna Preferences

The EU under the terms of the Lomé Convention/Cotonou Agreement/ Interim EPA provides a 24% margin of preference for canned tuna products from entering the EU market. The two oldest canneries in the Pacific are located in Solomon Islands and Fiji. Neither the Pafco cannery, originally developed by C. Itoh nor the Soltuna cannery – originally a JV between the government of Solomon Islands and Taiyo, ever proved openly profitable. The canneries both continue to operate but have long been commercially marginal even with the 24% margin of preference. In part this has been, in large measure, a result of transfer pricing as well as commercial inefficiency of state decisions e.g. locating the Pafco cannery in Levuka to create employment. This significantly raised transshipment costs and decreased profitability.

The canneries in these two Melanesian countries have also spawned the development of similar canneries in Madang in PNG. This intervention by the EU, like the Sugar Protocol and the RES creates a rent that is conditional on production. It has allowed production to occur and created training that has been vital especially in the case of Fiji in the development of a long line fishery. Without the experience first gained by fishermen in the pole and line fishery which supplied Pafco, the long line industry which blossomed throughout the last decade would not have been possible.

However, while the tuna preferences, unlike RSE and Sugar Protocol, created a quasi-rent based on commercial performance, it involved a measure of intermediation in the form of the state and transnational corporations that appropriated a part of the quasi-rents created

by the EU preference regime and thus it was markedly less successful than previous interventions .

### **Failed International Interventions in the Pacific**

If the economic success discussed above have common characteristics stemming from the way in which they addressed the problems of the Pacific islands, the failures considered below stem in no small part from the nature of the political processes and relations in the region.

#### **i) The Pacific Plan**

In theory and on superficial reading the Pacific Plan constituted the most serious effort by political leaders in the Pacific to address the fundamental inability of most of the government administrations in the region to deal with a complex range of issues by virtue of their small size. There were numerous objectives but essentially it was a political attempt to pool resources and deal with the absence of economies of scale . The Pacific Plan was a rather typical top-down attempt at reform. It was initiated not by an island leader but by the New Zealand Prime Minister Helen Clark who remained the driving force behind it throughout 2003/4. A special leaders summit was called and island states sagaciously nodded approval for the Pacific Plan in 2004. Having received endorsement for her 'Big idea', Ms Clark could 'tick the box' and move on to bigger things.

The only problem was that neither her officials and certainly not their Australian counterparts took the Pacific Plan seriously. What evolved was a classic bureaucratic response to what was perceived as an imposed, alien and unnecessary process. Australian and New Zealand officials basically took the regional aid programs that they were already implementing and renamed them the Pacific Plan. There was also little or no support from islands as it soon became evident that the Plan was merely window dressing, a renaming of whatever Australia and New Zealand bureaucrats were, in any case, planning to do. Thus the Pacific Plan continues to live in name only but failed because it had no obvious island champions nor any real roots in the islands. Island leaders had long given up on any serious attempt to address the real issues that Prime Minister had correctly noted in her analysis but done nothing to resolve.

#### **ii) PICTA and the MSG Trade Agreements**

Two agreements that have been developed by the Pacific Islands themselves, the PICTA trade agreement and the Melanesian Spearhead Group Trade Agreement came to include both goods and services has thus far been of the most limited success. The reason is that irrespective of its origin these arrangements ie whether they were from one relatively homogeneous group or from the Forum there was no appetite amongst island officials and policy makers for any form of liberalization that involved a direct adjustment cost. Whereas

island officials have always been happy to write, sign and even ratify trade agreements implementing them and accepting the real economic costs were quite another matter.

The expansion of PICTA and the MSG agreement into the areas of services and in particular the movement of natural persons may create some economic rents that are transferrable and hence the possibility of a win-win is possible. The goods agreement amongst countries with little trade complementarily as is the case of PICTA and MSG involves a zero-sum game in a narrow range of wage good produced in many of the countries. The adjustment costs also seemed particularly high. It was seen at the time by those who supported it as a first step to bring together the island states and break down the barriers between them. The imposition of such a program is rarely likely to meet with success whether it is imposed by a Prime Minister as in the case of the Pacific Plan or designed by officials as in the case of PICTA/MSG. The program is only likely to be accepted where there are clear economic benefits to either consumers or producers.

### iii) The US-FFA Treaty

The treaty is historically one of the most generous agreements that the Pacific had ever received from a donor. It created substantial and transparent economic rents for Pacific island states through the transfers that were available from USAID in its early years. While there seems to be evidence that these eroded over time this treaty was widely seen as exemplary. The treaty was recently renegotiated in an open and transparent manner, has good sustainability and fisheries management provisions and the evidence is that the benefits have accrued to the peoples of the Pacific islands and will certainly increase over time.

Then why is it then listed as a failure? One would logically expect that over the years that the rate of return derived from the US treaty which was in many years over 20% of the value of the catch would be used as a model for other access arrangements and that the Pacific island countries would see that working and negotiating together will give them a better rate of return. Nothing could be further from the truth as islands have continually resisted any collective approach to the management of negotiations of access to the tuna fisheries. They have resisted anything that resembled minimum terms and conditions of access and always preferred a secret bilateral approach rather than an open transparent and highly socially profitable multilateral agreements.

It may well be the case that other treaties with DWFNs are beneficial to individual PICs and their terms of access may have been influenced by the generous terms of the US- FFA treaty but these arrangements are bilateral and secret -not in the public domain and from what little is known of them do not provide returns to the peoples of the South Pacific anywhere near that of the US-FFA treaty. In many cases the reason why Pacific island officials and policy makers have accepted this is because these bilateral agreements are a source of bribes . Corruption, I would contend and it must remain a contention, has over the many



years I have worked in the region been endemic to the fisheries and is the main reason why the social return on DWFN access fees has historically been so low. The fact that PIC officials have historically refused to open such bilateral treaties to international inspection and scrutiny only adds credence that these treaties are poor in terms of social return because some policy makers receive private returns . The argument frequently cited by Pacific island officials has been that these bilateral fisheries access agreements are commercial arrangements that cannot be opened for public scrutiny . Such an argument has no merit when it comes to a collective resource such as highly migratory tuna which is rightly owned by all the peoples of the South Pacific.

Thus while there has been a rent transfer in the US-FFA treaty and that has gone directly to the resource owner the fundamental facts on the ground in the Pacific have meant that these rents should be far more significant if the treaty were a success through a demonstration effect but it has not been so. The failure to develop a socially profitable, transparent and sustainable outcome as was the case in other arrangements is because of the corruption of some Pacific island officials and policy makers. The existence of endemic corruption in access agreements is a fact of commercial life in the tuna fisheries and while the US- FFA Treaty has provided a relative good example of fisheries management and governance it has failed to affect the overall outcomes in the tuna fisheries because of the intermediation of corrupt officials.

## **Conclusion**

The post-independence history of the Pacific islands region is littered with failures by the international community to develop interventions in the region that fulfill the basic criteria for success in such a remote and isolated region. These are that the intervention provides a quasi- rent that is of long duration, has a commercial conditionality ie something must be produced and has no state of aid community intervention or other such intermediaries who appropriate that rent. Several examples of success have been cited here along with a number of the larger failures, some of which are economic and others in the nature of political interventions. The successes fulfill the criteria in full such as the RSE Scheme and the Sugar Protocol. The Tuna preferences partly fulfilled the criteria because they have been appropriated by an intermediary in the form of Asian transnationals or state owned enterprises which appropriate the rents and stand between the resource owner and the donor.

The Pacific Plan, while nominally a worthwhile attempt to address the fundamental economic and administrative burdens facing small under-resourced governments in the South Pacific was appropriated by regional functionaries who stood between political donor and the potential recipients. Similarly the MSG trade agreement along with Picta have failed thus far to generate rents and failed to stimulate trade in general because trade officials and policy makers have been willing to prepare trade agreements but unwilling to accept that the adjustments costs that follow from such treaties with the most limited of trade

complementarities. Lastly the US-FFA treaty, despite being exemplary in terms of both benefits and management arrangements has not transformed the reality of the fisheries negotiating process because of endemic corruption in the tuna fisheries access negotiations in the region.

### **1.3 Summary of discussion:**

**Chair: Carl Hacker**

**Rapporteurs: Bob Pollard, Sanjesh Naidu**

Key points made by the Speaker:

- Appreciate the economic reality of PICs and its consequences. Only where there is a quasi-rent in the price of the product that is exported can competitive economic activity occur.
- Recognize the critical role of intermediaries (absence thereof) in determining success of the intervention. Successful examples are RSE, Fiji sugar protocol, tuna preferences; and failures: Pacific Plan, PICTA, US FFA treaty
- Suggest that the inclusion of ANZ in PIF is a mistake, undermining its effectiveness
- An opportunity exists with labour mobility (bring labour to capital) eg with RSE, and with bringing capital to the labour eg. Australian PIC investment (tax concessions)
- Poor quality of governance is an impediment. There is a disconnect between agendas - regionalism vs national
- The focus on economic growth is misguided.
- Lack of ownership obstructs regional initiatives.
- Question around USP as a successful example of a regional intervention. What can we learn and the background of increasing the number of universities.
- An important aspect of relative success is whether the intervention leads to a long term transformative process.

Key issues raised in discussions :

Disincentives to investment

- Why do most commercial operations fail? Simply because Island states have very high cost structures. Its no surprise that the smaller and more distant you are the higher the

costs. What succeeds? If the price covers the quasi rent then activity occurs. Investment policy, no above zero price to induce investment.

- 3 sources of quasi rent – natural resource (acts of god) eg fish, phosphate; acts of man eg. preferences provided by the state, and the market eg Fiji Water. There is always a quasi-rent element in all PIC production.
- Therefore, what do we do with those Islands where we cannot identify a quasi rent? ... provide a compensatory mechanism.

#### Relative Successes / Failures

- Relatively successful interventions in the PICs:
  - o NZ RSE – no intermediary to capture quasi rent
  - o LOME sugar agreement – funded the Fiji transformation, Mauritius more successful because it used investment fund. Again no intermediaries.
  - o Tuna preferences – assisted building up fisheries-related skills/competencies in Fiji. Again, no intermediaries.
- Failures
  - o Pacific Plan a complete failure - little ownership by Pacific governments and largely donor driven. Issues around sovereignty stalled implementation.
  - o PICTA and MSG - no ownership by PIC leaders is a serious geopolitical issue.
  - o US FAA agreement – was it transformative? Failed largely due to rent seeking by stake holders and lack of transparency.
- Opportunities
  - o Proposal for tax concession for Australian investment in PICs is before the Australian senate

#### Other Issues

- Regionalism is actually valued as a means for getting or achieving better development results at country level – after all the purpose of cooperation and/or integration should be the benefits that accrue for the individual countries not because it is somehow seen as good for the region. Regionalism for its own sake seems hardly to be a worthwhile endeavour.
- There is a disconnect between regional initiatives and national interests. Pacific Plan was used to simply redirect ANZ Aid.

- One cannot ignore USP as a long standing regional institution that has served the needs of the region in good stead. What lessons can we learn from this? How can it be sustained to make it continue to serve the region's needs and being relevant at that?
- Recently, there has been an emergence of PICs government policy to establish national universities. What does it mean and what are the implications for USP, in terms of its relevance and focus?
- Other successes in region: seafarers for Kiribati and Tuvalu, peacekeepers and security personnel in Fiji, rugby players in Fiji, Tonga, Samoa.
- It is also clear that in any regional endeavour the benefits are unlikely to be shared equally as some countries will always benefit more than others (SPARTECA, PFL etc.).
- Cannot ignore economic growth. Growth is the result of good policies and good governance. If we do not have good policies (across a spectrum of socio-economic area) then we shall not get the growth which will finance the social policies mentioned.
- Issue is quality of leaders – a key determining factor in success of PICs. The generation of leaders after political independence have lacked vision. Corruption remains a key issue.

#### What Have We Learned?

- Investments in remote and isolated PICs will only be a success if they fulfil the following criteria – a quasi rent neutralizes the high factor cost involved, no intermediaries intervene to capture part of that rent, and something of commercial value is produced.
  - PICs are ready to sign up to trade agreements but are unwilling to accept the adjustment costs that follow from such agreements / treaties.
  - Corruption remains a huge impediment to improved trade since it attempts to keep arrangements non-transparent and in the process captures part of most of the benefits.
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## Session 2.1

***Topic: How do institutionalised practices and procedures on both sides of the aid relationship affect 'aid effectiveness'?***

### **Impacts of aid: the effect of institutional practices and procedures**

**Siosia Utoikamanu**

#### Introduction

The purpose of the paper is to provide a perspective on the impact of aid in the Pacific countries which could form the basis of a discussion by attendants at the symposium. This is a personal perspective by the writer; it is a series of snapshots based on experience gained while working with the Ministry of Finance and the central bank in Tonga over a period of 27 years. It is not intended to be a formal academic paper but rather a collection of thoughts based on those experiences which are offered with the intention of stimulating discussion on why the impact of aid in the Pacific has had such limited impact and with occasionally unintended perverse outcomes.

#### Background

It is probably fair to say that aid to the Pacific began in the aftermath of the Second World War. The Allied campaign to block the expansion of the Japanese during the Second World War, while creating significant physical and human destruction also set the foundation for investment in physical infrastructure in some countries.

According to the late King Taufa'ahau Tupou IV in an interview in the late 1960s, at one point Tonga was used as a staging point by the US and New Zealand armed forces so that the number of US servicemen outnumbered the population of the main island of Tongatapu. The impact of the Second World War on the other countries such as Papua New Guinea, Solomon Islands, Kiribati, Nauru and Palau, was much more devastating than in Tonga.

The advance of the Allied campaign resulted in the building of physical infrastructure in support of the war campaign. Roads and bridges were built as well as airports, notwithstanding the huge damage done to human lives and physical infrastructure. These initial structures formed the basis for much later investment in physical infrastructure that is apparent today.

It is apparent that such investment in infrastructure had a specific target which was the defeat of the Japanese forces by the Allies. The economic welfare of the peoples of the

Pacific was not always at the forefront of the thinking of the Allies; rather it was the objective of freedom from oppression as practiced by the enemy.

The creation of the South Pacific Commission was probably one of the first strategic interventions by the colonial countries aimed at improving the welfare of the people of the Pacific. As Pacific countries became independent (Samoa was the first to become independent in 1962) the former colonial metropolitan countries entered into formal agreements to provide aid to these countries. In some cases this was to provide a veneer of respectability as the metropolitan countries, with the exception of France, responded to the realities of changing international perceptions on colonialism.

The process of decolonization, which is continuing to the present day such as in Tokelau, and which began after the Second World War was accompanied by a major change in emphasis by the developed countries in terms of support for the former colonies. The creation of the United Nations, the International Monetary Fund, the World Bank and later the Asian Development Bank led to their use as channels for providing development assistance to the Pacific countries.

#### The Beginning of Aid

It is essential to acknowledge the early roots of aid in order to gain an appreciation of the initial objectives of the provision of aid. The focus of aid in the Pacific has very much reflected the prevailing conventional wisdom of the time. For example, there has been the introduction of the trappings of a modern state such as a central government, a central bank and overseas embassies. Policies such as universal health care and education were adopted as well as infrastructure development. State owned enterprises were encouraged during the 1960s and comprehensive development plans were supported. These ideas and initiatives were fostered by the multilateral development institutions as well as the individual metropolitan countries providing aid.

#### Policy Transfer

At the same time the metropolitan countries often transferred economic policies developed to address the great depression in North America and Europe during the 1930s to the Pacific countries without significant adjustments or contextualization. These policies were anti-cyclical in design to utilize existing institutions and under-utilized industrial capacity. Growth models such as the Harrod-Domar model with the implied financing gap which was inferred from the shortage of domestic savings in developing countries were used as the basis for determining the amount of aid needed by developing countries to generate faster growth.

These policies were not always directly applicable to development planning which sought to transform existing institutions in developing countries to generate higher incomes and

growth. The failure by some donors to differentiate between the different types of policy frameworks has had predictable results for recipient countries. Some commentators have suggested that even today despite the lack of results caused by application of inappropriate policies, some donors persist with the same approach and blame bad implementation rather than acknowledge poor analysis.

The examples of policy transfers by donors can be seen for example in many IMF Article IV staff reports, World Bank and Asian Development Bank reports on the Pacific countries where policy analysis has a tendency to be similar irrespective of the country under review. Such reports often include recommendations to undertake fiscal consolidation (implying that the civil service should be reduced in numbers), maintain a balanced budget, strengthen revenue collection (i.e. raise taxes which are often not collected), free up the trade regime (which often favour sections of the selected groups within the economy), maintain a competitive exchange rate (even if the country does not export commodities), privatize state owned enterprises and so forth. The size of the country, the capacity of the civil service, the location of the country, the cultural and social dimensions and other factors such as informal institutions are often given secondary consideration, if at all.

#### The Purpose of Aid

The key question to be considered has to be the purposes behind the provision of aid. This leads to the issue of the political economy of aid. Often the unstated assumption is that aid is provided to raise the welfare of general population of the recipient countries. Aid is made for humane purposes. Experience suggests that this is not always apparent.

Aid is provided within the overall framework of international relations. The output is that projects are approved and implemented based on agreed joint objectives to enhance the welfare of recipients. The trickledown theory was very much in vogue during the 1960s and 1970s.

Aid in the 1960s was often based on donors' requirements, as it often still is. In 1945 the UK set up a Colonial Welfare and Development Fund to provide funds to colonial administrations which were required to prepare 10-year plans. This provided the impetus for Pacific countries, at least the British colonies, to follow the development planning structure. In the mid-1960s Tonga prepared its first development plan to qualify for funding of the construction of its main wharf from the Colonial Welfare and Development Fund. The First Development Plan was less than 50 pages in length. By the time of the Third Development Plan the document was closer to 300 pages in length. The development plans were a response to the requirements of aid donors.

In the early 1970s Tonga set up its Central Planning Office, initially within the Ministry of Finance before being transferred to the Prime Minister's office, which was intended to become the focal point for all aid programs. It developed a pool of economists who spent

much time calculating ratios to apply to the prioritization of projects to be financed under aid. This was usually based on national accounts which often had a large margin of error and not always useful for planning purposes, but this did not deter the economists from calculating their ratios.

In the event, a never-ending turf war soon developed between the Central Planning Department and the Ministry of Foreign Affairs which decided to retain the EU programme under its own wing. Other ministries succeeded in retaining direct linkages to specialized aid agencies. The Ministry of Education kept all links to UNESCO to itself, as did the Ministry of Health with WHO and the Ministry of Agriculture with FAO. The main bilateral donors, Australia and New Zealand persisted with the Central Planning Department. The outcome was that there a multiplicity of agencies dealing with donors in the 1970s onwards.

It was interesting that at the time the Ministry of Foreign Affairs strongly resisted any attempt at donor coordination at the national level. It had a practice of trying to play donors against each other, probably with some success. Some donors were identified as the default donor and projects were proposed to them after they had been rejected by other governments. Donor coordination was limited and donors, while aware of the situation, did not at the time, attempt to interpose more effective aid coordination.

#### Changing Conventional Wisdoms

By the 1970s there was growing disillusionment with the failure of comprehensive plans for a variety of reasons. One of the key reasons was the failure of planning and aid to deliver faster growth of incomes and economic growth. Instead, in Tonga and Samoa's case, growth of incomes was delivered by remittances from the first and subsequent waves of migrants in the early 1970s. In its place came the approach of Strategic Plans with shorter time frames but unfortunately with very similar results. Conventional wisdoms changed so that gradually by the 1980s and 1990s the so-called Washington consensus (with a focus on unfettered markets) became the framework for policy transfers to the Pacific countries which accompanied aid programs. At the same time a large bureaucratic structure had been created and financed by aid donors and those who were employed within it defended their territory and jobs with great tenacity

To understand the impact of aid in the Pacific, the political economy of aid needs to be better understood. Donor countries have built up large aid infrastructures with close ties to trade, international relations, domestic exports, all of which influence the direction and magnitude of aid given to recipients.

#### Aid donors in the Pacific

Aid donors have different objectives. In principle they acknowledge the policy objectives of Pacific countries but these also have to be aligned with their own aid policy objectives if agreement is to be reached for the provision of assistance. Most aid donors tend to align



their policy objectives with those of the major multilateral agencies such as the IMF, World Bank and ADB. There is also a circular relationship in that the donor countries often influence closely the policy objectives and strategies of these institutions.

Adverse reports by these agencies often impact on the way in which donors engage with Pacific countries. One example relates to the Debt Sustainability Assessments by the IMF and World Bank which can affect perceptions by export finance agencies and their readiness to lend. Because of the tendency of donors to share reports, an adverse report by one agency becomes accepted without review by others and this affects the approval of prospective aid projects.

As noted earlier, policy transfers by the multilateral agencies from the developed countries to the Pacific countries are quite evident. The policy prescriptions embedded within the Washington Consensus get transferred to Pacific countries without much adjustment for the context of the recipient countries. Reports by multilateral agencies often contain the same prescriptions such as encouraging micro-states in the Pacific to scale back the size of the public sector in preference to the private sector, when the private sector barely exists. This may be symptomatic of mechanical approaches (one of ticking the boxes) and a failure to understand fully the policy environment and context of the Pacific countries. Though, this is not for want of knowledge as there has been a lot of research carried out by anthropologists and other social scientists, often financed by multilateral institutions such as the World Bank and the Asian Development Bank, which offer helpful insights into policy design. It is possible that these institutions also have their own internal structures which do not always encourage policy coherence and consistency, much less accommodate ethnocentric views.

Another factor is due to geopolitical realities. One only has to look at the magnitude and direction of aid from the United States to the Middle East to gain an appreciation of how aid is utilized for political ends. Prior to the end of the Cold War by the early 1990s, competition for influence in the Pacific was a key factor in the aid business.

During the 1970s, due to difficulties faced by the Tongan government to attract funding for certain high priority projects, overtures were made to Libya for example. Anecdotal evidence suggests that these approaches prompted more vigorous responses to Tonga from the main bilateral donors, New Zealand and Australia. Similar policy overtures to the People's Republic of China and Taiwan were used by Pacific recipients to further their own policy agenda. These were practices used by Pacific countries to achieve their aid and policy objectives.

The recent scaling up of aid by the People's Republic of China in the Pacific has significantly changed the balance of relationships with the Pacific countries. Firstly the PRC offers its aid in a manner based on mutual friendship and understanding. Samoa has been one of the first countries to utilize this source of donor assistance and according to research, the only country to have been granted debt forgiveness in the Pacific. Following the 2006 meeting

between PRC Premier and the leaders of Pacific countries which recognized it (there are about seven Pacific countries which recognize Taiwan), soft loan funds were made available with only limited reference to the standard feasibility analysis usually required by multilateral lending agencies. In practice the soft loans take the form of export credit which is tied to Chinese contractors. This effectively excludes non-Chinese contractors from bidding for contracts. The end result is that the Pacific countries often receive the final product with little domestic flow-on effects, and an increase in external debt stocks. Tonga, for example, between 2007 and 2009 borrowed the equivalent of 30% of GDP from the PRC. It has been estimated that debt servicing will take a large portion of the budgeted current revenues when capital repayments commence in 2013/14. Critics of the approach by the PRC often express concern at the increased indebtedness of Pacific countries which result from such aid transfers. A key factor in the loans taken by the Pacific countries is the hope, based on the perceived experience of Samoa, which the PRC will agree to cancel the debt before capital repayment falls due. This hope has yet to be tested.

