

# I. Background

*Not so long ago, discussion on good governance was sometimes seen as a polite way of raising “awkward” questions on corruption, incompetence, and the abuse of power. But public discussions and attempts to address these critical issues have gathered momentum with the realization that corruption takes away resources that need to be applied to poverty alleviation [and] long-term development and stands in the way of resource mobilization for worthy national development efforts.<sup>1</sup>*

This astute observation by a Fijian educator cogently sums up the changing attitudes of government officials and others in the Pacific islands about governance. During the 1990s, many Pacific island countries incorporated the principles of good governance in public sector reform programs supported by all aid providers in the region. The Forum Economic Ministers Meeting<sup>2</sup> (FEMM) reflected its support for good governance in the adoption of the Eight Principles of Public Accountability (Box 1).

---

<sup>1</sup> S. Siwatibau. 2003. *Some Development Challenges in the Pacific Region*. Suva: University of the South Pacific. p. 18. Mr. Siwatibau is the former Vice Chancellor of the University of the South Pacific.

<sup>2</sup> The Forum Economic Ministers Meeting (FEMM) is a committee of the Pacific Leaders' Forum and is supported by the Pacific Forum Secretariat based in Suva, Fiji Islands. The FEMM is an annual event at which the economic and finance ministers of all Pacific Island Countries, together with those of Australia and New Zealand, meet to discuss urgent economic and financial issues, take stock of progress in financial reforms, and agree on an agenda for action in the following year.

### Box 1. The FEMM Eight Principles of Public Accountability

1. Budgetary processes, including multi-year frameworks, to ensure that Parliament/Congress is sufficiently informed to understand the longer-term implications of appropriation decisions.
2. The accounts of governments, state-owned enterprises and statutory corporations to be promptly and fully audited, and the audit reports published where they can be read by the general public.
3. Loan agreements or guarantees entered into by governments to be presented to Parliament/Congress, with sufficient information to enable Parliament/Congress to understand the longer-term implications.
4. All government and public sector contracts to be openly advertised, competitively awarded and administered, and publicly reported.
5. Contravention of financial regulations to be promptly disciplined.
6. Public Accounts/Expenditure Committees of Parliament/Congress to be empowered to require disclosure.
7. Auditor General and Ombudsman to be provided with adequate fiscal resources and independent reporting rights to Parliament/Congress.
8. Central Bank with statutory responsibility for nonpartisan monitoring and advice, and regular and independent publication of informative reports.

Through decades of experience, the Asian Development Bank (ADB) learned that sustainable development depends on the quality of the decisions made toward development and reform, and, equally, on the manner in which these decisions are taken and carried out. In October 1995, ADB members decided to apply this fundamental lesson in a more systematic way in ADB's overall operations. Thus, ADB became the first multilateral development bank to have a board-approved policy on governance (Box 2).

## Box 2: Good Governance Defined

The term governance means different things in different contexts and to different people. For its purposes, ADB defines governance as **“the manner in which power is exercised in the management of a country’s economic and social resources for development.”** Thus, the concept of governance is concerned directly with the management of the development process, involving both the public and private sectors. In broad terms, governance is about the institutional environment in which citizens interact among themselves and with government agencies. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies and partnerships.

---

Source: ADB. 1999. *Governance: Sound Development Management*. Manila, page 3.

Good governance has always been a sensitive issue in development debates, more so in the Pacific, given the short time since independence was achieved and the importance attached to the traditional culture and value systems. However in the 1990s, inadequate economic growth and the perceived failure of economic and social development had given impetus to searching questions on the reasons for such a state of affairs in ADB’s many Pacific Developing Member Countries (PDMCs). Poor governance institutions and practices, corruption in particular, often appear on the list of key constraints on economic and social development.

## Four Elements of Good Governance

ADB is concerned with governance because it has a strong impact on the development efforts that ADB supports. Development institutions, including ADB, have a direct interest in the way the public sector is managed in developing member countries (DMCs) and with the legal framework for development. However, in formulating an analytical framework for addressing governance issues, ADB prefers to draw a distinction between, on

the one hand, elements of good governance and, on the other, the specific areas of action (for example, public sector management) that could be promoted or improved.

