

IV. Improving Governance for 2005–2009: A Strategic Focus

At independence, Pacific peoples hoped for high standards of living in education, health and longevity as well as material comforts... The living standards of Pacific peoples [however] have stagnated and even fallen... Women have always been, and are, the workers of the Pacific, yet they bear the brunt of emerging deprivation and insecurity in villages and towns. Many men are unemployed in urban areas and most are underemployed in villages. Deep dissatisfaction has inevitably followed, erupting in a culture of arms and violence.²⁷

The above description of the Pacific is a far cry from the image of pristine blue seas, swaying palms and paradise on earth often associated with the Pacific. The Solomon Islands has been cited as the first “failed state” in the Pacific; serious concerns have also been expressed about the future of some other Pacific island countries that seem to be moving down a similar path of economic decline, political instability, and unchecked corruption leading to the spread of weapons, crime, and violence. The picture in the remaining countries is a little brighter, but living standards for the majority of the people in the region as a whole have not improved. The problem of access to education, health, clean water, sanitation, housing, and markets, particularly for the poor, are all too evident and getting worse.²⁸

Reasons for this state of affairs are many, including inappropriate economic and trade policies; slow economic growth coupled with population increases; and the challenges for development associated with communal land ownership, poor governance institutions and practices, corruption, and crime. Good governance has always been a sensitive matter in any discussion on development in the Pacific. The findings of the governance assessments ADB has undertaken are consistent with the views expressed by many commentators on the subject of

²⁷ Helen Hughes. 2003. *Aid has failed the Pacific*. Sydney: Centre for Independent Studies. p. 2.

²⁸ S. Siwatibau. 2003. *Some Development Challenges in the Pacific Region*. Suva: University of the South Pacific. p. 3.

governance in the Pacific. The following key points are relevant to the context of ADB past and current development assistance in the Pacific:

- (vi) The scope and content of past reforms were complex and, in large part, foreign to traditional Pacific culture and value systems.
- (vii) The inability of PDMCs to sustain past governance reforms, even with the support of major development partners including ADB, is partly due to the lack of country ownership and commitment by stakeholders.
- (viii) Technical and management skills are scarce and training programs have been largely ineffective. The use of consultants is another aspect that requires rethinking on the part of development partners.
- (ix) The cultural and value systems prevailing in communities outside the capital cities need to be better understood and reflected, as appropriate, in government strategic priorities and resource allocation decisions.
- (x) Civil society, including community groups, provides a valuable link between governments and citizens and could be better used to enhance accountability of governments and public officials.

The objectives of the reforms in the Pacific are as valid today as they were in the mid-1990s, with the key focus on macroeconomic stability, public sector efficiency and effectiveness, and private sector development. When considering strategy and action plans for the next planning period, it is necessary to consider and apply the lessons from past reform efforts. Further actions to improve public sector governance institutions and processes are still needed, but they have to be owned and implemented by the PDMCs themselves, at the pace appropriate to each country's stage of development and within the constraints of local skills and resources.

Assistance from development partners in the region, including ADB, remains critical given the poor economic performance in most countries in the past decades. Those supporting public sector reforms have to be cognizant of the longer-term nature of capacity building and the need for

complementary actions to generate economic growth and to reduce poverty. Also crucial are actions to make governance institutions and processes effective, so as to ensure that any growth dividends and productivity savings are distributed fairly to the poor and the disadvantaged in Pacific societies.

ADB's governance focus complements and supports the overall Pacific Strategy for the period 2005–2009. Given its mandate and resources, and recognizing the important roles played by other development partners in the region, ***ADB proposes to focus its governance assistance in the PDMCs on policies and activities that will***

- ***Improve government financial management***, notably by using near-term assistance to improve the processes of linking government strategic priorities, including the MDGs, to a medium-term fiscal framework, annual budgetary resource allocation, and the effective and timely reporting of budget execution for accountability and management purposes. This includes improving the capacity of central government agencies (i.e. prime minister/cabinet offices and finance/treasury/national planning departments) to analyze and support sector policies and programs formulated by line agencies so as to ensure compliance and consistency with the government's strategic direction, priorities, and policies.
- ***Improve the efficiency and productivity of public enterprises*** by strengthening government capability to sustain appropriate public enterprise reforms and instituting performance monitoring regimes within the capacity and skill constraints of the Pacific economies.
- ***Improve financial knowledge and advocacy skills of civil society and selected community groups***, especially in the areas of government strategic planning and budgetary processes. An understanding of government decision-making processes and the ability to use published information effectively will provide civil society groups with a powerful tool to ask questions of governments about their accountability and to maintain a watch on potential abuses of power and corrupt practices.