There has been a lot of speculation as to the motives of the PRC. Whatever its motives, it is useful to remember that other countries have also behaved in a similar fashion over the years. For example, for those Pacific countries which are members of the United Nations, it is not unusual that their votes will be canvassed by those seeking membership of the Security Council and that special aid is often granted to Pacific countries collectively and individually just prior to the voting.

The issue of the political economy of aid from the donor's perspective is something that Pacific policy makers do not always appreciate. They do however note the fact that often mixed messages are sent from the capitals of donor countries. Such mixed messages provide opportunities for recipients to change the balance of relations into their favor. The technical capabilities of the members of donor missions are also often mixed. There is more than a sneaking suspicion that inexperienced economists are sent to the Pacific to gain experience before they are sent on to more challenging countries. Another suspicion is that mission reports are usually drafted before the mission arrives in the country. One of the results is that textbook prescriptions are often proposed with little reference to the local context. Furthermore TAs are sometimes offered by the donor countries despite limited technical experience and knowledge; often the Pacific countries accept them as they sometimes feel they do not have a choice. It takes a very firm mindset to reject a TA offered by the donor country or multilateral institution.

#### Aid recipients in the Pacific

First, aid policies are designed with the consent of the ruling elites of political leaders and policy advisors who are usually educated at donor country institutions. They are familiar with Western concepts and principles of modern statehood and modern institutions for which they often declare their admiration. Often the policies are framed to not undermine the political and social authority of the current ruling groups. In other words the policies are

intended to have a neutral impact or at least a non-threatening one to the interests of the ruling elite.

Secondly, Pacific countries elites often use aid as an instrument for enhancing their political agenda within the framework of national development goals. In Tonga, for example, in the 1980s and 1990s the royal family took an active part in business affairs with the intention of accelerating economic growth. In so doing, they took control of the state owned enterprise responsible for power generation and distribution as well as the management of geo-orbital slots allocated to the government. Aid funded projects tend to target communities which are located in the constituencies of powerful politicians. This is nothing new and certainly not restricted to Pacific countries only.

Thirdly, aid tends to impose a large cost on the administration of recipient countries. The recipient governments have to create new ministries, and new structures to implement and to negotiate the flows of aid. The recurrent costs often inflate the recipient country's total budget. This is then targeted by donors, such as the IMF, for reduction, despite aid donors having contributed to their expansion in the first place. Another unintended by-product of aid flows is the effect they have by raising the real effective exchange rate and affecting the balance between tradable and non-tradable sectors often undermining the competitiveness of the agricultural export sector, often a priority sector for aid donors

The capacity of the recipient countries to effectively absorb aid is often stretched. The civil service is often not adequately trained to negotiate aid programs effectively, evaluate the conditions for transfer and to implement the approved programmes. This is often not their fault as the aid donors tend to impose conditions which suit their internal purposes. Consequently more than a few aid programmes are unintentionally set up to fail.

It is not unusual that political factors make effective implementation much more difficult. The fungibility of funds contributes to the overall impact, or rather the lack of impact, by allowing aid funds to sustain current expenditure programs while allowing domestic resources to be directed to politically favored expenditure programs.

Pacific countries prior to contact with Europeans often comprised self-sustaining communities which had to adapt to their environment and in the process developed informal institutions which fostered self-perpetuating social systems. In the Pacific countries the systems vary from strictly hierarchical, often in Polynesian countries, to those which permitted status to be based on competition within the community.

The contact with Europeans, the nature of which changed after the Second World War, affected the domestic balance within these communities, and not surprisingly such contacts were used to promote self-interest within the different sections of the communities. The introduction of aid may be perceived as an extension of a process which began with contact with Europeans and which is continuing to the present day.

The interventions by aid donors all have ripple effects on social relationships within the Pacific countries. This is something that aid donors do not often appreciate when designing aid programs. In Tonga, an example of a hierarchical society, the opportunities for social advancement are strictly prescribed. Aid programs which do not accommodate such relationships or which seek to impose transformational change to such relationships often create new tensions which are often not apparent to observers. This makes programs on gender, human rights, domestic violence and HIV often difficult to gain traction.

The designers of aid programs often do not have a comprehensive understanding of social relationships in the Pacific countries although in the past decade or so there have been attempts to do this through the recruitment of social development or community development specialists for sector project designs. The effectiveness of this approach has not yet been assessed. . Often these community specialists are recruited from western countries or the donor country, with no knowledge of local language, or experience of the country. Such program designers are often not sensitized to Pacific conditions and the tendencies by some donors to make ill-informed assumptions about social customs and behavior often contribute to lack of successful outcomes. Alternatively their understanding of such relationships are based on contact with a limited group, such as the elite policy makers, or educated policy advisers at the expense of a more comprehensive and representative cross-section of the population. This often compounds the difficulties inherent in the issue of policy transfer as described earlier.

Such lack of understanding of social relationships means that aid donors have a limited understanding of the workings of informal institutions in Pacific countries. At the same time the formal institutions are often weak with legislation laid down by departing metropolitan powers decades earlier without being updated to be more relevant to changing circumstances and suffering from capacity constraints and a culture of non-compliance. In the recent past it was not uncommon for government departments in some Pacific countries to be laboring under legislation approved during the 1960s in such technical areas as customs and taxation.

At the same time the elite policymakers in the Pacific countries, being fully aware of informal institutions, are in the better position to promote transformational change that the aid donors often seek; such actions tend to have a higher probability of success when the policies are aligned with the self-interest of these groups. For their part the elite groups within the Pacific countries often resort to a form of defensive modernization to protect their interests. This often entails the process of paying lip service to development objectives while resorting to implementing policies aligned with their own self interests. For example, Tonga in the 1870s adopted a constitution and limited the powers of the monarchy in order to minimize the likelihood of colonization. It worked after a fashion; the British had to resort to a Treaty of Friendship which to all intents and purposes allowed Tonga to retain the

monarchy but handed the real powers of the managing finance and foreign relationships to the Colonial Office via the British consul.

### Some Concluding Thoughts

The present focus on governance as a key building block for achieving overall economic developments is well founded. The challenge however is to get the diagnosis right. There is a need for donors to acquire a better appreciation of local informal institutions and social relationships. Too often in the past, analysis by aid donors have ignored social, religious and ethnic tensions and treated countries as if the population had homogenous characteristics with similar beliefs and cultural practices. This may be true for some but not for others. This, together with the political pressures of powerful groups promoting their self-interest, coupled with poor policy analysis and design by donors and by recipients, has contributed to a situation where outcomes and impacts of impact of aid in the Pacific have been far lower than expected.

Donors have accepted the need for greater inter-action with Pacific countries and so workshops and conferences are especially in vogue at the moment. The question arises as to how effective these are and to what extent they have become a mechanical process put in place while the real decisions are made elsewhere by various interest groups.

The observations made in this paper are not new. Rather they are an attempt by the writer to emphasize some of the key issues which aid policy makers might find useful when designing policies which should have a higher probability of achieving expected outcomes.

Perhaps the first act for both aid donors and recipients in the Pacific should be to lower expectations based on current and past performance and accept that the situation is more complex than often assumed.

## Summary of discussion

**Chair: Alise Stunnenberg**

**Rapporteurs: Siliga Kofe, Savenaca Narube**

### *Key points made by the Speaker:*

- Aid began after WWII for purpose of assisting the economic and social development of PICs. Aid transfers have been increasing but actual development has been slow and sporadic probably because much of the aid has been eaten up by administration rather than productive activities.

- Aid has helped meet the cost of maintaining the apparatus of statehood that comes with independence for the PICs.
- Donors transferred their development policies and theories en masse and for use in the development of PICs. There has been little regard for their relevance to the situation of the recipient island and its special circumstances.
- The purpose of Aid: Aid is usually an extension of the donor's foreign policy. Aid donors and recipients have different agenda and this fact should be taken into account in planning and designing policy.
- Changing Conventional Wisdom: Knowledge and understanding about development policies has evolved in the west moving beyond the likes of Harrod Domars' capital/output ratios to a truly pro-market formulation, the 'Washington Consensus'. This Strategy has been recommended for PIC to follow by the World Bank, IMF etc.

*Key issues raised in discussions and post discussion comments:*

#### Nature of Aid

- The nature of development assistance has changed overtime and will continue to change. Change is influenced by whether the donor is bilateral or multilateral; whether the relationship is linked to broader issues (trade, foreign affairs, longstanding, former colonial power etc.); or by changes in government of either the recipient or donor.
- Changes in government among bilateral donors can have a dramatic impact on the style and form of aid that is delivered.
- Personal friendships are important but can also distort aid delivery if biases or prejudices get in the way of effective decision making and M&E
- Aid and the benefits of aid are not widely distributed within PICs. Economic growth is low despite the relatively high level of investment (Dutch disease).
- Investment to GDP ratio is low and capacity building efforts ineffective.

#### Causes of Ineffectiveness of Aid

- Given the inappropriateness of the development policies transferred to the island countries there is a need to improve programme design and to improve the relevance of interventions.
- Donors have a political agenda. They have little understanding of the effects of their aid which ripples throughout recipient societies.

- Elites exercise much influence and control over national policy and aid resource distribution. Donors need to fully understand the power structure and the power relations in the recipient society if their aid is to be equitably shared.
- A number of PICs have played the Machiavellian strategy in their foreign policies, switching or threatening to switch allegiances to maximize their aid receipts.

#### Strategies to make Aid more effective

- More work needs to be done to define and assess donors' and recipients' agenda with a view to reconciling them.
- Programme or project design need to take into account ownership or the project will be lost.
- It may be worth examining whether aid with conditions has had any impact. It would seem that seeking improved governance cannot be achieved through only pressure from external forces but must be seen to be driven from within. Civil society that demands better government and monitors closely the performance of members of parliament are important for gaining better governance.
- Governance is not strengthened by donors going around what are perceived to be weak or corrupted systems as this only weakens further such systems. This is best illustrated by donors deciding to work more with NGOs or dealing directly with line ministries. This can lead to distortions in priority setting as well situations where a line department builds systems and processes that are not part of the overall government service structure and collapse as soon as the donor departs.
- Need to focus on 'institutions' rather than individual skills. It is important to build effective operating policies, systems and processes within institutions and between institutions so that as staff move on the basic structures and processes remain to be carried on by others.
- Important to understand that not all technical advisers are good mentors or capacity builders – these are specialized skills and require patience, less ego and some imagination to understand that incremental change is important and must be context specific.
- Need to get the information to people in their vernacular language.
- Need to emphasize technical training over academic training.
- Need to manage the relationship between the donor and recipient by appointing a 'relationship manager'.
- Modern telecommunications eg the mobile phone has huge implications for how aid is designed and delivered.

- Need to manage people's expectation as local safety nets are breaking down.

#### What Have We Learned?

- The impact of aid has been less than expected because of differing agendas on the part of donors and recipients.
  - Also, too much of aid is being captured by the local elites with consequential loss in the broader distribution of benefits.
  - Donors need to work more effectively from within existing systems, and to focus on sustainable institutional processes.
  - Offering PICs western models of development (via aid) is not necessarily the most strategic approach to their development.
-



## Session 2.2

***Topic: Policies based on global statistical norms may not make sense where absolute numbers are very small, while the dynamics of development in small states may differ significantly from larger ones. What have we learned about application of global formulas and standards to PICs? Do aid programmes take sufficient account of country-specific factors?***

### Statistics and Evidence-based Policy

David F Abbott

Purpose

1. The purpose of this paper is to:

- Explore existing statistical challenges in Pacific Island Countries (PICs), especially the use of global indicators which may not be relevant to small island states.
- Clarify and explore why sound statistics are strategically important to PICs.
- Describe and analyse possible strategies to addressing the statistical issues.
- Provide recommendations on future statistical strategies, including what PICs can do to help development partners and international organisations better understand the need to adapt global formulae and indices to small country situations.

2. General Definition of a Good Statistical Indicator

Good statistical indicators should have the following general qualities:

- Relevance; the indicator must be focused on this issue that needs to be assessed or understood;

- Easy to understand; the indicator must be transparent and easy to understand, even by those who are not experts in the subject;
- Reliable; the indicator must be reliable, it must be based on trustworthy and consistent information or data, users must believe in its reliability, and it must give “sensible” answers”;
- Timely & based on accessible data; the information on which the indicator is based must be readily available or be able to be gathered/compiled while it is still relevant to the issue to be assessed; and for inter-country comparisons data need to be based on standard definitions

3. Timely, reliable and accessible statistics are essential for sound policy analysis, the setting of development policies and the monitoring of economic and social progress. Statistical indicators provide the basis for setting national priorities and developing national budgets. Statistical indicators also help to build accountability, not only in the financial sense, but also in terms of performance towards the achievement of the national goals and priorities.

4. Statistical indicators are also becoming an increasingly important component of the M&E frameworks of the various bi- and multi-lateral partnership agreements that almost all PICs have now signed with bilateral development partners and international development agencies. A general definition of a good statistical indicator is set out in Box 1.

**Box 1**

General Definition of a Good Statistical Indicator

Good statistical indicators should have the following general qualities:

- Relevance; the indicator must be focused on this issue that needs to be assessed or understood;
- Easy to understand; the indicator must be transparent and easy to understand, even by those who are not experts in the subject;
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Adapted from <http://www.sustainablemeasures.com/node/92>

## Too Many Indicators

5. The small, and not so small PICs, are as much part of the international comity of nations as their larger and much more populous Asian neighbours, as well as their fellow developing countries in Africa & the Caribbean.
6. PICs are variously members of all the major global as well as regional organisations, treaties and conventions encompassing almost the whole gamut of their social, economic and development interests . Often one of the primary reasons for membership of these various bodies is to access the additional development resources that may be available for small islands states, least developed countries and the various other classifications available to PICs. However, inevitably there is usually some form of quid pro quo as a signatory/member; this often requires the PIC (as all other signatories) to provide a report on the status of, or progress towards the objectives or targets of the particular treaty/ convention. There will also be accountability and governance obligations to those countries which are contributing funds. And there may be competition for the available resources.
7. The problem for PICs is that these various international agreements collectively involve reporting on many hundreds of statistical indicators. However, when ministers and senior officials “sign on the dotted line” at international gatherings committing to these agreements, little thought is generally given to the reporting and monitoring commitments they imply, or how the issues under discussion will be reported on, or whether indeed the indicators are realistic in the national context.
8. As a consequence there is a very significant reporting burden on all countries. For larger countries this may not be such a major issue but for the small PICs it can become overwhelming. As a consequence PICs may be caught in a situation in which poor data (lack of evidence on which to base sound decisions) leads to poor policy decisions being made; these then result in poor prioritisation of resource allocations and overall development is constrained. It may also mean that PICs are unable to obtain their “share” of the available resources if they cannot complete the reporting. The complexities of the Global Environment Fund (GEF) resources may be a good example here.
9. And if users do not have faith in the data and do not see the benefits of using sound data then the development of statistical systems will themselves not be prioritised.
10. Despite the financial and technical support provided by external organisations capacity constraints continue to be a limiting factor in attaining sound national statistics in the smaller PICs. The difficulties faced, even in a regional context, are neatly summarised in the Forum Secretariat’s 2012 MDG Tracking Report released on 10th October, see Box 2.

## Box 2

### 2012 MDG Tracking Report

#### Assessment And Data Guidelines

...Given that global data sources usually transform national data to ensure comparability across countries, it would not be comparable against nationally-sourced data. To this end, as much as possible, the same source (either national or global) for which the most up-to-date data was available was used to update the indicator for each country. For cases where national and global sources both reported data for the latest year, national sources were preferred. However, in doing so, the data presented in this Report is not strictly comparable across countries. Significant corrections and updates were made to the dataset used in the 2011 Regional MDGs Report. Nevertheless, there is likely to be remaining quality issues in the current dataset, which will be continuously improved upon in subsequent Reports.

The difficulties in compiling up-to-date quality MDGs data for the FICs highlight the weaknesses of statistical capacities in the region. For the purposes of accurately tracking countries' MDGs progress, but more importantly, for the formulation of appropriate development policies, it is imperative that more concerted regional and national effort is made to strengthen the collection, reporting and maintenance of statistics....

2012 Pacific Regional MDG Tracking Report, Annex 1, Forum Secretariat, October 2012

11. The difficulties experienced in analysing and interpreting PIC data in relation to the MDGs has become especially controversial over the last five or six years, particularly since the MDGs became a primary focus of the Australian and New Zealand bilateral aid programmes. The decision as to whether PICs individually and/or collectively are “on or off target” in making progress towards the MDGs has highlighted the problems that may be faced in deciding what is meant by “progress” and “achievement”. Development partners and agencies have often paid too much attention to the simple numbers and not enough to the national contexts.

12. The 2012 Tracking Report tried to address this by taking account of countries' own appraisals, particularly in those countries that had recently completed national MDG reports. In most cases where data may have been weak, countries have used proxy data and/or qualitative information to assess their progress against the MDGs. These factors were perhaps more fully accounted for in the overall 2012 MDG assessment compared to the previous tracking reports which focused more specifically on the indicators themselves.

13. Recognising the criticisms from PICs over previous MDG achievement assessments, the 2012 report attempted to clarify the basis on which the assessments were made, see Box 3. In this it specifically referenced local circumstances. The 2012 MDG Tracking Report therefore attempted to take a more “rounded view” of overall progress towards the

achievement of the Goals, based on both quantitative and qualitative assessments, and balancing the positives with the negatives; the assessments are therefore open to interpretation.

14. However, even in the 2012 Tracking Report there were some cases where the national assessment was different from that contained in the official report. As the Report notes “This could be because of differences in data and/or accounting for recent in-country information from relevant technical agencies. Therefore, as the MDGs assessments are not solely based on quantitative indicators, it is open to interpretation. Although a balanced approach was taken to make the final assessment, there may be cases where the assessment is considered to be either too optimistic or too pessimistic.”

15. As is noted in the 2012 report the difficulties in compiling up-to-date quality MDG data for the PICs highlight the weaknesses of statistical capacities in the region. The report notes that for the purposes of accurately tracking countries’ MDG progress, and more importantly, for the formulation of appropriate development policies, it is imperative that more concerted regional and national effort is made to strengthen the collection, reporting and maintenance of statistics.

16. The issues for the PICs are manifold; statistical capacity, standardisation of definitions and methodologies for individual indicators, collection and reporting systems, analysis and interpretation of the data once collected. Some indicators may not be relevant (e.g. malaria in Polynesia); others may be difficult to measure on a sensible basis (as in infant mortality per 1000 live births in say Tuvalu), or on a regular basis (as in literacy rates when census only occur every ten years).

17. The Chart illustrates the World Bank’s Statistical Capacity Indicator 2011 for the PICs relative to a number of the region’s larger Asian neighbours. It shows clearly that the average for all PICs is much lower overall than for East Asia.

18. But it is not so much the indicators in themselves that are to blame; National Statistical Offices (NSOs) need to be given a more pro-active role in setting the agendas and leading the discussions with international agencies and development partners on development indicators. In the early days of the MDGs it was very clear that there had been little interaction between NSOs and other government ministries at the time of the Millennium Summit and the setting of the indicators for the MDGs.

#### Box 4

United Nations Committee on the Elimination of Discrimination against Women

Review of Samoa's Fourth & Fifth Periodic Progress Reports

The Committee takes note of the State party's submission of its combined fourth and fifth periodic reports, which in general, followed the Committee's guidelines for the preparation of reports, however, it regrets that the report was overdue and lacked recent data, disaggregated by sex.

United Nations Committee on the Elimination of Discrimination against Women; CEDAW/C/WSM/4-5, 1055th and 1056th meetings, 19 July 2012

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19. There also needs to be much more inter-ministry/agency cooperation in developing the necessary report formats and datasets for example. Recently, a case in point, Samoa submitted its combined 4th & 5th periodic reports to CEDAW. The CEDAW review committee while commending the reports noted that the data in the report was weak, see Box 4. However there appears to have been little cooperation or consultation between the responsible ministry and the Bureau of Statistics in the development of the necessary data for the report.

#### Statistical Definitions

20. The globalisation of the world's economy has intensified the need for standardisation and harmonisation of statistics and development indicators; thus the issue of standardising statistical concepts, definitions and national relevance is not new, nor is it confined to the PICs.

21. Over the past five decades, the Global Statistical System comprising the statistical offices of international agencies and all national statistical systems, has developed a range of standardised definitions, methodologies, tools, manuals and guidelines to support the collection, analysis, and use of statistics at both the national and international levels. These

efforts have expanded the availability of data and have served to improve and standardise data comparability between countries and national statistical system systems.

22. This has greatly facilitated inter-country and global comparisons and the provision of databases and benchmarking for more meaningful aggregations of data by countries and regions. Indeed it may be argued that without such standardisation it would not have been possible to establish the indicators for the MDGs and the many other such global indices and indicators.

23. These well-established and wide-ranging international standards have served to encourage individual countries to standardise their own national definitions, concepts, and methods used to produce national statistics and indicators. But there is still a long way to go. And notwithstanding the benefits of standardisation, there are downsides for small countries where globally standardised indicators do not necessarily have the greatest relevance.

24. Although much has been achieved gaps in data continue to exist particularly in many of the PICs where some countries remain unable to generate basic information to support policy analysis and development.

#### Making Global Indicators Relevant

25. From outside the region the Pacific is often seen as being a single entity; the perception is that the Pacific island states are all very much the same, small islands set in a vast ocean. But of course for us in the region the reality is very different. There are very wide variations in size (land, sea and population), geography, topography and resource endowments. There are wide variations in history, politics, customs and culture; and of course in some of the PICs there are significant issues of ethnicity and language.

26. Further when the region is referred to in international publications it may either be completely swamped by Asia (as in the “Asia-Pacific” or “East Asia and the Pacific Region”) or even at the much more local “Pacific Region”. The smaller countries of the Pacific may be swamped by the inclusion of PNG (and sometimes also Timor-Leste, as with ADB) whose collective size and resource endowments totally dwarf the rest of the region combined.

27. The most widely recognised set of global indicators are presently the MDGs; they are also the set of indicators that have generated the most debate regarding achievement, non-achievement and being on or off-track towards achievement. It should be recognised that the MDGs were indeed intended as global targets; not every country could necessarily be expected to reach the specific target indicators, or achieve every Goal; especially perhaps amongst the PICs which already had some MDG and related human development indicators above the global averages. And of course not every target was relevant to every country.

Recognising this, the UN system, in advocating for the MDGs, encouraged countries to “localise” the global indicators to suit local circumstances and priorities. Although this aspect of the advocacy was not always emphasised or made very clear to individual countries.