In line with this reasoning, ADB identifies four basic elements of good governance:

- **Accountability** means making public officials answerable for government behavior and responsible to the entity from which they derive their authority. This process infers the establishment of criteria to measure the performance of officials and oversight mechanisms to ensure that these criteria are met. Its existence is imperative for the functioning of governments.
- **Participation** derives from an acceptance that people are at the heart of development; they are not only its ultimate beneficiaries, but also its agents, acting through groups or associations and as individuals.
- **Predictability** means, in effect, the rule of law. It refers to (i) the existence of laws, regulations, and policies to regulate society and (ii) their fair and consistent application. It encompasses well-defined rights and duties, as well as mechanisms for enforcing them and for settling disputes in an impartial manner. Its importance cannot be overstated, since without it, the orderly existence of citizens and institutions would be impossible.
- **Transparency** refers to the availability of information to the general public and clarity about government rules, regulations, and decisions. Policies or decisions that are known only to the preparers and administrators of the information, distort the governance process. Transparency in government decision making and public policy implementation reduce uncertainty and can help inhibit corruption among public officials. Hence, the citizen's rights to information may need to be strengthened with a degree of legal enforceability.

These elements of governance tend to be mutually supportive and reinforcing: accountability is often related to participation and is also the safeguard of predictability and transparency. Similarly, transparency and openness of information cannot be assured without legal frameworks that balance the right to disclosure against the right of confidentiality, and without institutions that accept accountability.

## Governance in the Pacific Region—Background

The 14 PDMCs—Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), Nauru, Republic of Palau, Papua New Guinea (PNG), Samoa, Solomon Islands, Timor-Leste, Kingdom of Tonga, Tuvalu, and Vanuatu—face significant development challenges. With three exceptions (Fiji Islands, PNG and Timor-Leste), they have small economies and limited natural resources, and most are highly vulnerable to natural disasters, environmental problems, and the impact of climate change<sup>3</sup>. Their remote location, poor access to commercial and capital markets, and limitations in the institutional capacity necessary for economic development make development even more difficult. In all PDMCs, the public sector is disproportionately large, the private sector relatively undeveloped, and the trained personnel to meet development challenges in very short supply.

Since 1970, the Pacific has received \$50 billion in aid, the largest country aid inflows per capita in the world by a large margin: in 1995–1999 alone, average annual aid flows per capita were \$220 in 1998 US dollars; the next highest flows, for the Caribbean, were \$34.<sup>4</sup> Between 1987 and 1999, of the \$11.9 billion in assistance provided to the PDMCs, 81% has come from bilateral aid providers (Australia, Japan, New Zealand, the United Kingdom, and the United States), 12% from multilateral

---

<sup>3</sup> Timor-Leste shares many of the disadvantages mentioned here, but it claims ownership of considerable offshore oil and gas resources, some of which have been developed.

<sup>4</sup> The Development Assistance Committee. *Development Cooperation Report, 1971–2000*. Paris: Organization for Economic Cooperation and Development. In Helen Hughes. 2003. *Aid has failed the Pacific*. Sydney: The Centre for Independent Studies.

institutions (ADB, the European Union), and 7% from other aid providers.<sup>5</sup>

Many papers have been written about what these resource flows have accomplished: the generally accepted conclusion is that economic growth has been consistently below expectations over the last 20 years and that, while there have been improvements in social services, these are not considered commensurate with the level of assistance provided. This lack of success has many explanations, but poor governance (for example, in terms of leadership, policy environment and corruption) is often cited as one of the key factors.

During the period 1994–1999, ADB's strategic focus for operations in the PDMCs shifted from sector and project lending to supporting major macroeconomic stabilization and structural adjustment and public sector and governance reform. This strategy noted that it was important for ADB to assist PDMCs in getting their policy and governance environments right, thus ensuring that follow-up sector and project investments achieved expected returns. During 1995–1999, therefore, program lending in support of economic, public sector, and governance reforms assumed a significant proportion of ADB's lending in the Pacific.

Since 1995, ADB has assisted reform programs, i.e., economic and financial management and public sector reforms, in eight PDMCs: Cook Islands, FSM, RMI, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu<sup>6</sup>. Other major bilateral development partners, notably Australia and New Zealand, also provided assistance for economic reform and governance, policy and regulatory reform, and capacity building in support of the overall thrust of a reform agenda in the Pacific (Box 3).