28. In the Pacific for example, the MDG1 indicator relating to the “dollar-a-day” poverty level is not really relevant. Firstly, only Fiji presently has a recognised purchasing power parity (PPP) index number to enable an internationally comparable “dollar-a-day” value to be calculated (although PPP indices are currently under development for almost all other PICs). And secondly there is very little (if indeed any) “absolute” or extreme poverty in PICs. Therefore even if “dollar-a-day” values were available they would not be useful as indicators of hardship and poverty in PICs. Consequently all PICs have adopted the “food” and “basic-needs” poverty measures as the localised indicators for MDG1. These provide much more useful indicators of hardship, poverty and vulnerability in the subsistence-based economies of the Pacific.

29. In addition PNG took up the localisation challenge and set more meaningful national targets for many of the goals; thus giving itself a realistic chance of achieving substantial improvements in human development, even if they fell somewhat short of the global targets, see Annex 1. Other countries added their own Goals, notably Cook Islands which identified a specific Goal 9 on governance, and Niue which added the “promotion of sustainable population development” as a ninth goal; still others localised the goals where some indicators were not relevant; those countries, like Niue, in which malaria is not endemic focused on NCDs instead, and Niue also added a target on waste management under Goal 7.

30. As PICs have become more aware of the MDGs and the national and global relevance (and practicality) of the indicators, so they have taken more steps towards localisation and measurement. This has drawn attention to the so-called “tyranny of (small) numbers”. That is, for example, when in a small country if the number of infant deaths rises from two to three in a particular year this may be reported as a fifty-percent increase in infant mortality; whilst this is statistically correct it is not helpful in understanding the real situation, or setting policy.

31. Further the target rates of change/reduction/improvement in the various MDG indicators were set to address the most serious issues in the poorest countries. Thus at the national level each indicator needed to be considered in the context of each country’s starting point. Thus to say that Country A which may have maintained gender balance in primary school attendance at say 95% over many years (as in many PICs) had done less well than Country B which had improved its primary enrollment from 70 to 80% is not necessarily a sensible conclusion. Improving an enrollment rate that has been consistently at around 95% is much harder than making improvements from a lower base level.



32. These issues are widely recognised by those in Pacific NSOs and government agencies that have to deal with the influence/impact of small numbers and trends/rates-of-change on a daily basis; however it is often those in international agencies and non-statisticians in the offices of development partners who sometimes find it hard to understand the issues. As a consequence there is often some misunderstanding or divergence in interpretation of the data.

33. PICs have also often been frustrated that their datasets have not been accepted by international agencies and development partners, and frequently these partners have done little to practically assist the countries to overcome the perceived shortcomings on a sustained and sustainable basis. This is however changing through the ten-year regional statistics development programme for the region . Given that international agencies all appear to have somewhat different data transformation processes in converting national data to standardised global data-sets enabling cross-country comparability, this is likely to be a continuing issue for PICs.

34. Development partners need to be clearer about what they wish to measure and NSOs and government agencies need to be more pro-active in setting the parameters for what can be measured, how it can be measured and at what frequency.

35. Just because PICs are small does not mean that “global” indicators or global policy challenges are not relevant. PICs are amongst the most open economies with international trade being equivalent to a very high proportion of GDP in most countries. They therefore face similar challenges to other larger countries in terms of their macro-economic management, only the scale may be different. Similarly with socio-economic indicators and policy challenges, the numbers may be small but the issues are similar. We cannot change the issues but only the way in which the issues are measures and assessed.

36. It is obviously important to take account of specific local circumstances and capacities, especially in bilateral relationships and in the negotiation of development assistance programmes. But when making global or regional comparisons there must be a degree of standardisation otherwise there would be no consistency of approach at all.

37. This is becoming a much debated issue in the context of the development of a set of post-2015 MDG indicators. PICs need to make sure they are fully engaged in the discussion of these new indicators to ensure that their concerns are heard.

38. NSOs and national agencies need to be more pro-active in promoting their interpretations of national data and development partners and agencies (and especially the non-statisticians in their staff) need to be more understanding of the statistical issues and concepts.

## Alternative Indicators

39. It is of course possible to take this to an extreme and develop a set of “alternative” indicators which may have specific country relevance or attachment; e.g. Bhutan’s “Gross National Happiness” measure; or the more recently published Vanuatu pilot study of “Alternative Indicators of Well-being for Melanesia” .
40. Although these indicators can be useful they may not be replicable across different countries and cultures; they may be quite insightful for policy-makers but since they may also be very subjective, and culturally specific, they may not be altogether very useful in the wider development context. And the way in which they are reported may (as with all statistical interpretations) influence the message conveyed; for example in the Vanuatu study it is reported that “Chiefs from 37% of the villages sampled reported having no active land disputes” – implying that 63% did have disputes outstanding; and for women “41% reporting no domestic violence” in the community in the previous six month period – implying that 59% did experience domestic violence.
41. Such “happiness” or “well-being” indicators can lead to a somewhat paradoxical view that countries have high happiness levels (such as Bhutan and Vanuatu) should be left to their own devices since they are “happier” than their more developed neighbours. Clearly since both countries are LDCs this would be an untenable position since their recognised development indicators suggest that whilst subjective well-being may be good, actual well-being in terms of measurable health, education and other social and economic indicators is poor. An example perhaps of the old adage that for the people “ignorance is bliss”.
42. In the same vein the widely respected development economist Amartya Sen has commented : ‘It is sensible enough to take note of happiness, but we do not necessarily want to be happy slaves or delirious vassals’. He goes on to suggest that a focus on self-assessed happiness (and by implication other subjective-type indicators) rather than individual well-being (more precisely measured) can be ‘deeply unfair’, as it may lead us to be unconcerned about people who claim to be happy even though they are suffering considerable actual hardship in terms of poor access to health and education or lack of economic opportunities. He notes: ‘desires and pleasure-taking abilities adjust to circumstances, especially to make life bearable in adverse situations’.
43. Further, Winton Bates in a more recent paper concludes “surveys in which respondents are asked to provide a numerical rating of their happiness or satisfaction with life provide an alternative approach to assessment of well-being. On the basis of the literature considered, however, such measures could hardly be viewed as having greater reliability than those derived from national income accounting”. Or from other more recognised indicators as used in the assessment of MDGs, HDI or HPI for example.

44. Bates goes on to state: “If we accept happiness ratings at face value we are left with the question of how these ratings relate to the concept of well-being (utility) used in economics. Some researchers have viewed such ratings as a direct proxy for utility, whereas others have argued that happiness, as an emotional state, should be viewed as a commodity in the utility function, in the same way as health”.

#### What Statistics are Available?

45. Few countries in the region produce a comprehensive range of national accounts statistics, Samoa being one of the very few along with Fiji, that has a quarterly national accounts data series going back more than a decade. However with support from PFTAC other countries are moving slowly towards developing in-country capacities to produce more of their own national accounts estimates rather than relying on periodic estimates to be compiled by the IMF during Article IV consultations or by other agencies on an ad hoc basis.

46. Census data on the other hand is widely available, although the data sets are often difficult to access and the tabulations provided by NSOs do not always reflect the needs of policy makers.

47. In recent years PICs have undertaken an increasing number of household income and expenditure surveys (HIES). These have now become one of the most widely used sources of data not only for their traditional uses of developing or re-basing price indices or national accounts estimates, but also for estimating indicators of hardship & poverty, vulnerability and age & gender equity.

48. For those countries which have conducted two or more HIES over the last decade it is possible now to see emerging trends. This is information that has not been available previously and its use and interpretation for policy is still growing in recognition. With HIES now being planned on five-yearly cycles, for many countries this source of economic and social indicators will continue to increase in importance as performance and policy monitoring tools. Recent analyses of HIES in Samoa (2002&2008), Tonga (2001&2009), and Vanuatu (2006&2010) have identified over eighty sets of tabulations highlighting aspects of hardship, poverty, vulnerability and social protection, as well as data on diets and nutrition patterns, food security, and the relationships between education, gender, age & marital status and levels of hardship and poverty that can all be used to inform policy on a very wide range of issues.

49. One particular aspect of the HIES data relates to an estimate of the value of subsistence production. Many commentators on the Pacific have noted, quite rightly, that the Pacific is quite different to other parts of Asia and Africa. Communal land-ownership and strong traditional forms of access to land for subsistence cropping mean that home

production contributes significantly to food consumption, especially in the rural areas. See Annex 2 for an illustrative list of available indicators for Vanuatu based on the 2006 & 2010 HIES.

#### Using Statistical Data for Policy

50. The value of sound statistical indicators and good data as tools to support evidence-based policy making and the allocation of budget resources is not yet a particularly common feature of many Pacific government policy-making processes. Ministers and senior officials tend to dislike statistics and data as they do not always tell the story that is politically or officially desired. The continuing denial of increasing hardship and poverty in the region, together with the deteriorating standards of education in some countries, being particular cases.

51. It is unfortunate too that the media is generally weak in most Pacific countries and also that relatively few Pacific islanders, outside official circles, are sufficiently numerate (or brave enough) to be able to challenge governments on their performance using the available statistics.

52. Unlike governments in countries with a strong media (and political oppositions) where political and policy accountability are demanded, Pacific island governments are often very reluctant to even release statistics that would expose policy failures to the electorate. Even if they would do so, these statistics would probably pass unnoticed by the majority of the populace since the media and oppositions are either unable or unwilling to make a fuss themselves. Consequently, NSOs are short of statistics “champions” in government, which means a lack of political ownership of the data.

53. Thus statistics collection, dissemination and the understanding and use of statistics has little, if any direct impact on the daily lives of the ordinary Pacific Islander; consequently the lack of data and the failure to report on development progress based on hard data generally passes without much comment or discussion.

54. Traditionally NSOs have focused primarily on the national population and housing census, consumer price indices and the occasional household income and expenditure survey (HIES). The products from the census and the HIES have often been targeted at in-house use rather than being directed at the needs of policy makers. This is changing; but there is still a wide gap between the producers and users of statistics for policy purposes. The lack of dialogue between these two groups means that frequently the producers of statistics do not know what the users of the statistics would like to have, and the users do not know what they should, or could be asking for from the NSOs.

55. The issue is not confined simply to the NSOs; there is much administrative data collected by government agencies responsible for health & education services, border management, business registration & licenses, law and order, vehicle registration, building

permits, employment (through national provident funds), births, deaths and marriage registration services and from many other similar sources, including departments of treasury & finance, central/reserve banks etc. While the collection of much of this information is mandated through legislation the level of compliance varies widely from country to country and administration to administration. Thus even within the agencies that are mandated to collect data there is frequently a lack of attention to this function and the internal administrative data is not used to inform in-house policy discussions.

56. In the region the lack of statistics champions in government administrations, and the lack of full commitment to using data effectively to guide policy choices and decisions, means that NSOs are frequently under-resourced in terms of staff, skills, statistical infrastructure and the funding necessary to undertake a comprehensive programme of census and surveys. In small administrations this is perhaps inevitable since budget and human resources are limited; but as already noted weaknesses in data can lead to weaknesses in policy; and that in turn can feed through to poor social and economic performance.

57. Notwithstanding this the increasing availability of data and wider dissemination will (hopefully) eventually lead to greater use being made of the available data which will then lead to better policy analysis and better policy choices which will be reflected in economic performance and social indicators.

58. Because of the diversity (and the specific weaknesses in statistics in some of the larger and smaller PICs) there is often a sense amongst outside observers that “there are no statistics on the Pacific”. As ever the reality may be very different at the individual country level.

59. Although there are weaknesses in every country there is, nevertheless, a large amount of data being collected. However the quality of data, consistency of definitions and coverage of statistics across the region is quite variable, especially in the economic statistics area where coverage is probably weakest; but the issues are also applicable to socio-economic indicators too. Indeed there have been occasions of PICs complaining that the data presented in official regional (and sometimes even national) reports is incorrect, but then being unable to provide any other more definitive figures – and in some cases countries have disowned their own data.

60. But there are also serious weaknesses in the capacity of users, including government policy-makers and development partners, to interpret the data that is available.

61. This can lead to a situation where there is a lack of awareness about how to access, and how to use the data; this includes issues of numeracy, having a questioning approach, the ability to interpret the data and a willingness to challenge ministers and senior officials

with statistics that may not fit with political views. Much more could be done in providing capacity building for policy analysis and data interpretation.

## Summary & Conclusions

62. PICs face many development challenges; one of these is their smallness. This smallness limits their capacity to estimate statistical indicators, at the same time it makes some statistical indicators difficult to estimate in a meaningful way, and it may also mean that some indicators are simply not relevant. The estimation and interpretation of socio-economic statistical indicators therefore needs to be undertaken in a country-specific and sensitive manner. The indicator needs to be estimated and assessed in context.

63. For their part development partners and international agencies tend often to focus on the number and not the context. Context can be very subjective and can make inter-country comparisons difficult. But it is not the indicators themselves that are necessarily at fault; global standards and definitions are essential if inter-country comparisons are to be made. And of course indicators need to be localised.

64. What can be done? On the one hand government agencies need to strengthen internal-statistical linkages and agencies that sign-up for treaties, conventions etc so as to ensure that any monitoring and reporting requirements are discussed with or made known to NSOs; the methodology for the estimation of the indicator values must be agreed on and steps taken to ensure that NSOs have the capacity to calculate the indicator.

65. This means that PIC NSOs need to be more engaged in establishing the guidelines to standardise definitions that will, as far as possible, capture issues of smallness and small numbers. Two important initiatives are currently taking place that will have wide ranging impacts on the “localisation” of PIC indicators. One is the development of the post-2015 “MDGs” and the second is the estimation of PPP indices for PICs through the World Bank led International Comparison Programme (ICP).

66. PICs have learnt much about the relevance and applicability of statistical indicators over the past decade as they have chased the MDGs. Through the post-2015 consultative process they have an opportunity to influence the future of statistical indicators and their applicability to PICs.

67. Through the ICP programme and the estimation of the PPP indices it should become possible for all PICs to be included in the global HDI & HPI assessments. The inclusion in these assessments and the global UN Human Development Reports will provide greater credibility to PIC statistics.

68. There needs to be more capacity building for users, including development agencies, as well as stronger links between providers (both NSO & administrative data providers) and users. One way in which this might be facilitated is to establish a core team of statistical

trainers/ specialists to assist PICs on request with the compilation and analysis of census, household survey and other data, effectively an extension of the roles of SPC & PFTAC. Having such a core team would support standardisation and would enable stronger links to be established with international agencies.

69. Development partners and agencies should ensure that staff working on PIC programmes understand the development context and adopt a pragmatic approach to assessing indicators that may not be applicable in the very small PIC circumstances.

70. Understanding the challenges of small PICs, and working together to build both statistical capacity and the ability of users and providers of statistics to interpret and use appropriate indicators will help to ensure that better policies are identified and better development outcomes are achieved.

## **Summary of discussion**

**Chair: Bob Pollard**

**Rapporteurs: David Hamilton, Odo Tevi**

*Key points made by the speaker:*

- More emphasis needed on improving the quality of statistics and making better use of them to inform policy.
- Governments often sign up to international treaties and conventions ignoring that statistics offices have no capability for related monitoring and reporting.
- PICs are part of the global system for preparing statistics, but can statistics better reflect PIC needs?
- There is a disconnect between commitments entered into by Governments, and the statistical capacity to support these.
- There is a need to advocate for domestically produced statistics. Note that MDG tracking for the Pacific was distorted by PNG results, and that some concepts such as poverty need adaptation to be relevant.
- Greater use being made of HIES results in analysing poverty.
- Alternative “happiness” indices are interesting but subjective, and not particularly useful in policy development.
- Evidence-based policy is hampered by poor statistics.
- More advocacy is needed in how to use statistics.

### *Key issues raised in discussions and post discussion comments:*

#### Capacity of Statistics Offices

- Statistics Offices are not usually independent and well resourced. They typically have no totally independent office – often linked to departments of treasury or finance. Hence, unfavourable data is not always published.
- Capacity development initiatives for Statistics Offices have not been successful – staff/skills shortages, budget constraints, demand low.
- Regional statistical capacity looked at but not given serious consideration. Regional capacity could supplement national capacity, particularly in analysis of data. A core team of trainers is a potential approach. SPC did perform role as a repository. Recent developments include AusAID funding for long-term strengthening of statistical capacity.
- Relationship between central banks and Statistics Offices. Poor performance by the latter has led to greater reliance on data prepared by the former, though this is not ideal.

#### Type of Data

- Quantitative data not enough. Needs to be supported by qualitative information.
- A suggestion that we should have wealth as well as poverty indicators, to fairly describe the distribution of economic benefits.
- More time needs to be spent on understanding what data is important for decision making. In particular, sub-national data sets that can be collected over time are very important for planning and delivery of services. The right data can influence policies on the location of schools, health centres, transport systems – none of which can be identified from national aggregates.
- NGO's can develop and disseminate data eg. Report cards on Government performance produced by a Solomon Islands NGO.

#### Use of Data

- As evidence-based policy develops, demands on statistics will expand and more capacity constraints will be faced. But will better statistics actually be used by Governments and donors?
- Data is required to establish a baseline from which the implementation of policy can be monitored or measured. Recognizing that most policy is developed based on a person's bias or belief that something needs to be changed, a baseline data set will allow for some degree of measurement of its success or failure and if data is collected regularly will allow for adjustment overtime.



- PICs are more involved in developing the SDGs (than they were for the MDGs), and are better prepared to localise indicators – but must make the most of this opportunity.
- Donor insistence on data encourages countries to “cook the books” or create “policy-based evidence” rather than the reverse. Policy does not tend to be driven by data – it is more intuitive.
- Lack of data should not preclude action – these situations can be addressed on the ground. On the other hand, lack of effectiveness of aid may be explained by insufficient analysis, linked to lack of data.
- More attention needed to facilitate understanding of statistics within the community eg. What is GDP? Lack of understanding allows misuse of statistics. Help the public to understand budgets and key statistics – media can play an important role in this. Note that some societies are not “reading” societies, and the standard of economic journalism is low.
- Donors and recipients have different agendas. Donors want data but recipients may be less interested (particularly if unfavourable). Recipients favour general budget support – donors targeted support. Geopolitical considerations a key driver for donors and some have pressures from home constituencies. Donors also differ significantly in their approaches.
- How do we look at creating more demand for information and numbers? Are there new partners, or approaches that can be taken?

#### What Have We Learned?

- The role of data in policy making and the design of development programs is essential, but there will be times when action must be taken with inadequate data to avert disaster.
- Currently, data is inadequate, often not relevant, out of date, usually not disaggregated enough to illuminate specific situations .
- Statistics offices are often under-funded for their assumed workload, and have weak capacity, inadequate independence, and inarticulate user- demand for their outputs.
- A regional approach to supporting data collection in small PICs should be considered.
- Some data indicators need to take better account of the context of the Pacific region. Global formulae are not always applicable.
- Baseline data consequent to a new policy is critical to enable proper monitoring of the impact of that policy.
- Statistics offices are not the only ones who should be collecting data. NGOs (report cards on services), line agencies, and provincial/district administrations have an equally key role in collection of data.

## Session 3.1

***Topic: thirty years ago a ‘power-tripod’ of government, business and civil society seemed a realistic model to provide stability and accountability in the management of PIC development. Since then, the roles of business and civil society institutions in PICs have greatly expanded. What have we learned about the costs and benefits of governments supporting the growth of business, and assigning an increased role in governance to formal and informal institutions of civil society?***

### **Government, Business and Civil Society in Governance and Development**

**Tarcisius Kabutaulaka**

#### Introduction

This paper discusses how state and non-state institutions influence governance and economic development in Pacific Island countries (PICs). It focuses on the “power-tripod” between government, business and civil society that was seen as a model that would provide stability and accountability in the management of governance and development in PICs. This has led to expansions in the roles of business and civil society institutions in governance and development in the past thirty years.

The paper: (i) provides a brief overview of state-civil society relations; (ii) discusses the nature and dynamics of each institution’s role in governance and development; (iii) outlines some of the lessons learned from past experiences; and, (iv) provide concluding remarks on creating a stable “power-tripod.” The paper addresses the following questions:

- What does experience tell us about the costs and benefits of governments supporting the growth of business, and assigning an increased role in governance to formal and informal institutions of civil society?
- Has the power-tripod led to better development outcomes, and if not, why?
- How can we create a stable “power-tripod” that facilitates better development outcomes?

## State-Civil Society Relations

We all know that government is not the only institution in society. Nor is it the only institution that influences governance and development processes and outcomes. It is one of many institutions that either competes, or cooperates with others to influence society. There are many non-state institutions that also influence governance and development and exert power and authority over society. These include religious (or faith-based) organizations, businesses (or the private sector), traditional institutions, plus the thousands of non-government organizations (NGOs) that focus on specific issues and interests.

The degree, to which state and non-state institutions control society and claim legitimacy, varies across geographic and social spaces. Consequently, the state might have more presence and therefore exert more effective control in some parts of the country, or in some aspects of society more than in others. The same is true for religious (or faith-based) organizations, businesses, NGOs and other non-state organizations. The roles and influences of state and non-state institutions may either overlap and complementary, or competitive.

In some PICs, the presence and power of the state is relatively 'weaker' compared to that of non-state or informal institutions. Here, the term "weak state" is used to refer to the absence of state institutions and officials as well as the state's inability to effectively enforce laws, protect citizens, manage the economy, and conduct foreign relations. These are some of the fundamental roles of the state. In many PICs – as is the case in other post-colonial states – state weakness is also a reflection of the fact that the state is a relatively new institution, jostling for control of the nation-states that were created and left behind by the withdrawing colonial powers. Consequently, because of its short history and undeveloped and relatively poorly-resourced institutions, the state does not often have the institutional capacity to reach the entire country, or the recognition and legitimacy that is accorded in more developed states. Further, it does not have the recognition, legitimacy and influence that traditional institutions, or religious (faith-based) have. Christian churches, for example, although foreign in origin, have a relatively longer history in the region and have become part of people's daily lives. The state, therefore, does not have monopoly over society. Rather, it shares the social and geographical space with other institutions; and in some cases is less relevant in some aspects of people's livelihoods and in the affairs of the nation-state.

This is particularly the case in countries like Papua New Guinea with difficult geographical terrain and scattered populations. It is also the case for geographically dispersed countries like Kiribati and Solomon Islands. These factors, plus a poor economy and weak institutional capacity hinder the ability of the state to be present and visible everywhere and to provide adequate and quality services. For the people of Kiritimati Island in Kiribati, or Temotu Province in Solomon Islands, for example, the state is less visible and less relevant in people's daily lives compared to those in South Tarawa and those closer to Honiara.

In places where the state is weak, there are usually other institutions that play an important role in managing society. In PICs, these include (i) traditional institutions, (ii) religious organization (mostly, but not exclusively, Christian churches), and (iii) business entities.

In recognition of the fact that the state is not the only institution in society, PICs have, in the past, included non-state institutions in governance, economic management, the enforcement of law and the provision of security and justice, and the delivery of services. This has become particularly prevalent since the 1980s, leading to what is referred to here as the “power-tripod” that consists of government, business and civil society.

It is also important to note, that each of the institutions in society mentioned above, do not always function as homogenous entities. Rather, there are often diverse interests and opinions even within each organization. The state, for example, has many different departments that might not always agree and also have different objectives.

#### Institutions, Governance and Development

In recognition of the important role that business and other civil society organizations play, PICs have facilitated for the expansion (and in some cases the formalization) of these institutions’ roles. Some PICs even have legislation that defines the roles of particular organizations and regulates how they conduct themselves.

Let me now discuss the institutions mentioned above, the roles they play, the challenges they face, and the dynamics of their participation in governance and development.

#### Traditional/Kastom Institutions & Authorities

As we all know, prior to the establishment of the modern nation-states, Pacific Island societies were governed by “traditional institutions” with leaders that have power to manage society and its resources. The nature of these institutions and the powers they exercise varied across the Pacific Islands region. Traditional institutions in the eastern and some parts of the northern Pacific tended to be hierarchical with hereditary claims to power and authority and often have control over bigger socio-political entities. In the Western Pacific, the institutions were generally more egalitarian and leaders had authority over a relatively smaller population.

During the colonial period, while in some places these traditional institutions were marginalized or obliterated, in others they were incorporated into the structures of the colonial administration. A classic example of where traditional authorities were incorporated into the formal state institutions in one way or another include the Bose Levu Vakaturaga (Great Council of Chiefs) in Fiji, along with the Matai in Samoa and the Mal Vatmauri in Vanuatu. In the case of Fiji, the Bose Levu Vakaturaga played a prominent role in the governance of the country until it was disbanded following the 2006 coup. In Samoa Matai play an important role in governance, both at the community, as well as national

levels. In other PICs, traditional authorities were incorporated in a much less formalized way. In Solomon Islands, for example, the establishment of district councils in the 1950s saw the incorporation of traditional leaders as “Village Headman.” But, even in these instances, traditional leaders still played an important role in the management of communities, the enforcement of order, in governance and in the delivery of services. They were (and to an extent, still are) also instrumental in making decisions on land issues, especially the access and use of land-based resources for both subsistence use and large-scale business investments.

The role of traditional authorities has contributed positively as well as negatively to governance and development outcomes. While they provide the link between the state and communities and could potentially be for better outcomes, they have also, in some instances, contributed to governance and development challenges. In Fiji, for example, in the distribution of land rentals for developments such as the sugar cane plantations, hotels and other such projects, it is the heads of mataqali that receive a larger share of the rental. In the mining and logging industries in PNG and Solomon Islands, Big-Men – and they are nearly always men – receive royalty payments and often squander it. This often causes discontent and in some cases violent conflicts within communities, which could discourage investment and retard economic development. More seriously, in the longer-term, we have seen traditional leaders use their position as a legitimate right to receive and squander capital that could potentially be invested for the benefit of the future generations. Furthermore, the ‘empowerment’ of men because of their access to cash income has also disempowered women and exacerbates the gender economic imbalances, even in matrilineal societies, where women traditionally have ‘power’ over land and land-based resources.

### Religious Institutions

The dominant religious institutions in most PICs are Christian Churches. There are, however, other religions such as Hindu and Muslim organizations (especially in Fiji) that play an important role in society. Christian churches from various denominations established themselves in the Pacific Islands long before the states were established. They therefore instilled their values and ideas about how individuals and societies should conduct themselves. They were also the pioneers in the provision of some services, especially education and health.

While they have contributed positively to PICs, religious institutions have also caused divisions. Within the Christian Churches, for example, rivalries between the different denominations have in some cases caused tensions. Even today we continue to see the splintering of churches, as members become dissatisfied with the leadership of their current church and therefore form new churches. In Solomon Islands, for example, members of the Church of Melanesia (Anglican) broke away and formed REMA, and more recently others broke away and formed the Episcopal Church of Solomon Islands. Tensions between

different religions are limited, although we have seen religious violence targeted against Hindu and Muslim in Fiji, especially following the 1987 and 2000 coups.

In terms of governance and economic development, faith-based organizations have the potential to mobilize populations for economic purposes in ways that the state is not able to do. This is because religious organizations are more pervasive and a greater reach. In some case, these organizations have done that. A classic example is the Christian Fellowship Church (CFC) in Solomon Islands, which apart from being a religious organization, is also an economic entity with investments in the forestry industry. In spite of this potential, one of the challenges is that religious institutions are often not accorded the same kind of scrutiny about accountability, especially when it comes to finance. They are better managers of faith, and often less transparent when it comes to finance. This is the cause of many tensions within faith-based organizations.

While the state may use religious organizations more in order to deliver services such as education and health, there must be mechanisms to demand financial accountability from them.

## Business

Over the years, there have been increasing business interests and investments in PICs. This is likely to increase, especially in natural resource extractive industries. We have seen this with the mining industry in PNG and the increasing number mineral prospecting in Solomon Islands, in forestry and fisheries. The interests in and potential for sea bed mining could see an increase in natural resource-related investment in the Pacific Islands region. Such business interests and investments could see businesses influencing states and communities in the Pacific Islands. This has in some cases promised large amounts of monetary investment. A classic example if the Liquefied Natural Gas (LNG) project in PNG which is expected to be valued around 15 to 20 billion US dollars.

While such investments are important, the injection of large sums of money into countries and communities that do not have the capacity to manage it, could cause social dislocations, community conflicts and potentially fuel corruption. Already, there have been widespread allegations of corruption around the logging industry in PNG and Solomon Islands and the mining industry in PNG. If not properly managed, large-scale natural resource extractive businesses could exacerbate the “resource curse”, rather than contribute to social and economic improvements.

It should be noted, however, that there are other forms of businesses other than large-scale natural resource extractive industries.

## Non-Government Organizations

The past three decades has seen the proliferation of non-government organizations (NGO) in the Pacific Islands. While a lot of these are registered under the umbrella of the Pacific Islands Association of NGOs (PIANGO), there are many more that exist outside PIANGO. Many of these NGOs are financed from outside – by both bilateral and multilateral donors – or apply for and receive funding from government. In the last decade many aid donors have channeled aid money through NGOs. There is an assumption that NGOs are better at delivering development outcomes.

In a lot of cases, international NGOs apply for and receive money from aid donors of international organizations, and then sub-contract local NGOs. In close examination, NGOs function in nearly the same way as multinational companies that access aid and deliver on behalf of aid donors. The question then arises as to how much of the aid money is absorbed by NGOs and never reach the PICs.

There is, therefore, a need for more critical examination of the performances of NGOs and the nature of their relationships with the state as well outside interest groups (including bilateral and multilateral donors). We need to ask whether or not NGOs are better deliverers or development: Are NGOs better than government in delivering development? Are they better in governance? Do NGO objectives and interests really reflect PIC interests, or local people's interests?

### Stabilizing the Tripod: Lessons Learned

In light of the above, the questions then are: Should the role of various institutions in society be regulated, or coordinated? How should they be regulated, or coordinated? Who regulates it?

Perhaps the state would always see itself as the institution with the legitimate authority by virtue of the international community's recognition of it as having the power over the nation-state. But, for the "tripod" to be stable, the "legs of power" must be equal – a tripod with unequal legs is never stable.

The main lessons are:

- Businesses have an important role in governance and development, but they could also contribute to tensions and conflicts and poor governance and development outcomes.
- Civil society organizations such as churches and NGOs are not always transparent and accountable and are not always the best deliverers of development.
- Traditional authorities, while they have the potential to contribute positively and have in some cases done that, they could also be a part of the problem.

- While governments in PICs have facilitated the expansion in the roles of civil society and business institutions, such expansions must have accountability mechanisms to ensure better development outcomes.

## **Summary of Discussion**

**Chair: Alise Stunnenberg**

**Rapporteurs: Francis Hezel, Makurita M-Baaro**

Key points made by the Speaker:

- Society is made up of more institutions than simply the state: religious organizations, businesses, and NGOs. (The traditional authority was another element mentioned later.)
- The power of the state may be strong in urban centers, but it is relatively weak in rural areas. There other institutions exercise considerably more influence. Churches, for instance, often fill a power vacuum.
- The traditional institutions can be a help at times (eg, matai system in Samoa for keeping the peace and regulating society), but they can also be an obstacle (eg, traditional Big Man system in skimming the rentals for logging in the Solomons, and chiefs in Fiji can monopolize the rents for resources). They can also reduce the traditional power that women had.
- Churches, too, can be unifying forces in the islands, but they can also be divisive. They are not held to the same standards of accountability as other institutions.
- Businesses are touted as the “engines of growth,” but they can cause problems. Large-scale natural resource extraction and huge injections of capital can have bad social and environmental consequences.
- NGOs are assumed to be better at delivering developmental outcomes, but this is not always the case. Sometimes they absorb too much of the aid funds, or distribute them to other lower-level NGOs instead of providing services for people.
- Somehow or other the institutional tripod must be stabilized to allow each institution to contribute, while keeping the others in check.

Key issues raised in discussions and post discussion comments:

- There is a dynamism in the process of governance and development, with all the institutions (including the modern state) shifting to cover gaps and provide needed services. NGOs have played a major role in some places; in others churches may take the lead.
- Churches can impose hardship on people because of the financial burdens brought on by the contributions expected. (Traditional competitive gift-giving methods are used to



enhance these contributions.) They can assist people to integrate into the community in migrant communities abroad, but sometimes at a high price.

- Churches can be expected to provide unity in the community (especially where other institutions might not be able to unify the population), but this may be at the expense of freedom of religion. (Story of the banning of other churches in Tuvalu and the reverse of this ban upon court appeal)
- Some places (like Tuvalu) have a strong association of NGOs so that there is little government interference. Other places (like Nauru) there is no formal organization of NGOs. Kiribati seems to stand half-way between. In some places, NGOs will have to be pressed to account for money they have received.
- NGOs, too, may need regulation by the government, as is being done in Samoa. Someone suggested that the distinction between NGO and Civil Society needs to be made.
- Business, like NGOs and churches, ought to be left without government interference to contribute what it can to society. Government can impede business by imposing onerous regulations on outside firms. But others strongly maintain that it is high profits rather than the “high cost of doing business” in a place that is determinative of business investment.
- Can business be trusted to do the right thing without supervision/interference from the government? Some think that they can. Others maintain that Chinese retail shops are having a corrosive effect on society by crowding out the local market, evading taxes, corruption and blatant disregard for planning laws.
- On the other hand, if government regulates business too strongly, this offers the opportunity for corruption as government officials receive payments from those trying to do business.
- In the end, perhaps a balance must be kept between the various institutions that are the main actors in an island society.

#### What Have We Learned?

- Monetization has damaged the equity of distribution of returns / revenue on community assets. Leaders are now more easily able to capture for themselves the lion’s share.
- The business sector, while critical to the economy – in terms of products, services, employment - has also had a corrosive influence on governance. Often, it has a total disregard for regulations. And politicians have learned to extract rents from this sector to their benefit and the detriment of the people and the environment.
- Though churches and NGOs fill an important gap in the development process, they too must be accountable. The nature of this accountability can be sensitive and needs to be worked out with government, in the local context.

## Session 3.2

***Topic: Are concerns about the growing extent and impact of corruption in PICs well founded? Are there special PIC factors to guide its definition and assessment? How can threats that corruption presents to broad-based economic growth best be confronted?***

### Contents

- 1. Influence of institutional actors in the Pacific: a case study on growth and equity in Vanuatu**
- 2. Corruption: what is it and what to do about it?**
- 3. A new roadmap for combating corruption**

#### **Hannington Godfrey Alatoa**

##### *Changing Influence of Institutional Actors in the Pacific*

Since World War II and following the Colombo Plan, colonial administrations, churches and business have played a big role in the way Pacific countries managed their development. New alliances were formed between key players. Even prior to that time, and during the London Missionary Society's advent, these relationships effectively formed the embryo of macro-economic and corporate management in the PICs.

Christianity has been a driving force in forging the tripartite relationship between business, church and government. Pacific populations at the time were simply consumers and passive laborers, heavily exploited by traders, colonial administrations and churches. For example in the then New Hebrides John Geddie and Bishop Augustus Selwyn agreed that the archipelago be divided such that the Church of Melanesia (Church of England) had jurisdiction over the islands starting from around Ambae and the Northern part, and the Presbyterian Church had the islands from Ambrym to Aneityum in the south. Traders formed alliances and decided where and how to trade in the PICs leaving Pacific islanders out of the decision-making process. The land grabs during the 1800s have had a significant influence on all key players (the churches, business and government) leaving the indigenous populations victims of such deals.

As the colonial administrations embarked on service delivery provisions, PICs began to engage in their own social, political, economic and cultural development; this focused their attention on fostering relationships with officials and the clergy, followed by traders and business establishments such as the Burns Philips South Seas Ltd, Ballande Sarl and the like.

Till the mid-40s, the level of corrupt activities had remained very low and was too insignificant to negatively impact and threaten broad-based equitable socio-economic growth. As education and trade increased and the PICs elite population gained qualifications, exposure and recognition from the metropolis, this small initial group started to push the 'self determination and decolonization' agenda. PICs were not alone in this initiative; many were assisted by like-minded expatriates who supported them with planning, financial, communication, transportation means and the like.

The birth of PIC political parties during pre-independence period and soon thereafter brought into play many more players in the tussle for power and influence over the future course of the PICs. And with this, has come the complex web of links being formed between big men, political parties and the bureaucracy on the one hand, and key societal actors such as business interests, the churches, trading partners, civil society organizations, the media, consultants and the like. All play a significant and integral part in influencing political, social and economic relationships, behavior and perceptions.

A socio-political environment as described above is further influenced by regional and international agreements, conventions and declarations of which PICs are a part. Regional sub groupings provide additional challenges. And the uneven and unequal relationships which PICs have with their major trading partners remain cause for concern.

#### *A Case Study on Vanuatu: Growth and Equity*

Vanuatu came to the end of its first quarter century as a sovereign nation with living standards almost at the same level as at independence – i.e. with GDP at around VT250K per capita. Economic growth lagged behind population increase throughout the 1990s and from 1999 to 2003 it turned negative by an average of 2.4% per annum (WB, Pacific Region Strategy FY2006-2009).

The structure of the economy remained fairly static with steady growth in the off-shore financial centre and other foreign dominated service industries. In the meantime the agriculture and the plantation sector, and the manufacturing sector inherited from the colonial past slowly declined with very little investment by both the public and private sector directed to these sectors. 2003 monetary GDP was produced by Tourism, Government & Off-shore Finance Center 77.5%, Agriculture 13% and Industry (including utilities) 9.5%.

In 2003 the economic outlook was discouraging. There was no real base in manufacturing or agro-processing, with only a handful of producers operating under state subsidies, and with

a large majority of Ni-Vanuatu depending on subsistence agriculture for their livelihood throughout the country.

From 2003, the economy began to grow again, by 0.6%; 2.8% in 2004 and 6.8% in 2005 (National Accounts records and Stats Office 2005/6). The growth has been driven mainly by foreign direct and indirect investments, particularly in tourism and land development.

Vanuatu continues to receive generous aid assistance from its development partners. In 2000-03, the country was the largest recipient of aid globally on a per capita basis (approximately VT30k in 2002 prices).

*Who is actually benefiting from this economic growth?*

There are indirect benefits to the population through increased government revenues, which have enabled the government to maintain high levels of spending in the social sector (26% on education and 14% on health). These are among the highest in the Pacific region.

However, very few Ni-Vanuatu citizens participate directly in the country's formal economic development; there is thus an absence of broad-based and equitable socio-economic growth. Both the tourism and the off-shore financial centres are fully controlled by foreigners and the benefits accruing to the local population are very limited. Even profits from land development and the construction industry have accrued mainly to foreign speculators and developers. The commercial sector is small, controlled and closed by mostly Chinese businessmen, some with dubious background and reputation (as regularly reported in the media).

The small size of the market creates a tendency for monopolies and cartels, often with close relationships to politics. Accordingly, this environment lends itself to abuse and corrupt practices among the many people and agencies involved in the demand/supply chain.

There are very few Ni-Vanuatu owned businesses in the formal sector. Informal, micro businesses tend to congregate in a few sectors – small retail outlets, the transport sector, kava bars and catering outlets providing a modest livelihood for Ni-Vanuatu in urban centers. These sectors are heavily overcrowded with little scope for expansion and without the attention of relevant authorities or proper planning for urban development and growth.

Since the early 90s, the Ni-Vanuatu have become less and less involved in the economy as governments have become more centralized (through the creation of 'provinces') and the public service has expanded during the 'reform years' (1997-2006). Governments have been spending more money in urban areas where only 20-25% of the population lives, leaving very little money for distribution and fair rural investment. For the rural population to engage and participate effectively in the economy there must be a re-direction, re-allocation and equitable redistribution of resources, with a greater emphasis on education. Also there needs to be devolution of power to the provincial and municipal administration if

these local authorities are to contribute, facilitate and provide an enabling environment for the 76% of the country's population to participate directly in economic development.

Government's role in promoting broad-based and equitable economic growth is currently hampered by a very narrowly based economy, and a bias towards the service sector which serves the tourist market. The off-shore finance sector is not an effective one anymore since the OECD has become very influential in stifling it. Its push for changes in taxation structures globally has had a direct impact on many tax-haven countries including Vanuatu in recent years. Tax revenue has dropped drastically over the last five years or so.

Key actors such as the churches, unions, the Vanuatu Association of Non-Government organizations (VANGO), the Chamber of Commerce and Industry, and political parties - all in one way or another influence the way the private sector conducts business in this country. The Vanuatu National Workers Union has a political wing - the Vanuatu Labor Party. Many independent candidates during elections are backed up and or supported by religious groups. The Presbyterian Church of Vanuatu (PCV) traditionally issues an annual statement to the government –stating and alleging corruption and bribery activities of elected and appointed officials. In the 2012 Assembly, PCV had actually resolved and directed church members throughout the country to cast their votes for Vanuaaku Pati (VP).

#### *Corruption: What is it, and what to do about it?*

Corruption is defined as 'dishonest or illegal behavior, especially of people in authority; the act or effect of making something change from moral to immoral standards of behavior' (OAL Dictionary). 'Bribery and corruption' relate to the improper influencing of people in position of trust. It is an offense to offer a member, officer, or servant of a public body any reward or advantage to do anything in relation to any matter with which that body is concerned.(Bodies Corrupt Practices Act (1889) amended by Prevention of Corruption Act (1916). It is an offense for a public servant or officer to corruptly receive or solicit such a reward.(OD for the Business World)

By these definitions, many PIC public officials and agencies, especially in Melanesia, may find themselves at risk of being accused of corruption. Even if true, the fact is such people and agencies do not face the full force of the law in many jurisdictions; corruption has become entrenched in society at all levels.

The media regularly reports allegations of malpractices, bribery and corruption ranging from public land sales, passport sales, tax evasion, breaches of trust, government spending money on 'unbudgeted' goods and services, dubious transactions, vote buying, political funding from many businesses, abuse of discretionary powers by state ministers and public official, etc and the list goes on.

Such incidents demonstrate that corruption is well entrenched in PICs and if the issue is left alone without redress by the institutions of good governance, PICs will suffer from its

detrimental impacts. It may already be too late to deal decisively with the issue, especially with regard to the key players.

The level of compliance with required procedures and regulations suffers from the weak capacity of regulatory authorities to monitor and police their adherence. There is clear lack of ability to monitor illegal and corrupt activities. Foreign companies doing business in the country also contribute to risks and potential for corruption among key players.

One way of tackling the issue is to move towards 'issues-based', policy-driven politics wherein policy debate and dialogue takes place at all levels of society, especially among decision-makers and those who are directly and indirectly affected by decisions taken.

#### *The Political Landscape exacerbates the potential for Corruption*

On average, government in Vanuatu has changed every 18-24 months since the year 2000, with one only stable coalition (2004-2008). The Prime Minister of that time was Ham Lini Vanuaroroa, the younger brother of late Fr. Walter H Lini, referred to as the 'father of independence'. For the 9th Parliament which ended its term at the end of August 2012, paving the way for the country to go to the polls, we had two different Prime Ministers (Edward N Natapei (2008-2010) & Sato Kilman (2010-2012)). Instability is caused by the fragmentation of political parties brought about by leadership challenges. Also too many small political parties form a political alliance making it difficult to effectively manage an agenda. The head of government always has a very difficult balancing act to manage. The political environment is constantly fragile and unstable. Government after government preoccupies itself with 'keeping everyone in camp' while at the same time ensuring that the 'opposition' is kept outside. Both sides are very suspicious of each other. This in itself breeds mistrust, hate, dishonesty, disrepute, and insubordination at almost all levels and structures of the state apparatus. The Parliament has not been able to scrutinize the work of the Judiciary, nor the Executive. Loss of confidence in the state apparatus has slowly become the norm over the last 8-10 years despite modest growth in the economy as described above.

Drivers of Change describes the political system in Vanuatu as 'patrimonial' or 'clientelistic' in nature. It generates strong incentives on the part of politicians to behave in certain ways, in order to gain and exercise political power. Politicians perceive that they have no alternative but to play according to the rules of game, if they aspire to political office. Poor governance outcomes are to some extent coded into the logic of a patrimonial system. Public resources are diverted for patronage, whether legally or illegally. Political platforms and record-in-office play only a minor role in electoral outcomes. Decision making is based on short-term political expediency, rather than vision, mission and long-term planning. Such a system is unlikely to generate a coherent or sustained approach to national development. The novelty of 'nationalism' was short-lived following Vanuatu's political independence (1980). This is a harsh reality where we see a proliferation and growth of many political

parties seeking a new agenda based mainly on differences of opinion, leadership challenges, hate and hunger for political power.

There may be hope, however. From around 2008, there has been a shift in a small number of young and upcoming Ni-Vanuatu politicians and political parties where policy issues have become and are increasingly gaining importance in the current political dialogue. This situation has been enhanced by a newly established 'think-tank', the Pacific Institute of Public Policy (PiPP) with offices in Port Vila.

Strong leadership, dedication and commitment are also keys to national development. PICs have too many politicians whose principle aim is to hold onto power at whatever cost, as well as to get what they can from the people and their natural and mineral resources. There are very few humble leaders in the likes of late Ratu Sir Kami Sese Mara (Fiji), Solomon Mamaloni (Solomon Is.) and Fr. Walter H Lini (Vanuatu). PICs need to find new leaders with the people and countries at heart.

With the 2012 national elections coming up at the end of October, there seems to be a strong and compelling call from the electorate for 'popular' leadership and less for 'politicians'. While this seems to be a genuine political call, many of the old and well established parties and their politicians may not give up their positions and make way for new entrants easily. The proliferation of new political parties and movements (at least 5 this year alone) is the direct demonstration of this 'unwillingness' to change from patronage to policy-based politics, despite the push by younger, well educated and informed people of PICs especially in Melanesia

#### *Impact of Corruption on Support from Development partners*

Both our bilateral and multilateral partners continue to support and assist Vanuatu in its development and in areas of international and regional cooperation. However, a few of them are slowing down, as well as suspending some important programs and projects. This is exacerbated by the inability of government to enact appropriate laws and processes so that the country can implement development activities including infrastructure, education and health reforms and security. It is fair to say here that some of Vanuatu's partners may have lost confidence in the country's governance despite the government's assurances and commitment to deliver.