## **ADB's Medium-Term Governance Agenda and Action Plan 2000–2004**

In October 2000, ADB's Board decided that ADB should take a lead role in promoting good governance in the Asian and Pacific

---

<sup>5</sup> US General Accounting Office. 2001. *Report on Foreign Assistance: Lessons Learned from Donors' Experiences in the Pacific Region*. Washington, D.C.

<sup>6</sup> For an early assessment of ADB interventions in this area, see Knapman and Saldanha. 1999. *Reforms in the Pacific*, Manila, Asian Development Bank.

region. To that end, it drew up a Medium-Term Action Plan (2000–2004)<sup>7</sup> for implementing ADB's Governance Policy in the region, which would

- take a lead role in promoting good governance in the region;
- elevate governance issues to the forefront of the development agenda;
- build consensus on regional benchmarks, codes of conduct, and indicators of good governance; and
- enhance the quality of governance in individual DMCs.

### Box 3: The Money Follows Good Governance

After 30 or more years of assistance to Pacific Developing Member Countries, the development community has accepted the principle that aid is more effective in countries with good policy environments. Today, all major development partners in the Pacific have adopted strategies that promote the development of good governance in the region.

Why? According to a World Bank study, *“Assessing Aid – What works, What doesn’t and Why* (Washington DC: World Bank, 1998), where country management is sound, an additional 1% of gross domestic product in aid translates into a 1% decline in poverty and a similar decline in infant mortality. In the absence of good policies, aid has no positive effect on growth.

The Prime Minister of Australia, Mr. John Howard, has expressed a similar sentiment:

*...I have made no secret of the fact that we have adopted a firmer policy in relation to requiring high standards of governance and absence of corruption... We (meaning the Pacific leaders) must collectively recognize that unless corruption, wherever it does exist, is rooted out and institutions of good governance strengthened, gains cannot be sustained... The future stability and prosperity of the South Pacific depends on achieving higher standards of government. Political will to institute the conditions required for sustained economic growth—sound governance, intolerance of corruption and adherence to the rule of law—is central to the Pacific’s future.” (Interview with the Pacific Magazine, March 2004)*

<sup>7</sup> ADB. 2000. *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*, Manila.

The Action Plan 2000–2004 *inter alia* calls for ADB to undertake country governance assessments (CGAs) for individual member countries. Some 22 CGAs on ADB's developing member countries have been undertaken since 2001: 10 CGAs were completed and others are at various stages of completion; these have proved useful as a basis for policy dialogue with the relevant governments. The implementation of the CGAs in the Pacific is discussed in Section II.

The Action Plan was reviewed in 2003.<sup>8</sup> The review and recent experience in governance indicated three major issues that ADB need to consider for further action: (i) capacity needs to be strengthened in DMCs to appreciate the benefits of good governance, which in turn requires greater competence among ADB governance and other staff to carry out the delicate and sensitive business of policy dialogue; (ii) CGA recommendations must be better prioritized and better sequenced, in close consultation with DMCs, not overly ambitious and calibrated to the ability of a DMC to achieve them; and (iii) greater attention must be paid to the political decision-making processes and the manner in "which power is used" and how these affect development effectiveness within each country.<sup>9</sup>

ADB's country governance assessment framework is analytical and its implementation in the Pacific reflects staff members' understanding of the governance environment, institutions, and processes in selected countries. It is important to test this understanding when the CGA findings are matched against an understanding of governance concepts and systems from a local/grassroots perspective. Thus, to supplement the country assessment process, ADB provided a grant to a regional NGO to undertake a community governance mapping research study<sup>10</sup> to ascertain how well people in Pacific islands grassroots communities understood both traditional and modern (national)

---

<sup>8</sup> ADB. 2003. *Progress Report on Implementation of ADB's Governance Action Plan in ADF Borrowers*, Manila. The implementation review is ongoing with internal and external consultations; it is expected that the review will culminate in a medium-term governance agenda and action plan for 2005–2009, to be submitted for management approval in the first quarter of 2005.

<sup>9</sup> ADB. 2004. *Governance and Capacity Building Committee's Annual Report 2003*, Manila.

<sup>10</sup> ADB. 2002. RETA 6065, *Assessing Community Perspectives on Governance in the Pacific*.

governance institutions and processes and their views on how both systems impacted them and their communities. The key findings of this study are briefly described in section III while information on the findings and observations is contained in the Appendix.