On the part of regional intergovernmental agencies, a similar situation exists in which these agencies find it strategically difficult to engage member countries in program implementation and monitoring due to lack of commitment on the part of these member countries. One clear example is the monitoring of MDGs. Country reports have been sporadic in nature and in some cases there is insufficient commitment to national staffing and logistical arrangement at the national level to be able to report on a timely basis as may

be required at say the UN level. Vanuatu has so far produced two reports, one in 2005 and the other in 2010.

### *A new roadmap for combating the threat of corruption*

#### *1. Mainstreaming custom, culture and traditions of PICs*

On the above, a gentleman told me that there is no vocabulary for ‘corruption’ on Ambae. Corruption came to be a new issue/challenge to tradition and culture after 1980 when Vanuatu gained its political independence from Britain and France. What Ambaeans have is a ‘betebete’ or giving something in exchange - an act of acknowledgement/appreciation or in anticipation of a request for something to be done. For instance, if a chief or a big man of a village wants a dance to be performed in his ‘nasara’ during a pig-killing ceremony, he will pay in public for such dance following its performance. Everything is done in the open. In this respect, I am suggesting that PICs traditions, culture and customary governance contribute directly to transparent and accountable politics. To date, the Westminster model of public administration and management and its translation into PIC landscape has fallen short of promoting and encouraging transparency and accountability in politics, business, churches and CSOs.

Perhaps we need to go back to our traditions and examine how they can be better used to encourage transparency and accountability.

#### *2. Education reform that promotes custom, culture and traditions of PICs*

Here, it is useful to see an increasing number of PICs take culture and tradition into the education curriculum to ensure that students do not lose sight of their own traditional past, present and future. Cultural values and upbringing are important for identity, freedom, accountability, land rights and responsibilities, personal and communal inter-action and communication.

It is also a fact that as the population becomes more educated and aware of their rights, they will in turn become more demanding of their elected representatives.

#### *3. Strengthening Oversight Law and Regulatory Bodies eg Ombudsman*

Chapter 5 of the Vanuatu’s Priority Actions Agenda talks about this topic. The respective PICs would have their own priorities as to what, how, when and why and by whom governments should give attention to in strengthening oversight agencies. As for the work of ombudspersons and other regulatory agencies (for sectors such as utilities and telecommunications), PICs have made progress in terms of deregulation and opening up the market- thus reducing monopolies to the dismay of providers. For example, in Vanuatu, one regularly reads of the disagreements between the utility providers and the regulatory bodies. The government of the day often leans towards providers – which is a real worry because it implies government may be politically influenced. Accordingly, the good



governance principles of accountability, transparent action, responsible government, regulatory authorities and the rule of law are being challenged hard especially where lack of resources, job skills, competence and expertise play an integral part. In the last 10 -15 years, development partners have and are providing technical support and funding toward capacity building of these oversight bodies.

#### *4. Legal framework that promotes and recognizes custom, culture and traditional governance*

The contradictions we have in modern PICs could be based on officials' misunderstanding the role custom and culture play in 'public administration' For example, when there is an allegation of mismanagement in office, there are set procedures for redress to be followed. At times officials may choose to use traditional modes of discipline to resolve disputes, which may (in some cases) be in breach of disciplinary procedures.

So, while culture and tradition do have a role in promoting transparency and accountability, they should not be used to bypass adherence to set laws and regulations, and the legal consequences of violations of these.

#### *5. The Role of Civil Society*

Another driver for combating corruption is through encouraging civil society groups to advocate and develop a stronger voice and dialogue with government. In PICs, there are a number of national based non-government organizations which over the last twenty years or so have formed and grouped together into a regional entity - The Pacific Islands Association of Non-government Organizations (PIANGO) Most recently with support from the Commonwealth Youth Program South Pacific Centre, many national youth councils in PICs have formed a regional youth forum in which upcoming young leaders gather together annually to discuss challenges and common regional policy platforms that directly affect them.

The strength of CSOs is potentially equal to that of a state in an ideal world. In the PICs, informal institutions are not as influential as in other regions such as the Caribbean, Latin America and in parts of the African Continent. Inter-governmental agencies such as the Melanesian Spearhead Group (MSG) are stronger and influential as they are closely linked to the mainstream activities of the state. Where CSOs are established by law, a few of them get official funding from their governments. There is still a big number that survive with meagre financial resources. Their counterparts from outside PICs such as Youth Challenge International (YCI) Peace Corps, Canada Corps do provide technical and funding support, many of which come from the same source. Many of us would agree that NGOs, the corporate sector and CSOs play a key role in encouraging responsibility, accountability and transparency at all levels in the PICs. We need to 'walk the talk'.

## 6.. Role of Media

The Media has a multi-functional role in gathering, validating, reporting and giving out information on the actions and or in-actions of leaders, peoples and their organizations globally. This role of the media is in general acceptable in the PICs; some PICs governments treat the media with suspicion while others are quite used to dealing with the local and regional media agencies. Despite principles of democracy and media freedom, some of the PICs do control and regulate the media, especially if and when it is perceived not to encourage responsible and balanced reporting.

PICs have formed and established media organizations such as the Pacific Islands News Association composed of journalists and the PICs media association (PIMA.) An example of this is the Media Association of Vanuatu (MAV).

Like CSOs, media has a key role in encouraging and promoting transparency and anti-corruption awareness campaigns through balanced reporting at all levels of the PICs. While many of the PICs media outlets do carry out their work responsibly, a few of them do not accept this role in disseminating public information.

## Summary of Discussion

**Chair: Sivia Qoro**

**Rapporteurs: Kaliopate Tavola, Siosua Utoikamanu**

Key points made by the Speaker:

- Institutions in the PICs have evolved over time. The key players though have always been the churches, the colonial administration followed by independent governments, and the business sector. The NGOs emerged later.
- Modern politicians and the business sector have often developed a corrupt nexus that deprives the broader community of access to the benefits of economic growth.
- Corruption has become entrenched in PICs. And in part it is because the social traditions and customs have been lost to modern day commercialism.
- Education, the media and oversight bodies such as the ombudsman, need to play more active roles in countering corruption in society.

Key issues raised in discussions and post discussion comments:

Focus on the people particularly the young

- Hope rests with the young people, using social media. The young people are our prospective leaders of tomorrow. They can discuss and articulate their concerns. They are angry. They are taking note, and they want to change. They can make the politicians see the need for change.
- Don't get too complacent. Don't turn a blind eye to corruption. Be proactive, report it, especially if you know the people involved – and often you know these people, whether in government, private sector, church or NGO.
- Highlight the fact that corruption cases are increasing and the corruption does not pay
- Be aware of internet scams however – this is a means to increasing corruption
- Participate in talk back shows and report incidences of corruption. This is getting some impact already since politicians are fearful of the revelations from these shows.
- Report the activities of the big boys, the super deals. This calls for strong leadership qualities and for those who want to do the right thing

#### Role of the media:

- Empowering the media is important. Media is already active in this area since increasing cases of corruption are being reported.
- Media can also report on the adverse gender impact of corruption, especially in the urban areas
- Get the media to increase demand for good governance, since current efforts at transparency, good governance (through Ombudsman) and regular financial statements are still proving insufficient

#### Strong leadership needed

- Good, strong and effective national leadership can make a difference
- Use the benefits of economic growth, resulting from good national leadership, to build social infrastructures – education and health
- Fight corruption in the same way as relevant authorities address security risks at airports
- Avoid ministerial intervention in the public process of sub-contracting for government projects that have already been endorsed and budgeted for
- Highlight and publicize the fact that politicians who are corrupt will face due penalty and will not face re-election
- Avoid power struggle and fragmentation of parties in politics since this engenders corruption

- Politicians to make laws that are simple and not too restrictive

#### Capacity building and education

- Capacity building for the media and public services, e.g. police, in order to be corruption-free and to attend to corruption concerns/complaints when they are made
- Capacity building also for the Public Accounts Committee
- Education at a young age, education of the family, and good upbringing are all critical. This is part of the shaping and training of the leaders of tomorrow.
- Quality of education to be directed at young people with prospective leadership skills
- Educate people on the fact that corruption has two sides –those that are offering and those that are receiving. Approach both aspects
- Quality of education is essential since evidence is such that good educated people can be corrupt

#### Corruption and ODA:

- Increase use of ODA/budgetary support for good governance as a means of ensuring that it is not abused for corruption purposes
- ODA does increase the benefit to the people regardless of who they elect to Parliament and who may be corrupt
- Address the processes relating to the receipt and implementation of ODA from the point of entry onwards to ensure transparency and to remove aspects that are weak and that can be corrupted
- Consider allocating ODA directly to NGOs with known background and performance record

#### Public watchdog/ombudsman's office

- Provide good accessible information for corruption watchdogs
- Provision of full data to enable effective work of the Public Accounts Committee
- PR promotion of the Public Accounts Committee to increase awareness of its role and work by the public

- Seek clarity on what is customary/cultural and what can be corruptible, especially during political campaigns and when assisting prospective investors

#### At the regional level

- Regional provision of Ombudsman, Ombudsman alliance and audit services – for both auditing and training. This can help PICs without auditing services, especially SIS.
- Consider other regional interventions that can include customs agency
- Ensure that these regional services are effective. Need therefore for strong regionalism. But regionalism that can guarantee effective sovereignty
- Promote good, strong and effective regional leadership that can make a difference, especially in the context of a regional framework for improving good governance

#### What Have We Learned?

- Corruption has become endemic in PICs and is often constraining the equitable distribution of the benefits of economic growth.
  - The fragmentation of political parties on the one hand, without ideological bases, and the influence of overseas business interests over some political parties is contributing to increased corruption and its ill effects.
  - Oversight bodies such as the PAC, Ombudsman and Auditor General are often starved of funding, have inadequate capacity and thus have little leverage in improving the situation.
  - The media is growing in influence.
  - However, it is public education and the realization by the people that they need to hold their politicians accountable that will play the most significant role in constraining corruption.
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## Session 4.1

***Topic: It is generally accepted that towns are necessary for balanced and efficient growth, but towns drive problematic changes in social and political relationships and need large infrastructure and governance investments. What can we learn from experience of managing urbanisation in PICs?***

### Some Issues in Pacific Urban Development

**Sanjesh Naidu**

#### Introduction

The Pacific is urbanising. Urbanisation can have economic and development value. The movement of people to urban areas often reflects their desire for economic and social opportunities that are unavailable to them in rural areas. Urbanisation, therefore, can be a positive experience for a country at both micro and macro levels, enhancing individual lives and helping government to fulfil its goals.

However, it is widely acknowledged that Pacific towns and cities are under increasing pressure to provide better quality urban outcomes especially the provision of urban services. This inference is based on my personal experience as a policy maker in a Pacific Islands Country (PIC), and in my till recent advisory role in a regional organisation over the last seven years. In particular, this paper draws on material developed for the 2nd Regional Workshop on Pacific Urban Management held in 2007, which I was fortunate to organise in my previous capacity. The Workshop aimed to refine the priorities of the Pacific Urban Agenda set in 2003 and to develop appropriate responses, both by countries and development partners. The outcomes of the Workshop remain relevant and topical.

A number of research findings, including material drawn from country presentations delivered at the 2007 Pacific Urban Management workshop, point to the various negative consequences of urbanisation on the quality of life, including:

- declining levels of infrastructure;
- poor service delivery (e.g. basic water, sanitation, road, education and health);
- informal housing;
- urban unemployment;

- crime;
- rising land problems; and
- increasing environment problems, including management of solid waste.

This paper briefly discusses some of these issues and reflects on possible approaches to help mitigate urban challenges.

The 2007 Pacific Urban Agenda recognises that urban and rural development issues need to be addressed in tandem since migration from rural areas, especially by youths in search of employment, is driving urbanisation within many countries of the Pacific. While this paper does not explore specific rural development issues, regional experience suggests the need for incentivising retention of skills in rural areas to facilitate resource based sector development (e.g. agriculture) and thus assist balanced national growth and development.

Clearly, the breadth of urban development issues in the Pacific cannot be done justice in this brief paper and the issues raised herein are by no means exhaustive. Nonetheless, issues raised in the paper may reinforce contemporary thinking and will hopefully trigger further discussion to seek out recommendations that may help strengthen urban management in the region.

Given this backdrop, is there need for better planning and urban management as a means to resolve issues and concerns? Have there been good practice lessons from the Pacific region to share? What may be some remaining challenges in urban development?

## Background

A growing trend towards urbanisation is currently taking place in the Pacific. Populations have high urban growth rates, particularly in Micronesia and Melanesia. Presently it is estimated that more than half the population lives in urban areas of PICs, and in almost every one of these this percentage is growing.

The trend of rising urbanisation should therefore be of policy interest, perhaps more than previously. In 2007 a regional workshop on urban management was held, to refine the Pacific Urban Agenda developed in 2003. The Agenda provided a framework of action for managing and capitalising on the challenges posed by urbanisation. Key outcomes from the Workshop had three thematic areas of focus, namely:

- Urban environment. For example, many PICs experienced difficulty in the development as well as operation and maintenance of infrastructure, and in better managing solid and liquid wastes which are having an adverse impact on environment and health.

- ii. Access to serviced shelter. Limited availability of urban land for new developments, high cost of building material, and demanding building codes raise the cost of housing in many countries of the Pacific.
- iii. Urban security. A significant proportion of economic activity is generated in urban areas, by both the formal and informal sectors. Increase in employment and fall in poverty would lead to significant improvement in security. Urban poverty can be addressed through better access to land, housing, water, sanitation, health and education.

This paper confines discussion to these three thematic urban management issues.

Despite the various national and regional mandates for tackling urbanisation challenges, efforts thus far appear in their early stages. Lack of national level coordination for managing urban challenges, including amongst development partner initiatives, has meant less than optimal results. More so, in the Pacific, this stems mainly from urban issues being lumped with broader national development issues, and as a result have little dedicated institutional and budgetary resources set aside to address them. As such, the region has limited good practice experience to share. One frequently cited example on integrated planning and coordinated urban management efforts is that of Samoa, which is briefly highlighted in this paper.

## Issues

### Why Focus on Urban Issues?

Despite the increasing importance of Pacific cities for economic and social development, anecdotal evidence suggests deteriorating conditions of life for the majority of urban citizens in PICs. Without a substantial and consistent response urban centres in the Pacific will be characterised by uneven growth and collapsing social structures.

Urban centres have strong linkages to rural development efforts, as agricultural income is also tied to the capacity of urban processing, transport and services for exports, and for retail and wholesale trade in urban markets. Researchers have agreed that a shift toward urban issues need not be at the expense of rural development. The two are linked, through food systems, remittances, and circular migration. As earlier stated, rural development in the Pacific needs to be provided the same effort as managing urban challenges require.

Agriculture development for instance still has untapped potential (particularly in Melanesia and other relatively larger islands in the region), which if properly harnessed could lead to further employment and income generation outside of urban centres. Unfortunately, in the Pacific, development partner focus and support has some decades ago shifted away from primary production sectors, leaving scarce government resources to support rural development and livelihoods. Harnessing primary as well as value adding activities in rural



sectors where resources are mostly based will provide scope for managing the pace of rural to urban migration.

At the same time, this will help manage population growth in urban centres providing means to better develop requisite infrastructure capacity. The expiry of land leases for sugar cane farming in Fiji for example, led to a sudden urban drift resulting in over demand for urban services, which created massive problems, including the typical symptoms of urbanisation outlined above. While somewhat tangential to urban management (the focus of this paper), the importance of rural development in the Pacific needs to be recognised relative to the pace at which urbanisation is taking place, and how rural development can be viably harnessed for full economic and social benefits.

The performance of cities will be increasingly critical to the overall development of many PICs in decades to come. This provides both a significant opportunity and challenge to policymakers and those involved with development in the region. While rural and regional development will remain fundamental to national development, the Pacific should no longer be considered as fundamentally a rural place. Urban centres now provide a critical source of income and wealth generation and play an important role in improving human development indicators across the region.

#### Urban Challenges

Many researchers, including country representatives at the 2007 Pacific Urban Development workshop, highlighted challenges which need attention if equitable urban centres are to be developed. They include: dealing with rapid population growth rates; overcoming poverty; generating employment and income; improving effectiveness of policy response mechanisms and approaches; overcoming severe infrastructure and service deficiencies; providing greater access to land; and accessing housing

Let me very briefly discuss a selected few, as most are familiar matters.

#### *Growing Inequality and Poverty*

While the urban economy has an important role in wealth generation and employment creation, the growth in urban poverty is likely to become the most important development in the Pacific over the coming decade and threatens progress towards the Millennium Development Goals. Poverty is resulting from, and is manifested in, increasing urban populations, a lack of employment opportunities, the absence of effective safety nets, and limited access to land and quality housing.

While formal sector income and employment is critical, researchers have pointed to the informal sector playing an increasingly important role in employment creation and labour absorption, in places like Fiji. One report noted that only between 17-22% of all employment in PICs is created through the formal sector. Small and micro enterprise

ventures in the informal sector are easily noticeable throughout the region in the form of vegetable sellers, couriers, fish sellers, BBQ operators, amongst others.

### *Access to Urban Land*

Urban land is often saturated in PICs. Pacific cities are spreading and developing on a mix of government/crown, freehold and customary land. This weakens the effectiveness of formal planning and makes management extremely difficult. Infrastructure provision is also impacted as a result. Most research findings point to land reform in urban areas as a pressing need. In the face of continued urban growth and expansion, land will continue to be a volatile and divisive issue.

### *Environmental Issues*

While many aspects of this area could be discussed, solid (and liquid) waste management remains an obvious challenge. Research findings suggest that levels of solid waste creation per capita are increasing in many of the region's cities but capacity to collect and sustainably dispose is rarely keeping pace.

### *Policy Response Mechanisms and Approaches*

Past approaches have reinforced top-down and institution- focussed solutions but these have rarely been sustained in the region. There are clear limits to resources within, and capacities of, formal institutions in the Pacific. In terms of sustaining efforts, more emphasis needs to be placed on the strengthening of communities. This will improve representation of the marginalised in the decision making processes as well as establishing more ownership and civic pride. More so, these informal communities have been cited as sources of innovation, finance and energy which are critical to building sustainable and inclusive cities.

Many researchers have argued that if urban areas are to be socially and politically sustainable the emergence of more responsive institutions which facilitate the transfer of power and decision making to urban civil society will be necessary. This will deepen processes of inclusion and create more ownership for progressing development aspirations of all urban communities.

This thinking obviously challenges the contemporary government led efforts to manage urban development. Limited support and weak alternative institutional mechanisms e.g. local governments or civil society capacities, hinder the degree to which effective transfer to community based service delivery mechanisms may be viable in some PICs. In any case, more effective coordination of efforts with civil society and development partner stakeholders will be necessary to promote better urban practices and results.

### *Samoa Case Study – An Integrated Approach to Urban Management*

Similar urban development concerns in Samoa led to a change in the planning and urban management system. The considerations for change will be generally applicable to many other PICs and can be summarised as:

- Villages on customary lands, villages based on a mix of customary and freehold land and new emerging villages on freehold lands, all exhibit varying characteristics and need to be understood in the context of the underlying land tenure systems;
- Coordination and planning by a professional and appropriately resourced body was a priority. This includes the need for a better coordinated provision of infrastructure and services;
- Increasing need for participation in the planning process. For example, loss of existing road access was often raised as an issue. Rather than being raised as a complaint by villagers after development has started, it would be best resolved prior to development if a proper planning process existed;
- Equal opportunity in access to services such as education and health, and employment opportunities;
- Support systems for village and freehold development such as land for plantations, recreational facilities and good transport;
- Need to meet the demands of varying interest groups in the urban area such as business, youth, elderly and the disadvantaged;
- Need for transparency and accountability; and
- Consideration of all the costs of urban growth – financial, social and environmental.

Based on these factors, a new institutional arrangement for urban management in Samoa was developed primarily through the establishment of the Planning and Urban Management Agency (PUMA). The purpose of PUMA was to improve urban outcomes, with major functions identified as:

- making plans and policies for effective planning and urban management;
- operating a regulatory framework for control and assessment of development; and
- strengthening coordinated urban management services between key infrastructure providers.

### *Lessons Learnt – An Application*

What does this case mean in the context of lessons to be learnt for managing other Pacific towns and cities as stakeholders seek more sustainable outcomes? Why an integrated urban management system?

In Samoa's case, the symptoms of poor planning and urban management were increasingly visible in the Apia urban area and citizens wanted better outcomes. Other key factors included:

- the institutional emphasis on an incremental approach which utilises existing human resources more effectively and efficiently in one consolidated body;
- the need for Government spending to match community needs and priorities derived through a credible planning process, thus, a push for more transparency and accountability;
- major road asset maintenance and upgrading programs in the Apia urban area funded by donors which need coordination and a good strategic planning base; and
- the need to strengthen coordination given that key urban issues of sanitation, drainage and road issues were lagging.

There have been various attempts over the last decade to strengthen planning and urban management in Pacific Island countries. Research findings suggest that some of these projects have been structurally flawed as they have not addressed fundamental issues of:

- whether the institutional arrangements in place are the most effective and efficient for cross sector planning and infrastructure coordination;
- whether planning and urban management is integrated with national economic planning; and
- understanding priority community needs and aspirations including associated costs.

These fundamentals will mean different things to each PIC, given: varying degrees of urban problems; outcomes that stakeholders wish to achieve; economic drivers of the urban economy; and priority areas of need such as improved quality of urban services.

Based on anecdotal evidence, country presentations made at both the 2003 and 2007 Urban Management Workshop's and research findings including the case presented on Samoa, critical success factors for urban management projects in the Pacific may be those that:

- have political will, commitment and national leadership;
- are supported by stakeholders including individuals who are willing to 'champion the cause' for better planning and urban outcomes;
- are based on incremental solutions including institutional rather than wholesale changes;
- respond to local needs, including integrated solutions that respond and reflect such needs;
- reflect the capacity of local human resources and technical knowledge to sustain change;

- provide a dedicated budget – financing plan for implementation;
- understand the prevailing socio-cultural order including land tenure issues (their constraints and opportunities) and the ability and desire of people to pay;
- raise policy issues in the short term rather than hard and fixed solutions based on planning tools such as masterplans;
- have made progress in environmental management as a precursor to the broader holistic urban management approach of considering the environment in its economic, social and physical dimensions;
- provide solutions that can complement and support gains being made in sector strengthening projects such as for water, roads, waste management and infrastructure asset maintenance; and
- sustain the demand for better urban outcomes over the short to medium term.

#### Strategies for Change

Consistent with the issues raised in this paper, some common strategies agreed at the Pacific Urban Development workshop in 2007 may still be applicable given the relatively limited progress made on urban development in the region. These strategies include:

- review and rationalise institutional and legal frameworks for urban planning, management and development, in light of evolving urban development priorities;
- give priority to and develop an integrated and participatory approach to urban planning, management and development with stronger linkages to the national strategic plans and other national policy frameworks;
- appropriate consultation, coordination and monitoring mechanisms amongst key stakeholders, such as local communities, traditional authorities, development partners, and service providers, in the planning, management and development process;
- strengthen the capacity of local government, where applicable;
- develop and implement appropriate strategies and policies to address gaps in the provision of basic service needs (infrastructure, education, health);
- develop strategies to minimise environmental damage and vulnerability to disasters.

- develop new serviced shelter for different income groups, in particular the urban poor. Housing finance, through formal financial institutions and through informal savings and loans schemes, is a critical component for housing development and improvement:
- increase supply of land for housing needs to ensure that housing can be developed while recognising customary or native land ownership arrangements and the particular needs of housing for poor and vulnerable people;
- identify incentives and develop institutional arrangements to involve the owners of customary land in urban development in general and the development of housing in particular;
- empower and strengthen recognised traditional authorities and established social structures for resolving all types of conflicts and other security concerns;
- recognise the importance of the informal sector and urban livelihoods, and seek ways to support informal sector activities; and
- empower vulnerable groups through improving awareness of their rights and opportunities.

Recalling earlier discussion on rural development, and to assist with better urban management in the Pacific, equal focus needs to be placed on primary resource based sectors and related valued added activity development. The agriculture sector has remained stagnant as a driver of economic activity, particularly in Melanesia and relatively larger Pacific islands. National efforts supplemented through development partner re-engagement can facilitate economic (e.g. in agriculture sector) and social activity in the rural areas, in turn assisting with management of urban development symptoms in the Pacific through more viably paced urbanisation.

### Concluding Thoughts

As the Pacific urbanises, it is important that all stakeholders respond in ways which are relevant and effective. Several key issues have been identified in this discussion paper. They include governance, deteriorating infrastructure and services, land, poverty, and sustainability. Some of these issues are more pressing in particular contexts. What is important is that responses must deal with fundamental issues – the critical success factors this paper highlights can be adapted but will generally be applicable in most Pacific situations. Strategies for change have been discussed before in various regional and national settings and generally remain relevant. Progressing these require leadership and a coordinated response, with a strong focus on implementation. More so, institutional mechanisms which are community based, supported by government efforts, could give more confidence to societies facing a permanent urban transformation.

## Summary of Discussion

**Chair: Donald Kudu**

**Rapporteurs: Carl Hacker, Transform Aqorau**

*Key points made by the Speaker:*

- The movement of people to urban areas often reflects their desire for economic and social opportunities that are unavailable to them in rural areas eg. access to better services such as water, housing, health and education.
- However, this has impacted on both rural development and urbanization. The loss of land leases for sugar led to urban migration and a deep fall in attention and investment in rural activities. Migration to urban areas has led to increasing pressure for services and population density; with related consequences of growing inequality, poverty, lack of access to urban land, environmental issues.
- The poverty response mechanism of government has been limited, because of limited resources. How can governments be more responsive to meet these challenges? Governments have been searching for ways to transfer power to more decentralized organizations and to be more inclusive of civil society stakeholders.
- Samoa's Planning and Urban Management Authority (PUMA) is a good example where institutional arrangements were created to address the needs of new urban communities yet preserve customary/traditional land rights, as well as improve infrastructure and services. PUMA has also assisted with the need to improve regulation that allows for more and better consultations with all relevant stakeholders.
- The following are some of the critical responses needed to meet the challenges of urbanization -
  - O The need for political will and leadership
  - O Need for stakeholder involvement – There is need for more participation, ownership and responsiveness to expressed local needs
  - O Incremental change, not dramatic shifts
  - O Work within means. More than donor funding is required
  - O Allocation of dedicated local budgets
  - O Need to understand local social conditions
  - O Improved environmental management

*Key issues raised in discussions and post discussion comments:*

### The Urban Migration Trend

- Issues of urbanization in the region are not new, the 50's and 60's saw much change in the northern Pacific.
- It must be acknowledged that urban communities are the hub of economic activities in most, if not all of the PICs. This should also be recognised in economic planning.
- The trend in migration to urban areas has not been dramatic in all PICs; for example, the urban population size in Honiara has moved from 12% to 17% of the national population over the last 20 years. This is manageable though still difficult to absorb
- The urban growth rates are varied across the region. But a common thread is that the rate of urban expansion far surpasses the ability of local governments to provide essential services to the new urban communities.
- There is an inextricable link between urban and rural development. In order to encourage people to remain in rural areas, governments must build schools, health centres, and improve the rural economy by encouraging agriculture development.
- Inability to implement sound rural development policies has led to much migration to urban areas, leading to population pressures in urban centers. Combined with lack of policies for urban growth has led to a double policy failure with significant impacts.
- Effective urban development is intrinsically linked to land tenure, and constraints of access to land. There has to be political will to address urban problems.
- Why are people migrating from rural to urban areas? People are seeking better employment opportunities and access health/education services. How can this pressure be relieved? Can better health and education services in the rural areas help? Is there a dilemma with the new settlements not being part of the existing urban village governing structure? Are they outside local government jurisdictions? How can these new settlements be brought into the decision making process?

### Coping with Urban Migration

- Legal, administrative and governance structures must clearly delineate responsibility between national, provincial and local governments that provide services and utilities in the urban areas. Conflicts between these different institutions can inhibit the provision of services.
- It was suggested that urban planning should incorporate principles of "green growth". This means taking a holistic approach integrating all facets of the economy and environment.



- In addressing urban growth and urban social issues, economic planners must take into account the social dimensions. This is regardless of whether plans are top-down or bottom up. The social dimensions may/should revolve around women/church groups. These social groups also work effectively with strong leadership.
- What are the critical factors of success? (i) Consultation with stakeholders; (ii) Leadership/political will; (iii) Balance between urban and rural development, balancing capacity with outcomes.
- Key is to minimize rural – urban migration. Multi dimensional approaches are needed – such as strengthening outer island governance, improving outer island services. If migration to urban areas still persists, could permits be used to limit migration? What are some of the special features of this migration in the atoll countries? How can population growth be managed? How can social arrangements be utilized, where outer island populations in the urban centers are consulted.
- Urbanization has been linked to the access to land. How is corruption related to this issue? What is the relationship of the development of urban areas and local land tenure systems? How is land accessed? What is the role of leadership? How can leadership take advantage of new arrangements such as seasonal work programs?
- Political commitment is necessary to handle the new urban settlements, urban sprawl. UN Habitat and AusAid have made efforts, but there is still a need for local political commitment to meet this challenge. Plans have been developed, but how can donor participation be improved? Should more aid be directed to urban areas over rural areas?
- What are the dynamics of new migrants to established urban areas? What is the impact of minority communities on this dynamic? Many of the issues surrounding urbanization have been known for many years – so what do we do about this? The key is the role of political will and commitment.
- The Samoan response to limited land access was to find a way to balance traditional land tenure and need for infrastructure. This process took 20 years of political commitment.
- What is the relationship between national/regional/local governments? There is a real need for clarification of the responsibilities concerning delivery of public services, confusion can and has led to a breakdown of service delivery. What are the governing arrangements?
  - How are the costs to be shared between governments?
  - Who is accountable for resources, delivery and maintenance of services?
- There is a need to encourage infrastructure in rural areas. For example, the development of new towns can have a positive impact on local economic development and exports. This can be a way to stem migration rates.

- What are the economic impacts of urban areas on national economies? National GDP? They are the centres, of economic activity and services. Hardship in many rural areas is increasing because there is little investment. How do you move more economic activity from urban centres to quasi/peri urban environments, so as to assist with access to markets for rural populations.

- New demographic phenomenon is the return of migrant from metropolitan countries. In addition, the social impact of deportees from US, Australia, New Zealand on urban centres and the political implications of this. Deportees is now one of the social challenges for Tonga, as they were accused of playing a role in the burning of Nuku'alofa in 2006

What Have We Learned?

- The rural – urban migration trend is here to stay.
- It also reflects the inadequacies of the rural economy in the PICs – in providing adequate employment and incomes to growing population.
- In one sense it is a positive development. It increases participation in the economy, raises income and increases economic activity in the urban hubs.
- However, if not managed properly, it has many social and environmental downsides .
- Government needs to approach the issue from a variety of angles – (i) restructuring accountabilities to improve responsiveness, (ii) addressing the need for land and housing, (iii) engaging with local urban leadership to develop shared responses to the issues.

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## Session 4.2

***Topic: Scattered populations need social and economic services and infrastructure. They may have ethnic or linguistic identities, or a degree of remoteness, that give rise to demands for devolution or decentralisation of government, and sometimes to movements for political secession. Various organisational and fiscal responses have been tried before and after independence. What have we learned about managing development among scattered populations?***

### **Involving people in their own development**

**John Roughan**

Over the past 60 years, the development process of the Pacific has taken on a new dynamic. In the 1950s, at least in Solomon Islands, for people to work on a locally conceived development project was something new in the extreme. The task of conceiving, writing up and seeking funds for people's project proposals was a process rarely known or understood by the vast majority of village people and the urban masses. The modern development process or enterprise was thought to be solely owned by the governments of the day. However, that state of affairs would not last.

In order to understand and help us respond to the great changes that the development enterprise has brought to the islands of the Pacific in a very short period of time, it is necessary to re-look at where Pacific Islanders stood in relation to the development enterprise in the 1950s, how they have handled the issue over the past 60 years or so and what could be their response during the next 20 years.

Much of my own response to the issue must of necessity come from my 55 years Solomons - life experience, living and working in-country at the grass roots, 30+ years of actual development and outreach work with a development NGO—the Solomon Islands Development Trust (SIDT)—and constant study and writing about the issue over a 20+ year journalistic career.

The following thoughts, reflecting on What Can We Learn, start with a brief overview of the Solomons development scene reaching back to the early 1960s, a summary of happenings during the 1970-1980 period, and government responses during Solomon Islands' early independence days. This is followed by an analysis of the current atmosphere surrounding the development process and the weakening of adult education across the nation. Finally, the paper deals with how the use of the development project proposal could be a powerful teaching tool to strengthen the back bone of the nation, the community and the villager, as well as a unifying element in the country's drive to nationhood.

### Development's Early Days

Long before the winds of independence blew across the Pacific Islands, villagers of different island groupings possessed at least one thing in common: they knew themselves as the first, and at the time, the only institution or sector of society. Civil society was dominant. There was no question of assigning primacy to the state since as recently as the early part of the last century independent Pacific Island nations did not exist. The other key institution or sector of modern society, the market, was minimally present. However, under the impact of colonisation and with it the evolution of most island groups into independent and sovereign nations, the role of civil society has been largely forgotten and its status relegated to a third and an unimportant sector.

The market became the second element and the state was deemed supreme. The state is now accepted as the first, and in some cases the only major sector of society. The implications of this profound shift of the status and role of civil society from first to last place in so short a time frame has had serious consequences for island people.

National interests have come to be equated with the interests of the state and its ruling class. As the mini-states consolidated power during their drive to independence, they attempted to take over the economic, political, cultural and social functions of civil society. An unfortunate fallout of this position is that the state now deems itself the centre of development theory and practice. The idea that the appropriate role of the state is to create enabling conditions for civil society to "manage" the public affairs of the community is less and less recognized. Even less accepted is the idea of the accountability of the state to civil society. It is in this socio-political atmosphere that many new Pacific Island NGOs must now make their way, not least in Solomon Islands.

## The NGO Era

The winds of political change blew strongly in the Pacific in the decades of the 1970s. Many new Pacific nations were born (Fiji, 1970; PNG, 1975; Solomon Islands, 1978; Kiribati and Vanuatu, 1980) but few had the foresight to realize that an independent government should also be matched by local independent organizations.

Before independence a number of overseas NGOs—Red Cross, FSP, Boy Scouts, Girl Guides, Catholic Relief Services, etc.—operated within many Pacific island nations. The first wave NGO presence brought in much needed material assistance especially when natural disasters hit these islands which are so prone to cyclones, earthquakes and flooding. But this assistance strategy, viz. the relief and welfare approach, as much as it was needed, also strengthened the conventional governance theory. It emphasised capital transfers, formal planning, specialisation and central government control of the whole development process.

The second wave NGO-presence, which basically funded development projects, believed that these activities would be sustained beyond the period of NGO assistance. Further, these funded activities carried an added bonus. There was conscious effort to separate project activity from the political scene. This was welcomed by colonial authorities and more so by the newly founded governments. Aid not critique was what the newly established nations wanted.

In the early 1980s, however, a third wave of NGO presence took root in the Solomons and in other countries as well. These new groups were not local versions of overseas NGOs but were indigenous organizations responding to local problems and were directed by local leadership.

This phase of NGO work in Solomon Islands has primarily been defined by its focus on the development issue. From their earliest days government officials, church authorities and the people themselves considered the local NGO sector's major purpose was to bring additional resources to support village people's wellbeing. It was only recently that there has been a change in emphasis that saw a group of local NGOs branching out to become more concerned with the political, social and environmental aspects of development.

However, NGOs' push beyond traditional project boundaries into publicly questioning government's development role has attracted strong opposition. SIDT's constant critique of government's development stance--through its bi-monthly magazine publication, LINK, radio programs, trained mobile teams who share development education insights, touring theatre teams and national survey techniques--has been no exception, indeed has shown the way.

## Independence Days

In the early independence days (1978-1984) governments of the day focused their development plans on the traditional priorities: enhance medical coverage, strengthen and extend education opportunities, assist villagers with their agricultural production and help people earn modest amounts of income from small businesses, sales of produce and employment.

However, when Cyclone Namu hit the nation (1986) political thinking began to change radically. It became clear to many leaders, political masters and moneyed individuals that the traditional development strategies would take many, many years to accomplish and have impact, cost millions of scarce dollars to bring about and the very leaders of that kind of development would no longer be around to take credit for the advancement and progress of the masses.

There had to be a quicker and more localized way to bring about fundamental development change. The answer to their problem was literally staring them in the face: invite south east Asian loggers to harvest the nation's tree wealth so that millions of dollars would flow into the country. Such a profound money injection would allow the state to gain millions of dollars of revenue almost painlessly and with that money in hand, real development would begin in earnest. There would be little need to beg for donor money any longer since our round trees log exports would supply the necessary funding.

Many political leaders saw few negatives coming from such a plan. None of them, for instance, realized that by 2015 the forests which covered the Solomons at the time--1987-2000--would almost completely disappear from our shores. But even worse, society's social fabric would lie in tatters. The nation's recent Social Unrest period, 1998-2003, is directly linked to this disastrous decision of allowing strangers from afar in effect to steal our tree wealth with the full permission of government authorities.

It was during this period that citizens came to the conclusion that development--lifting the majority of citizens out of poverty by bettering their living conditions--would best be undertaken by the people themselves. Government had become less and less interested in raising the quality of people's lives. SIDT's 8 Report Cards, for instance, published since 1989, over a twenty-year period--detailed how governments of the day were consistently scored by their own people with failing grades when it came to lifting their people out of poverty and strengthening their quality of life.

## Today's Development Scene

Why has it become so difficult for government agencies and their workers to convince people across the nation to part with their precious land holdings so that development can take place and significant amounts of money would head people's way? Take the Malaita oil palm story of 2006, for instance. A great deal of government effort and a lot of money went

into convincing the resource owners that large areas of oil palm plantings would be a major help to people on Malaita's east coast. Yet, six years later, not a single oil palm has been planted. What happened?

Only recently, with the down payment of a large amount of hard cash (close to US\$1m) has Suava Bay's Growth Centre been given the green light by land owners. So it would seem that when big bucks are actually handed over things do happen, and so called development projects begin to root and take off. But before we put on our party clothes and break out the drinks to celebrate, it would be best to wait a bit and see what actually does take place at Suava Bay over the next few years.

In Wainoni's Kahua district, the research studies unearthed an interesting development scene. When single land owner groups were asked individually about parting with their land holdings the response was quite good. However, when these same people were asked the same question as part of a larger land owning group, then their response was different. As a group, then, giving up land for development purposes became a harder and harder choice, may be because of the change in relationships it would involve.

In the mid-1980s, when SIDT conducted thousands of development education workshops across the nation--more than 5,000 over an 11 year period-- the organization experienced two different kinds of responses to its development workshops. Many villagers, once a workshop was finished, would immediately think of what would be a good project for the people to start.

However, there were a significant number of other villagers who rather than thinking about starting a project, asked for more information, sought a deeper understanding of what going into a project meant and asked for a second round of workshops. For them, the development education workshop deepened their understanding, but before going off to do a project, they wanted to get a better handle on what actually happens to a people, a village and an area when a group actually starts a project.

Of course these villagers did want and really needed new income which a project could bring to them; but they also suspected that there was no such thing as "a free lunch". They realized there were key and related questions that needed consideration. What would this project cost individual villagers? What about the village itself--its effects on the social relations of people--and the impact such a project would have on the area--water and air quality, food production, etc? In other words, the almighty dollar although becoming more and more important to daily living, was not strong enough to overcome their fears for the future.

The recent Makira study surfaces much the same concern. Villagers know to the inner most of their bones that their land holdings are their most precious and scarce resource. Once these lands are no longer used for food production and are turned to another purpose--oil

palm plantation, cattle ranching, cocoa plantings, etc.--then, people's lives are eternally changed and not for the better. Dollars may talk but never loud enough to drown out people's fear of a future without their own land holdings.

So it becomes as clear as the nose on one's face, that when government or any other development group seek people's land holdings, then more than the almighty dollar has to be part of the discussion. These discussions must be more than a mere preparation to start off the project cycle. That is why ongoing Adult Education sessions are an absolute necessity and must never be viewed as a luxury. A major part of any People Centre, for instance, must focus on Adult Education themes and how these must shape a future Solomon Islands which is peaceful, prosperous and growing for the benefit of all.

### Lessons from history

A number of lessons can be drawn from the Solomons' last 60 years of development history. The following lessons are but a sample of others that the Solomons has experienced.

The development enterprise belongs to the whole of society: In the nation's earliest development days, government often assumed that it and it alone possessed the necessary knowledge, resource base and commitment to carry off the development enterprise successfully on its own. People, village communities and the growing urban underclass were too often seen as simply the designated beneficiaries of the process.

That is one of the reasons why, when initially the Non Government Organizations entered the development picture, they were greeted with suspicion and distrust. This became especially true when local NGOs critically evaluated government's development efforts, rather than helping those efforts by the local development group with their own resource base.

The development process is designed to primarily strengthen the quality of life of the group and the individual. A development project should not be seen as fundamentally an exercise for economic gain but a community's learning experience on how to manage the new world that it has entered into.

Working on a development project, then, can be a potent way of introducing groups of traditional people to how necessary it is to know how to operate in the modern world, what new skill sets—planning, financial acumen, interpersonal skills, etc. are needed in this new world, a world which their own sons and daughters are already well aware of.

The communications revolution is truly part of today's society. How can the mobile phone technology with its ability for quickly doing business, getting market intelligence, transferring funds, keeping families in touch, repeating lies over long distances and generally spreading alarm and misinformation be harnessed for development efforts? The



great potential of the communications technology to make a critical difference to rural people's information levels is hard to exaggerate.

Ongoing relevant and pertinent adult education efforts are of critical importance to sustain development efforts. There are few short cuts in the development process and especially when it is vital for local resource owners to be kept informed and kept up to date on development projects.

Yet, Solomon Islands education budget, \$700 million in 2012, slights adults' education needs when earmarking—less than 2% of the total -- for on-going education. Politicians easily forget who it is he that makes the critical decisions on land usage - not the young person with a degree but the Olo with one foot in the grave.

Development work must not become a substitute for the State's duty to deliver social services to its citizens. Solomons citizens are demanding more and more of official funds for development projects. They perceive that since the State is failing in its efforts to bring social services to its people, the typical island dweller wants to better his/her own life through project implementation.

The State has developed a poor track record of reaching out and satisfying citizens demands for adequate social services. SIDT's 8 Report Cards as well as ANU's recent Annual Survey results document the poor social service delivery of government.

Local government bodies should be closely allied with villagers development attempts. Solomon Islands Constitution Review Committee will within a few months table its newly crafted Constitution which, among many other items, has a strong emphasis on involving local government bodies in the development process.

Election by popular vote is no assurance that a resulting government will serve the ordinary people. Elected governments are concerned with staying in power, and MPs use funds under their control so as to get re-elected. Asserting local community control of those funds is a huge and urgent challenge.

## Summary

The above brief history of Solomon Islands' development efforts makes it clear that the process of people taking charge of their own development has grown in strength over the past 60 years. It has made real progress in shifting development from a government controlled process to one locally owned and controlled. This can be a powerful means of educating people not only for self improvement and economic gain but also for nation building. But there are challenges and pitfalls all around, and NGOs such as SIDT have an undiminished role to play.

## Summary of Discussion

**Chair: Ueantabo Neemia**

**Rapporteurs: Paula Uluinaceva, David Abbott**

Key points made by the Speaker:

- NGOs have evolved from mainstream social services-type NGOs like Red Cross (pre-independence), to indigenous-backed NGOs (post-78) that promoted development initiatives, to the current makeup of NGOs. But can non-elected NGOs be leaders of development? This has caused tension between government and indigenous NGOs.
- The commencement of commercial logging after the major cyclone in mid-80s in Solomon Islands changed the political dynamics, policy thinking and the development of the Solomon Islands. It gave subsequent Governments a misplaced sense of ownership and control of their development destiny, when in reality the country and the people's natural resources were being squandered by unscrupulous politicians and their profligate policies.
- The ensuing economic and social disparity was seen as one of the major root causes of the social, economic and political disorder in the years around the turn of the millennia
- SIDT undertakes report card scoring surveys from mid-1990s, which records Government's efficiency in service delivery to rural areas; results were found to be largely consistent with similar surveys by ANU in later years.
- There is disproportionate share of resources going towards tertiary education as compared to basic primary and lower secondary education. There is very little going to adult-level. This is seen to hinder long term growth.
- Perceptions of all stakeholders (Govt, donors, CSOs/NGOS, and others) need to change.

Key issues raised in discussions and post discussion comments:

NGOs

- The need for NGO-type service providers in Solomons was borne out of the deep distrust by the people (rural and urban) of the Government's inability to meet their expectations. Government was also seen to have resisted decentralization of services to provincial and rural levels.
- With considerable amounts of rural development funding being channeled through NGOs and MPs and also investors in Solomon Islands, there is a new breed of "Mr Fixits" who facilitate investment and project intermediation.

- What should be the scale of NGO operations? There is a danger in places like Solomon Islands that efforts could be spread too thinly if national coverage were the goal. What scale of operation would be sustainable in a rural environment? Note that only about 17% of Solomon population lives in Honiara.
- There is often conflict between governments (and donors) who want projects, and NGOs who are often focused on people-centric development. Need for a more innovative approach to supporting NGO activities.

#### Decentralization & devolution

- The old constitution in Solomons began by stating that the resources belonged to the “government and people”; but for the new constitution it has been proposed that the resources should belong to “the people”, thereby excluding specific mention of the government. This is aimed at decentralization; but will government be prepared to see itself removed from the preamble to constitution. The question was also asked - “which people”.
- Noted that in some countries delivery of services had been decentralized but there has been no decentralization of management authority. This has led to poor administration and management and eventually deterioration in service delivery. Therefore authority needs to be decentralized with responsibility. But for effective decentralized management and administration to be achieved, this needs good staff to be posted to provincial and local administrations. Experience in several countries suggests that it had always proved very difficult to get good staff to move to the rural areas.
- Devolution of revenue-raising powers to sub-national governments is fraught with risks of over-taxing and over-regulation, hence killing the viability of potential investment opportunities. In Tuvalu there has been substantial devolution of authority to the Falekaupule (local authorities) through the Falekaupule Act. However they need to be given guidance in the exercise of their powers. In one island they were proposing to tax dogs and cats and impose a head tax in order to raise revenue.
- Experience in Marshall Islands and FSM suggests that local authorities are very poor at delivering services; in these countries rural transport services were very bad and rural infrastructure was poor.
- A lack of understanding of the role of the various arms and levels of government is a major deficiency in the region and should be addressed in a systematic and ongoing manner.

#### Land issues

- Customary land issues are a constraint to development; investors are unlikely to commit funds without some security of tenure. Whilst there is considerable opportunity that could be realized from the productive use of the land it is important that landowners get fair share of benefits. In the case of logging licences, landowners retain ownership of the land but the

resources are exploited and landowners may not get fair return. In cases where government has encouraged landowners to allow logging then government may be complicit in exploiting its own people. Noted that this same argument could apply to both tuna and logging resources, but logging is different in that it is actually depleting the land on which the landowners live.

- In 1980s in Solomon Islands the World Bank was supporting land reform but this led to very strong protests as landowners feared that their land was going to be forcibly taken away.
- Rural and urban dwellers see land issues differently and therefore have different perspectives.
- A land commission was being considered in Samoa to enable customary landowners to have a way in which unused customary land could be brought into productive use, e.g. for agricultural or tourism development. The intention would be for the land commission to act as a mediator/ negotiator between an investor and the landowners.
- In Vanuatu landowners could lease their customary land but the process was not clear. And land could not be used as collateral for loans.
- In Marshall Islands land is a very emotive issue, it is all about “ownership” in an emotional or from-the-heart way, rather than physically living on the land or the land rents received. Ten years ago the ADB established a land registration system, but it has never been fully implemented. For example the USA had recently signed a new 60 year lease with the landowners for the use Kwajalein Island. However many of the landowners are unhappy despite the substantial rents that are received; they feel they no longer really “own” the land as they cannot even visit. This raised the question of “who was development really for”?
- The national Government is occasionally asked to guarantee some investments as a result of investors needing that assurance as a risk buffer.
- New approaches are being experimented in PNG, where leases can be interchangeable and transferrable without the usual rigmarole.
- It was generally agreed that easier access to land for development is essential if economic growth is to recover in most PICs. But it was necessary that the rights of landowners be carefully protected so that they are not exploited.

#### Rural development

- A Rural Economic Development Initiative has been established in Vanuatu and now every province has a five year development plan. The issue is of course – implementation.

- In Samoa rural development often means beach-fale tourism; it is not clear what sort of tourism Samoa wants to develop, it is not clear which direction it is heading. The tourism sector and rural development need to have a much clearer vision; and there needs to be more consultation with stakeholders.
- There were differing views about the impact of rural development on villages. On the one hand some villages had changed beyond recognition as they have become more “monetized”. Schools and clinics have been built and other projects implemented. However other more remote villages had remained essentially unchanged even when they have received funding for development activities. It was also noted that “big” rural development projects usually fail.
- The question was posed as to whether it was possible to get communities to share experiences of what worked and what did not work in term of rural development. Could this be done across countries as well as within countries?
- It was suggested that in general governments were not good at reaching out to the people, especially in the rural areas. The urban elites (often including MPs representing rural constituencies) did not really have much concern for the people ‘out there’, except when they needed to be re-elected. But where government has failed to supply services, the gap was sometimes filled by the private sector.
- Packaging of donor-funded facilities to support better supply-chain management of niche market PIC products, has started and could be prototype for replication. Traditionally cooperatives have played a role in rural development; however these organizations have become defunct in recent years in almost all countries except PNG where there were still a few operating.
- Even the most remote communities now need access to cash, especially with the spread of mobile phones. But it was noted that in Solomon Islands although Honiara was a “rich” city it was home to most of the poor.
- State-owned commodity boards have also been a feature of rural development in the past but these have now mostly disappeared and their roles had been taken by the private sector.

### Leadership

- Strong and visionary leaders are needed to ensure that development is equitably spread. It was noted however that strong leadership did not mean military leadership.
- But the question remains as to how strong and visionary leaders could be developed; one suggestion was to make sure that children were taught well at primary level. It was suggested that women should have a greater role to play in leadership roles and in mentoring their children.

## What Have We Learned?

- Scattered populations in the PICs are a fact of life. Servicing them with basic services has become a huge challenge which government to date has not been able to respond to.
  - In view of the extent of population still living in rural areas in some PICs, providing services to scattered populations must become a major priority for government.
  - NGOs have tried to fill the gap and they do so to some extent. Both government and donors have been using them in view of their outreach to areas not accessed by government. Issues remain however, with regard to coordination, accountability for finances and results, and alignment of goals with those of government.
  - The challenges for government in regard to decentralized government range from budget availability, to staff skills, staff willingness to live in remote areas, and management processes that can cope with decentralized responsibility and authority.
  - Decentralization should be managed carefully, particularly when revenue raising powers are also delegated to local government.
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## Session 5.1

***Topic: Elected politicians are sensitive to popular feeling in ways that officials are not, and ministers increasingly intervene in departmental administration. Weak party loyalties and politicians' reliance on local power bases make for political instability, undermining long-term policy-making. Tensions often arise between sharply felt local interests and less strongly felt national ones. What techniques have been found to work in building a sound political and technical base for development policy?***

### **Building an effective political and technical policy platform**

**Savenaca Narube**

#### INTRODUCTION

It is widely acknowledged that one of the keys to lifting the economic performance in the Pacific region is effective policy implementation. This is the conclusion of many studies of the Pacific. It is also borne out in my experience as a former civil servant in Fiji and my current work as a macroeconomic and financial management consultant in the region. I firmly believe that we know the good policies to implement. Decision makers have received numerous policy reviews and repeated policy recommendations from a multiple of development partners and independent assessors over the years. Yet implementation is seriously lacking. While this stems from a host of factors, an important one is the inadequate institutional and technical capacity in our small Pacific island countries. This is undoubtedly the Achilles heel of Pacific islands and it is a separate topic in this conference.

Good policy development and analysis lead to effective policy implementation. Policy development is the task of officials and technicians. However, there is a concerning trend that politicians are increasingly intervening in policy development. This is becoming more obvious in recent times compared to when I was in the civil service. Why is this happening? The paper presents three reasons. First is the confusion of the roles of politician and officials. Second is the lack of confidence and trust between the two groups. Lastly is the frustration by politicians that their agenda is not receiving the support or priority that they think it should.

The intention of this paper is therefore to get the discussion rolling on what can be done to support good policy development and minimize political interference in the process. The paper discusses recommendations which are principally based on my own experience over 35 years in the public service. My key recommendations are four. Firstly, we must invest resources in building capacity not only at technical level but also at the decision making level which includes politicians and senior officials. Secondly, in the context of the Pacific way, the messenger is equally as important as the message. I have often witnessed good policies fall on the way side not because of lack of rigor and logic but because of the wrong approach. The third is that we don't involve the owners enough in the design of policies. Consultations are often one sided. The policy implementers are superficially engaged at the design stage and may have very little say in the development of policies. Finally, following due process in developing policies is extremely important to prevent the adoption and implementation of bad policies.

Undercutting all these issues is the important one of national leadership. Popular policies are not usually the best option. Policies must be adequately analyzed and developed. Processes must be followed by all. Clear demarcation of roles and accountabilities are important. These call for effective national leadership. Unfortunately, the political environment in some countries in the region heavily undermines leadership where political survival takes precedent over national interests. This is a critical and complex issue which is outside the remit of this paper.

#### ROLES, AIMS AND PRIORITIES

Effective policy implementation is a direct result of good policy development. The key people in this process are the politicians and senior officials who, in the context of this paper, are the Secretaries and his or her management team.

Let me make two important preliminary points before developing my recommendations.

First, principal to what can be practically done to improve policy development is the clear understanding of the distinct roles between the elected politicians and the appointed senior officials. There is a tendency to confuse these roles on both sides of the fence which quickly leads to a serious disconnection between the two groups. Politicians are the elected representatives of the people. Their role is to set priorities and make policy decisions. The role of the officials is to develop good policies, present these to the politicians for determination and implement the decisions. Ultimately, officials must appreciate that it is the politicians that make the final decision, hopefully after having carefully considered the options presented by the advisers. On the flip side, politicians must leave the officials who possess the required skills and knowledge to properly develop and analyze policies. This understanding and appreciation of these roles leads to good policy development and implementation.



Intertwined with this role- separation is accountability. I believe, as ultimate decision makers, the government of the day is accountable to the people for the effects of their policies. The senior officials are accountable to the politicians for well considered and timely policy development and implementation. We often see the opposite where politicians take credit when things go well and blame the officials when they don't?

Second is that the politicians have their agenda. They are largely driven by electability. They are therefore focused on the election cycle and motivated by the need to improve their constituencies and feed their power bases. Political parties prepare attractive manifestos that are aimed at satisfying these agendas. This political agenda must be taken into account into setting priorities and designing policies.

The key question to pose is this: Can these short term political objectives be reconciled with long term national objectives? I believe they can. I tend to think that the ultimate objectives are the same and these are normally articulated in the country's development plans. Such national targets as eradicating poverty, creating jobs, access to quality education, improving health services and good governance are worthy common goals. So aligning the political priorities and agendas to these longer term ones provides a good starting point and this should be done very early by a new government. They should be asked to endorse the national development plan and consistently fold their manifestos into it. In this manner, the short term political agendas are adequately reflected in long term national objectives.

However, in my experience, the long term objectives of the national development plans are extremely broad and one can easily park any political manifesto under them. Politicians are focused on projects or policies that can be implemented within the election cycle. It therefore boils down to a tussle between keeping the annual budgets sustainable which is the national objective and meeting the wide and at times short term political priorities. The problem is that government can't do all that it wishes do because of the universal resource constraint. This is where strong and rigorous policy development plays a crucial role. Policy development should prioritize resource allocation to maximize the productivity of expenditure and ensure that benefits of short term policies are sustainable in the longer term. The ill effects of unsustainable budgets are well known in the region and lessons from the past should be repeatedly brought to the politician's attention when they interfere in the development of policies.

Politicians decide policy priority guided by advisers. In my experience, prioritization is undertaken too casually by government. Often, line Ministries would rather leave the central agencies like the Ministry of Finance to do the prioritization for them. This of course has its root in the perverse incentive system that many governments have adopted. Government must develop a more rigorous and clear process for prioritization and more importantly ensure that the process is followed by everyone.

Sticking to the prioritization process is a leadership issue. The Prime Minister must ensure that this is complied with. I know of cases where the list of projects is substantially changed after it has been submitted to Cabinet by the Ministry of Finance as a result of political horse trading to satisfy power bases. I think one way to avoid this is to collect the political inputs into the budget earlier in the process to allow them to be screened and evaluated. In this manner, the line Ministries can apply the priority and alignment tests to all projects and fit them under their resource ceilings. An excellent instrument to use for this purpose is the Medium Term Budget Framework (MTBF) where policies, priorities and budget ceilings are established on a longer term basis.

#### WHAT ARE POSSIBLE SOLUTIONS?

1. Build capacity at decision making level: I have stated above that capacity is a key constraint both to policy development and policy implementation. Building capacity is at the top of all our priorities. It is however a long term issue. We unfortunately cannot wait until we have enough capacity. We must work within the capacity we have. In my consultancy experience in the region, I know that there is a lot of effort being exerted in building capacity. However, they seem to concentrate entirely on building technical capacity which is of course very important. It is clear to me though that there is a gap in building capacity at decision making level which includes Ministers and senior officials. These decision makers also need support but delivered in a different way. If decision makers do not understand policies then there is very little chance of these being implemented. The ADB's Pacific Economic Management Technical Assistance (PEM TA) is the only facility I know that tries to stand in this gap and we have found mentoring to decision makers very effective.

There are arrangements that I have found useful in building capacity at decision making level. Setting up Cabinet sub committees, keeping the Prime Minister in the loop, cabinet briefings and individual sessions with key Ministers are some of them.

2. Messenger is equally important as the message: We have a very sensitive culture in the Pacific. The messenger is important. I have often seen relatively inexperienced personnel trying to convince Ministers and Secretaries to make important policy choices. While the message can be very strong and powerful, if the messenger does not adopt the right approach, the probability of that message not seeing the daylight is extremely high. When that happens, a lot of hard work and good money is wasted. I would like to urge development partners to adopt a more sensitive approach in their engagement with decision makers in the region.

I would like to think that building development partnerships is long term in nature. In my experience as a consultant, I strongly sense that to be effective at the policy level I must earn the trust and acceptance of decision makers in the region. This takes time and definitely cannot be accomplished in one visit. We must continually engage decision makers. We must put things in a non-technical and simple language. We must clearly identify risks.

We must make decision makers see the whole picture. When one secures their trust and confidence, the messages become easier to accept and implement.

In my experience in the PEM TA, the message attracts the ears of decision makers if they perceive that it is neutral. This neutrality does not mean that the advice leans against the wind of international best practices but that the advice is balanced, practical and contextual.

In connecting with decision makers, I can see a lot of dividends in the use of experts that are from the region and who have worked in countries in the region. These experts not only know firsthand the challenges that the countries of the region face but they have actually lived through them. They know the culture and can apply the local context to their work. They appreciate the capacity and can work around it. They know the dynamics of government and what approach to take. They network well with decision makers. They can open doors which otherwise would be closed. In my experience, these attributes help push the policy messages through to implementation. I believe that we have sufficient regional experts available to fulfill this policy advisory role and we should use them more.

3. More collaboration in policy design: We need more effective collaboration in the design of policies. Implementers must have a good understanding of the building blocks of policies, their relevance to the country and the challenges to their implementation. We need to do more in this area. Some specific actions that we can consider are:

- o Capacity: Policies should be designed according to the capacity of the country to effectively implement them. I don't think that one should use capacity as an excuse for the poor implementation of policies. We should design policies around the present capacity level. I know that consultants are fond of building Rolls Royce solutions when a simpler model would be more lasting. I have seen consultants push for complex solutions that obviously would not fly. I am sure we all know of initiatives that only progress when the consultants are in-country. As soon as they leave, the work grinds to a halt. That is where local contribution to the design of policies becomes extremely important. Development partners can contribute by strengthening their screening of consultants' work to ensure that they pass the critical capacity test.

- o Tradeoffs and risks: Policies invariably come with costs and risks. These tradeoffs should be clearly brought out in the policy development. Simple quantitative tools are available for this purpose. Senior officials should articulate very lucidly to politicians the risks and costs of their decisions. In my experience, politicians generally do not want to do the wrong thing.

- o Alternative options: More often policy papers focus only on the preferred option. For completeness, papers should explore alternative options before ruling them out. These include options that the Ministers may favor. This prevents Ministers deciding on an option that was not even considered by the policy paper.

o Consultations and Coordination: In my experience, consultations between Ministries in the region should be significantly improved. While we are all familiar with Chinese walls between ministries, I have seen even units in the same Ministry not knowing what the other units are up to in areas that affect their work. This lack of coordination clearly inhibits good policy design.

I have seen good coordination structures established in many countries, but regrettably, they are not being effectively used largely due to turf and personality issues. The quality of policy development suffers as a result. This is clearly a leadership issue and efforts should be made to revive these structures and improve intra and inter ministry coordination in government. In Pacific island countries that have a scarce pool of technical people it makes good common sense to pool technical resources within government. For those countries that have central banks, they are also an excellent resource to use in developing policies.

It is also important to keep everyone in government at the same platform. I have found that this helps coordination and appreciation of where the country is at and where it is heading. It facilitates policy acceptance and implementation. Some countries undertake regular government-wide briefings on the economy and what ministries are doing and these should be encouraged.

Coordination and consultations between development partners and government is also an important issue to policy development. While this has no doubt improved over the years, I have found that they are at times superficial-- aimed at ticking the right boxes. These policy consultations can be made more effective. Again, culture plays an important role here. In the region, silence does not mean agreement. At the same time, the consultation has to be both ways not only one way. I have met experts who had come to consult but ended up overpowering the entire proceedings. That, to me, is not consultation. Rather it is dictatorial. These experts are not the sole custodian of good ideas. These consultations provide the best opportunity for everyone to air their opinions and suggest alternatives. Otherwise, they may express their opinions in other ways that may hinder the passage of good policies.

I have also had observed many instances where the Ministry of Finance is swarmed by experts from development partners. The local counterparts are not able to dedicate enough times to these experts and little transfer of knowledge takes place particularly at the senior official's level. Obviously, this needs to be avoided. Moreover, some of us consultants turn up with little or no advance notice and expect to be met by senior officials who are very busy people. I am sure that a system can be established to better coordinate the visits of consultants by one of the central agencies of government. This will lead to more effective consultation, effective transfer of knowledge, greater ownership and better policy design.

Coordination between development partners is the third leg of the coordination stool. This has improved over the years. We have seen the development of common policy matrices in several countries. The Consultative Working Group in the Solomon Islands is a good model. The Informal Donors Meeting in Fiji is another. But I have found that coordination between development partners is easier said than done. While many want others to coordinate with them, it's difficult to find one who genuinely wants to be coordinated. Turf issues are strong. Coordination amongst development partners therefore needs continuous hands-on work perhaps by a dedicated agency that is prepared to put in the necessary energy and resources. Better coordination will lead to better coherence in policy development and efficiency in resource utilization.

o Election cycle: To address the time horizons of politicians, papers should bring out quick gains of the policies and how their implementation can dovetail into the election cycle.

4. Follow due process: Following due process is, I believe, one of the keys to ensuring that policies are well developed. One of the reasons why bad policies are implemented is because due process is disregarded by Ministers despite procedures being set down by Cabinet. The views of the central Ministries are not solicited as required or they are given very short time to respond to them. This normally happens when an influential Minister knows that central Ministries have opposing views. It boils down to Cabinet sticking to agreed procedures without exceptions. It calls for leadership by the Prime Minister who is the Head of Cabinet. The Prime Minister's Office must take a lead role. The Cabinet Secretary as the gate keeper must defer papers that do not fulfill these basic conditions. It also requires that these conditions are clear and adequate for their purposes. In my experience, some of the key conditions in these processes are not clear and some Ministries take advantage of this ambiguity.

It is also important that a template be prepared for policy papers to ensure that they cover all the relevant issues. This template should include issues that I have raised above such as capacity, tradeoff and risks, alternative options, the results of consultations and the views of the relevant central agencies.

5. Encourage wider policy dialogue: Efforts to encourage wider dialogue on important policy issues should continue. Central ministries like the Ministry of Finance can involve academics and the private sector in policy discussions. Feedbacks from these discussions should be included in the policy paper.

6. Adopt a smart approach: Based on my experience, it is inevitable that the political agendas are taken into account in policy development. Politicians play a central role in policy decisions. The senior officials are the bridge from the technical to the political. Managing this political interface effectively is an art and skill that all officials should master. Politicians come in different shapes, sizes and temperament. In my view, it is the

responsibility of the officials who hold a more permanent job than politicians to build the trust and confidence in this relationship and aim at a situation where the Minister will not make any policy decision without consulting them. Some of the practical approaches that I have found useful are:

- o Engage Ministers regularly: It is a smart strategy that senior officials do not leave their Ministers on their own for too long. They should continue to engage them on a regular basis. They should know the daily appointments of the Minister and ensure that a member of the management team is present in official meetings and takes notes. These notes should be filed away for future reference.
- o Be strategic first and technical later: Diving into details early does not usually help the understanding of the issues by the Minister. The senior officials should first set the scene and paint a broader strategic picture. Once the Minister understands and embraces the bigger picture it is easier for him or her to endorse technical details.
- o Saying yes when you mean no: I have found that it is not smart to say no to the Minister when he or she suggests issues for the first time. It is always smarter for the senior officials to suggest that they need time to properly evaluate the issue and explore alternatives to achieving the objectives. Then they can use the due process to sway the Minister towards the right policy. In that process, senior officials can highlight the tradeoffs and the risks including political of a bad policy.
- o Use independent advisers. In my experience, Ministers feel more receptive to the views of independent advisers. I would therefore encourage the use of independent advisers like the central banks in developing policies. Reference to past studies by development partners is also very convincing. Use of lessons learnt from the past and best practices are very effective.
- o Write things down: I have found that writing things down in a memo to the Minister at some point in the process is also an effective practice. These allow senior officials to record their views in black and white and file these away for future reference. These memos and minutes can act as insurance in the event that they are needed.

#### CONCLUDING REMARKS

The paper has tried to raise pragmatic suggestions on what can be done to strengthen the development of policies in the Pacific Island countries and reduce the growing tendency for political interference in the process. They are extracted from my own personal experience as a civil servant and regional consultant. They are by no means exhaustive. They are meant to initiate discussions on what we can collectively do to implement good policies to help us realize our development goals in the Pacific region. Good national leadership is an important overarching issue that will facilitate the building of an effective political and technical policy platform.

## Summary of Discussion

**Chair: Siliga Kofe**

**Rapporteurs: Bob Pollard, Tommy Scanlon**

Key points made by the Speaker:

- Policy development is over studied. Implementation is the key.
- Resources are often allocated to building technocratic capacity but not enough to supporting leaders. Mentoring leaders is critical.
- Political interference due to differing perspectives and agenda between politicians and technocrats is common. Lack of trust between politicians and officials. Politicians perceive officials as not understanding the priorities.
- The appropriate roles in democracy are – politicians to set priorities; technocrats to develop policy. Role confusion. Officials must take politics into account.
- Sensitive culture in the Pacific. So how the message is conveyed to the politician is critical. The messenger is as important as the message.
- Need to continually re-examine our approach and consider the appropriate role of government in PIC's.
- Policy design important – should fit with capacity development.
- Each policy has a trade off; pros and cons must be examined. Development partners – external and internal – need to develop coalitions for change.
- Procedures for policy development are important. Consultations and proper process essential.
- Coordination – No one wants to be coordinated; issues of turf protection. Consultants' propensity to dominate. Policy must be country driven, rather than culture driven.

Key issues raised in discussions and post discussion comments:

The Policy Making Process

- A study on how policy is developed indicates huge gaps in the process. Need stronger data as well on which to base policy.

- Policy comes from political parties, election platforms. Need to support policy which is based on local knowledge, and independent; not donor tied. Local ownership of policies is important
- Immediacy often takes priority over the longer term interests.
- Ron Duncan study indicated need for independent technical assistance in the region for policy development, untied and not linked to funding.
- Parties are not policy driven but relationship based. They are not 'parties' in the true sense but 'alliances'. The grassroots issues are not being addressed.
- In PNG, reform in the mining sector was opposed by officials, blocked by bureaucrats. Also, the other way around, where politicians interfere with the implementation of policy.
- It is also important to build trust and confidence between politicians and bureaucrats; but the frequent changes of Government does not allow this, and undermines policy and development.
- There is often a conflict of interest in the development of policy. Must be guarded against.

#### Managing the Relationship between Minister and Technocrat

- Need for clearer demarcation of roles between politicians and bureaucrats. Ministers are elected and must represent the interests of their electorate. Officials are appointed and must remain politically neutral. They should however question, guide but also refuse to follow improper directions.
- Reform has led to contracted and political permanent secretaries, office of the Minister, Chief of Staff who dominate. Bureaucrats often the problem because they have their own interests.
- There is a crisis of leadership. Cannot teach old dogs new tricks. Focus on the new breed of dogs; train them especially not be 'yes minister'.
- Westminster model – conventions between ministers and public servants is that politicians make the decisions and officials implement. Duty of a public servant is to question but should still carry out instructions of the ministers as long as the law is not broken. Onus is on the officials to educate the minister.

#### Need for Training in Policy Development



- Key issue is the frequent and repeated absence of policy makers as they are regularly on overseas trips. They need to devote time for thinking and debating. They need training on policy development. They need to focus on data-based policy.
- Ministers and permanent secretaries need training. Particularly in time management. Too many donor visitors who take up too much of time. Important to maintain a diary and keep strictly to appointments.

#### What Have We Learned?

- Both politician and bureaucrat need to approach the policy making process with clarity about their respective roles, but also with mutual respect for each other's role.
  - The process of policy development needs to be subjected to much greater discipline than currently done. The process needs time, consultation, data and deeper analysis.
  - Donors must consider the provision of training for policy development to both politicians and bureaucrats.
  - Personal conflicts of interest on the part of both politicians and bureaucrats must be avoided.
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## Session 5.2

***Topic: When policies fail, blame often falls on the capacity of institutions, especially the public service. In some PICs people feel that capacity has declined in important respects, not only in service delivery per head to an increasing population. What is 'capacity'? What have we learned about building, maintaining and motivating it in public services and institutions? If domestic capacity is inadequate, can it be made adequate, or demand be reduced or met in other ways?***

### Capacity in Public Services and Institutions

David Hamilton

#### *Defining capacity and capacity development*

There are many complex definitions of “capacity” and “capacity development”, but let us start with a relatively simple one, and narrow it down further to suit the purposes of this session. UNDP, for example, defines capacity development as “the process through which individuals, organisations and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives over time”.

For our purposes let us focus on organisational capacity, recognising that capacity development encompasses more than enhancing the knowledge and skills of individuals, though there will be links with individual and societal capacity. Obtaining, strengthening and maintaining capabilities – yes, that sounds fine. To set and achieve development objectives – that is not quite what we want. Public services and institutions do have a certain amount of autonomy in setting directions, but much of what they are required to do is determined externally – by the laws of the land (including those associated with participation in regional and international activity), by administrative processes that have become entrenched over time, and finally by the manifesto or platform of the Government of the day.

As an aside, in some parts of the region this final part of the charter of public services and institutions, the manifesto or platform of the Government of the day, has come to dominate almost to the exclusion of other aspects of the charter. Public servants tend to down tools well in advance of an election, suggesting that there is nothing to be done in the absence of

a fresh political platform. The political manifesto has come to be viewed as a tide sweeping in over the reef, taking all before it, rather than as the condition on the surface of a deeper ocean.

Back to our definition of capacity development – pulling the above threads together, we are left with “the process through which public services and institutions obtain, strengthen and maintain the capabilities to carry out their charter”, with that charter being made up of laws, administrative processes, and the platform of the Government of the day. This lines up well with a definition from another source – a simplification (to focus on the organisational level) of an ADB definition of capacity gives “capacity is the ability of organisations to manage their affairs successfully”, while the same source refers to capacity development as “unleashing, strengthening, creating, adapting and maintaining” capacity.

The discussion that follows will focus on the capacity to manage organisations in the public service. Capacity is of course required in a range of technical areas from health and medical services to teaching to policing to resource management to contract management, to name but a few. However, public service organisations in all sectors have common management requirements, and it is unlikely that the technical capacities required (which are diverse and influenced by many case specific factors) can be developed unless overall management systems in these organisations have sufficient capacity.

Capacity development coalesced as a discipline in its own right in the 1990’s. Only then, apparently, was it realised that most development challenges could not be addressed by technical solutions and/or funding alone. At the end of that decade Kaplan presented capacity as a hierarchy of seven interrelated elements:

- i. Context and conceptual framework
- ii. Vision
- iii. Strategy
- iv. Culture
- v. Structure
- vi. Skills
- vii. Material resources

According to this formulation, a pre-occupation with elements down the hierarchy such as structure, skills and material resources, is unlikely to produce the desired improvements in capacity of the organisation. The higher order elements must be in place as well.

With a working definition of capacity behind us, let us explore a number of questions pertinent to a better understanding of the importance of capacity and capacity development:

- How has the environment in which public services are operating affected capacity?
- Has there been a decline in the capacity of public services in recent decades?
- How should capacity development be planned and pursued?
- How can the demand for public service capacity be managed?

#### *The environment in which public services operate*

The first (and obvious) point to make is that the situation is not uniform across the region. However, in this paper there will be a search for useful generalisations rather than an attempt to capture fully those regional differences.

Many countries are facing a combination of rapid population growth, rapid urbanisation, and degradation of resources including those required for the subsistence economy. These factors have stretched the capacity of public services – almost to breaking point in some cases. Migration opportunities vary from country to country, and where available have the dual benefit of easing pressures on public services and other service providers at home, and boosting the economy through remittance flows.

There have been periods of strong economic growth in a number of countries, linked often to resource exploitation and occasionally to sound policy and successful tapping into niche markets, but also periods of stagnation and shocks to growth from natural disasters and political instability. Patchy economic performance in small economies impacts on the planning / funding of public services and tends to lead to “stop-start” capacity development.

Globalisation has created opportunities (in terms of new ideas), but is also perceived as a threat (in terms of more open competition). Some benchmarking is undertaken of public services against international standards, but there should be more. Financial crises in Asia, and more recently globally, have had an impact in what are comparatively open economies. In response, tight fiscal policies have been required (though not always effected), placing budgetary constraints on capacity development in the public service.

Governments have promised much, and struggled to deliver – to both urban and rural constituents. Public expectations in relation to service delivery have grown apace as a result of better communications, though these expectations are tinged with a scepticism born of experience in relation to Government capacity. On a positive note civil society, the private sector, and the media are playing increasingly important roles in holding public services to account. International efforts such as the formulation and pursuit of the Millennium

Development Goals have assisted urban and rural populations conceptualise what they should be able to expect from their Governments and public services.

Public services operate under a range of planning and budgeting systems; some more supportive of capacity development than others. Budgeting systems tend to be more oriented towards pursuit of aggregate fiscal discipline than the other key objectives of allocative efficiency and administrative efficiency, and this hampers capacity development. Most budgetary systems give line agencies the freedom and responsibility to allocate resources within an aggregate ceiling, but agencies have not responded well to this. Public services haven't generally been required to produce an "efficiency dividend", but line agencies engaged directly in service delivery tend to see their budgets reduced in per capita terms. Some systems have an inbuilt assumption that a constant (or inflation adjusted) budget means that services will be maintained at current levels, but in practice there may be only a very tenuous link between budgets and levels of service delivery.

The pace of change in technology is quickening. This creates a challenge for public services not to be left behind by technological progress, but also opportunities to jump forward and reap significant benefits – the growth in the reach and reduction in cost of mobile telephony being perhaps the best example.

#### *Changes in capacity in recent decades*

Public services and institutions have benefited from dramatic improvements in technology, advances in the theory of management, as well as large injections of resources from development partners. However, it is not clear that these positives have kept pace with the challenges resulting from changes in the environment in which public services operate.

To give just one example, a 2008 study of the institutional strengthening of the Ministry of Infrastructure Development in Solomon Islands commenced with a description of declining capacity following periods dominated by localisation policies in the 1980s, the so-called "rightsizing" policies of the 1990s, and then the period of ethnic tension that followed. That study ended on a positive note with a description of efforts to restore confidence through an institutional strengthening project targeting capacity to plan, manage and finance the work of the ministry, though doubts remained as to the sustainability of those gains.

Most countries in the region will have had similar experiences with both localisation policies and rightsizing policies. The localisation period is probably fading in people's memories, but many commentators within local public services (including those quoted in the study referred to above) considered that it went too far, too soon. Rightsizing policies were often implemented in such a perverse and compromised manner that few benefits accompanied the large costs incurred. Some early positive experience (in Polynesia) was assumed to be readily translatable into other contexts (e.g. in Melanesia) but this didn't prove to be so. There were examples of people being sacked from one arm of Government and absorbed

straight back again in another; and of ministries being reduced in number to meet targets, but then two or three ministers being appointed to each ministry each with his/her own department (even with minor savings in overheads, this seemed little more than sleight of hand).

It is useful to consider some data from the annual Country Policy and Institutional Assessment (CPIA) process undertaken by the World Bank. There is a broad cluster of indicators dealing with public sector management and institutions, and the most relevant sub-indicator in relation to the capacity of public services rates the quality of public administration . Unfortunately there is not a long time series of data available (on the internet at least), but it is possible to access ratings for six PICs (Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu) for this sub-indicator for the period 2005 to 2011. The ratings are on a scale from 1 (low performance) to 6 (high performance).

Current ratings for the six countries range from a weak level of 2.0 to a moderately strong level of 4.0; with Solomon Islands at 2.0; Vanuatu, Kiribati and PNG at 3.0; Tonga at 3.5; and Samoa at 4.0. For four of the six countries there was no change in the rating between 2005 and 2011, while for two (Vanuatu and Tonga) there was an improvement in the rating over this period. While it is encouraging to see this improvement in two countries in the recent past, it is of concern that four of the six countries continue to have ratings at the weaker end of the scale (i.e. ratings of 3.0 or less). A further two countries (FSM and Marshall Islands) have been assessed for this sub-indicator in 2011 with ratings of 2.5 and 2.0 respectively, giving a total of six of eight countries having ratings at the weaker end of the scale.

#### *Planning and pursuing capacity development*

A study of capacity development at the subnational level in Papua New Guinea commenced with a set of principles, which are worth repeating here. Many of the following principles can be viewed as pre-requisites for effective capacity development:

Principle 1: The capacity development intervention must target specific underperformance in the expectation that the intervention will improve performance. Capacity development needs very clear objectives, and needs to be directed at significant weaknesses.

Principle 2: Undertake a disciplined diagnostic analysis of the causes of underperformance to identify key capacity-related causative factors. Take the time to analyse the performance of the institution and its environment - be very clear on what is “broken” and why.

Principle 3: As part of the diagnostic analysis, identify the key actors (stakeholders) whose support is necessary to improve capacity and final performance. We need to know who the key stakeholders are - capacity development is an inherently political process, not just a question of structures or skills.

Principle 4: The analyses must result in clear capacity development strategies that are duly supported by and involve all key stakeholders. Capacity development can't work without commitment from and engagement of key stakeholders. This engagement must be ongoing rather than "one-off", and responsibility must be shared despite the risks.

Principle 5: Tailor capacity development assistance to need. Avoid the "one size fits all" syndrome. This is probably the biggest potential trap for capacity development activities. The time needed to adapt and test borrowed ideas can be considerable, yet tends to be rushed.

Principle 6: Ownership and local leadership. The capacity development intervention won't be sustainable without these – and ownership and local leadership are often sacrificed in the interests of meeting project timelines. With ownership and leadership, of course, comes responsibility. Host institutions must accept a large part of the responsibility for results.

Principle 7: Sequencing and phasing. Absorption capacity must be recognised – this can require modest goals and long time frames, which don't always sit well with development assistance processes.

Principle 8: Adopt incentives. Organisations and staff within them must see some benefit from capacity development initiatives, and incentives don't necessarily have to be financial.

Principle 9: Support existing structures and processes as far as possible. Support local innovation. There has been too much "out with the old and in with the new" in capacity development initiatives. Often the systems are fine, and the focus should be on making them work – there may be a need to modernise, but modernisation should be pursued as a routine process of change management within the organisation rather than as a one-off intervention.

A thorough application of these principles in the design of capacity development activities would have headed off a number of the mistakes which have been made, and improved the effectiveness and value for money of other activities deemed only partially successful.

In the immediate post-independence period efforts by development partners to support capacity development centred on the provision of personnel in key positions (initially in line positions, and later in advisory positions). This modality fell out of favour as more complex interventions were developed, though even today this form of assistance could be beneficial in some countries and some institutions where capacity remains low. Countries and institutions with higher capacity may still benefit from occasional and targeted assistance of this kind. Some sensitive roles in the public service are difficult to perform for people with extensive local connections, and such positions may best be recruited internationally. This is not uncommon practice in developed countries.

In recent decades, the development partner supported “institutional strengthening” project, or something similarly named, has become common place. Institutions with one have felt blessed, while those without one have felt neglected and unwanted. No public service institution has felt branded as a poor performer by the existence of an institutional strengthening project in their area of responsibility – the focus has always been on the access to resources that such projects entail, and perhaps rightly these projects have been viewed as a confirmation of the importance or priority attached to the beneficiary institution.

A significant share of development assistance to the region has gone in to these institutional strengthening projects. Clearly there have been achievements – one would hope so given the resources applied – but have these investments produced value for money, and have they been the best way to address the issue of “capacity”? A recent evaluation of capacity development projects globally, undertaken for the Overseas Development Institute, concluded that conventional approaches involving training and workshops (often one-off) still tend to dominate, usually combined with technical advice and assistance in project management. Drawing on Kaplan’s seven element hierarchy cited above, this evaluation went on to conclude that these approaches are unlikely to make fundamental changes in the target organisation. Sustainable improvements in capacity were also found to be unlikely in projects involving the creation of structures parallel to that of government agencies in separate project implementation units

It is noteworthy that we don’t see many examples of government funded institutional strengthening projects, while the development assistance agenda has also drifted back towards temporarily less favoured children such as infrastructure and budget support (though that too may have peaked with reflection internationally on the resources provided in this form to regimes caught up in the “Arab spring”).

In some sectors, institutional strengthening projects have given way to broader program-based approaches (PBAs), including sector wide approaches (SWAs). These have most application in sectors such as education and health where the support of a wide range of development partners requires close coordination. Even here, capacity development initiatives are often captured at the centre, with little impact on services at community level.

While these increasingly complex interventions by development partners in support of capacity development have tended to supplant one another over time, it may be that a mix of older and newer approaches is needed. Thus simple provision of personnel may suit some circumstances, while well-structured institutional strengthening projects and broader program-based approaches may be appropriate in other circumstances.



A failsafe recipe for successful capacity development in PIC public services is probably an unattainable objective. However, it is possible to identify a number of ingredients which can contribute to stronger and more effective management in the public service:

☐ Ensuring that basic management processes are functioning. One indicator is the existence of a management team with a formal charter (covering matters such as planning, budgeting, and human resource management) which meets regularly, keeps minutes, and makes and follows up decisions. This sounds almost too obvious to mention – but it is surprising to note how often these basic management processes are not functioning.

☐ Promoting a public service culture which values doing things well. Institutions in which this is a paramount value possess a drive and enthusiasm which makes them stand out from the bunch. Effective counterparting arrangements between advisors and staff can achieve a lot here, and a greater reliance on evaluating progress and performance from the perspective of counterparts would assist in this regard.

☐ Ensuring that newly built capacity is exercised so that it becomes part of routine practice – otherwise it is likely to wither away through disuse.

☐ More effective measurement of public service performance, linked with planning and budgeting processes. We analyse expenditure performance i.e. whether or not budgets are spent, but need to be more thorough in taking this further to analyse efficiency. Public service institutions need to accept responsibility for results – as long as results are specified such that they are within their control.

☐ Adoption of standards which are appropriate in terms of national needs and the resources available to institutions (and in particular the financial and human resources likely to be available into the future once any project support finishes). These may not be the standards targeted in capacity development initiatives, which tend to aim for international standards rather than for first getting the basics right.

☐ Nurturing stability in public service organisations; stability not in the sense of absence of change, but in the sense of change which is planned for and managed. Most public services have been on a roller-coaster ride of change, with sensible long-term planning overtaken by waves of new activities which are then abandoned in mid-stream due to a new Government or new development partner wanting to put their stamp on the process.

☐ Getting the balance right between a professional public service dispensing independent advice, and a public service which is responsive to the Government of the day. In a number of PICs this balance is not optimal, with political interference gradually eroding capacity in the public service. It is recognised that politicisation of public services has also occurred in countries such as Australia, New Zealand and the United Kingdom (who are

therefore unlikely to be pointing the finger at this as a major problem), though the impact on capacity appears much greater in affected PICs.

☐ Effective arrangements for management training for public servants – options include enhancing the capacity of public sector managers via programs developed with a partner training institution, or more permanent capacity established in a locally based institution such as the Institute of Public Administration and Management in Solomon Islands.

☐ More attention to economic analysis of investment in capacity development. Cost-benefit and cost effectiveness principles can be applied to investment in capacity development: giving consideration to the costs (including opportunity costs) and benefits of capacity development, the optimal level of capacity development, and trying to work out where the capacity development dollar can best be spent.

#### *Managing demand for capacity in the public service*

Thus far the discussion of capacity and capacity development has centred on how capacity is built in public services and institutions. But is there a demand side that also needs attention? What instruments are (or might be) available to manage the demand for public service capacity or meet it in alternative ways?

From time to time re-assessments are undertaken of the role of government in the society and economy, which attempt to position government in relation to the roles of other actors including the private sector, civil society organisations, communities and individuals. This is an inherently political process, but it does have significant implications for the capacity required in our public services.

Other opportunities to manage the capacity required in our public services involve seeking out alternative ways to supply this capacity. There has been debate in the region as to whether all countries can expect to maintain within their public services all of the capacities that might be required of the state. A diverse and perhaps overly complex regional architecture has developed over the decades, aimed partially at least at satisfying demand which national public services are unable to meet. Some of the more recent regional initiatives have been targeted specifically at capacity constraints in smaller states with, for example, the Pacific Regional Audit Initiative taking on parts of the audit task for particular countries. This approach is likely to become more common as PICs face increasing difficulties in maintaining domestic capacity in technical fields. Consideration can also be given to purchasing capacity on the international market, which in some cases may prove better value for money than maintaining domestic capacity.

Beyond the architecture of regional institutions and programmes, there are other promising and more home-grown developments. Pacific island public services have much to gain in linking with and drawing on public policy “think-tanks” established in the region, such as the Vanuatu-based Pacific Institute of Public Policy.

### *Summary and conclusions*

Capacity development is defined here as the process through which public services obtain, strengthen and maintain the capabilities to carry out their charter, with that charter being made up of laws, administrative processes, and the platform of the Government of the day.

Public services have struggled to maintain capacity in an ever-changing environment in which challenges appear to outnumber opportunities. Nevertheless, it is possible to identify a number of ingredients which can contribute to stronger and more effective management in the public service e.g. strength in basic management processes, a culture of doing things well, exercising newly built capacity, accountability for results, appropriate standards, stability, the balance between professionalism and responsiveness, effective management training, and subjecting proposals to invest in capacity development to economic analysis.

Consideration is also given to opportunities to manage the demand for public service capacity, through ongoing review of the role of government vis-a-vis other actors in society and recourse to external resources.

Public services and institutions are important contributors to social and economic development in PICs. Public services with low capacity act as a significant drag on development, while those with relatively strong capacity catalyse development. Finding the right path to building capacity in public services is therefore well worth the effort.

## **Summary of Discussion**

**Chair: Odo Tevi**

**Rapporteurs: Hannington Alatoa, Sivia Qoro**

Key points made by the Speaker:

- Simple definition of ‘capacity’ is the ability of organizations to manage their affairs successfully/effectively.
- Capacity is to manage a wide range of tasks efficiently in a complex work environment.

- Capacity development coalesced as a discipline in its own right in the 90s and it was then realized that most development challenges could not be addressed by technical solutions and/or funding alone (Kaplan, A (1999)).
- Capacity development is not uniform across the region. The paper looks at a generalization and does not fully capture regional differences.
- Capacity development is an ever more complex matter across the globe. Capacity building takes place in different political, cultural and socio-economic environments.
- Some PICs have benefited from right sizing civil service while some have not; as it depends on how effectively the program is planned and executed in-country. Cook Islands and Vanuatu might have benefited from such reforms. Reduction of ministries, coupling of responsibilities/portfolios, etc.
- Proper problem analysis needs to be carried out first as a pre-requisite; need to have a deep understanding of issues before embarking on building strategies.
- Capacity building programs have become more complex and are increasingly linked to broader reform programs and SWAPs.

Key issues raised in discussions and post discussion comments:

- Building capacity doesn't happen overnight. We need to take careful account of what is on the ground. Also need to phase it in gradually.
- Important to have on-going training for the public service, sustained with proper planning, monitoring and financing.
- But caution is also necessary that such initiatives do not evolve into something quite different to the originally intended objectives.
- There also needs to be active and enthusiastic local leadership within the public service to ensure continuity.
- Regional solutions to help upgrade skills are also useful such as the Pacific Audit project.

Institutional vs Individual Focus

- A lot is being done around building capacity and identifying future leaders. Both will continue to fail or be less successful while the focus remains on individuals and does not address the core issues of building and sustaining institutions and organizational connections.
- Too much focus on skills upgrading can lead to ignoring other key factors that contribute to institutional capacity such as management leadership, systems, processes, culture.

- Should also not forget the purpose of capacity development – viz. for better performance. Hence the need to focus on performance first and then work backwards to identify the institutional factors causing underperformance.
- In many PIC administrations, performance management is practically non-existent. In fact donors have dropped the ball by not continuing to support and emphasise the importance of management.

#### What Have We Learned?

- Capacity is simply getting things done – as per the mandate of each organization.
- The public sector in every PIC has been failing in this most essential for functions
- Capacity building has become a hackneyed term, often to signify more training.
- Building organization capacity to perform to requirements is more than just simply upgrading of skills. On the other hand, it is not rocket science. It simply means better leadership, stronger management, greater accountability. .
- Perhaps it's time for PICs and donors to recognize the issue for what it is – and simply focus on strengthening basic management and accountability in public sector organisations.

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## **End of Volume2**

### **Report of the WCWL symposium proceedings 6-8 November 2012**

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