Improve the Public Financial Management Process

In most PDMCs, the linkage between, on the one hand, high-level priorities and annual resources allocation decisions, and on the other, day-to-day performance in service delivery and operations is weak and not well understood by public servants and interested stakeholders. Some PDMCs have adopted output budgeting, but the stated outputs often do not show any connection with the government's desired strategic priorities and policies.

Development partners have, in the recent past, provided considerable assistance in corporate planning capacity in line ministries, but the connection between government policy priorities and budget appropriations, corporate outputs, and performance indicators is only dimly perceived. A lesson from past assistance in this area has been that political leaders and senior public officials have only a vague awareness that the reform agenda to which they have agreed requires prioritization and sequencing of the reform objectives and implementation activities taking into account resource/capacity constraints, risk mitigation, and change management actions. The ultimate result of the unclear linkages, and the time needed to achieve results, has been unfulfilled expectations and, in many instances, inability to sustain the reform initiatives.

Improving this process will include "localizing"²⁹ MDGs and other social/economic targets endorsed by PDMC governments to individual country contexts and circumstances, breaking these longer-term goals into shorter-term measurable indicators, and translating these results-based measures into financial resource requirements. This process accords with the priority of all DMCs and the development partner community to achieve the MDGs by 2015. This is only possible if countries' priorities are aligned with resource allocations and linked to the performance of ministers and senior public servants. This change

²⁹ Several PDMCs have achieved certain MDGs, particularly those relating to universal primary education, low and decreasing child mortality, and universal immunization coverage (for example, Cook Islands, Fiji Islands, Samoa, and Tonga). However, these countries have indicated the need to focus on other targets that are more relevant for the countries' current circumstances, such as improving retention rates for secondary schools, improving the quality of education, especially in rural areas, and providing non-formal/vocational education for school leavers.

process requires careful management and effective monitoring to ensure that governments have credible systems for reporting back to the community on an ongoing basis between now and the 2015 deadline.

Improve the Efficiency and Productivity of Public Enterprises

The public sector still occupies an important position in most Pacific island economies. Public sector reforms undertaken in the region in the past decade have affected public enterprises, but success in improving the efficiency and effectiveness of these agencies is still a matter for debate. While reform legislation was expected to clarify the objectives, accountability, roles and functions of various parties in this sector (ministers, line ministries, board of directors and chief executives), data on the performance of public enterprises is sketchy and generally unavailable to the public. Performance improvement is difficult when implementation of legislative provisions in many countries is incomplete for various reasons: for example, ministers and senior public servants of line and central agencies still sit on boards of directors of many public enterprises, while these agencies are required to operate in a commercial manner with independent and commercially-minded boards of directors.

Moreover, some governments' unwillingness to apply the basic principles of commercialization and corporatization set out in the relevant legislation means that without clearly defined objectives, appropriate capital structure, and independent boards of directors, these agencies find it difficult to operate as commercial businesses, and all but impossible to render appropriate accountability to the government as owner. Assistance to improve governments' capacity to sustain public enterprise reforms, with an adequate performance monitoring regime and appropriate regulatory and competition framework within the constraints of the typically small economy with dispersed geography, is imperative if basic services critical to the development of private businesses are to be improved and the cost of doing businesses is reduced.

Improve Financial Knowledge and Advocacy Skills of Civil Society Groups

It is generally agreed that a robust and vibrant civil society, especially an active and independent media, is a necessary and critical ingredient for good governance. Civil society is an important watchdog to help keep government open to scrutiny, and to be on the alert for abuses of power and corrupt practices by politicians and public servants. During the consultations conducted in the course of developing the Pacific Strategy 2005–2009, NGOs in the region expressed strong support for ADB technical assistance that would help to build skills in civil society (NGOs, journalists, and some community groups), from a pro-poor perspective, in the areas of budget literacy, financial analysis, and advocacy skills.

While improved government planning and resource allocation capability and timely reporting on the use of public financial resources are critically important, disclosure of such information is useful only if there are citizens at the receiving end of such information who can understand it and use it to ask questions of governments about the discharge of their accountability to the community.

Sustainability of reforms and changes has always been a challenge to DMCs and development partners. From the DMCs' perspective, sustainability requires ownership, commitment, political will, bipartisanship and discipline through difficult as well as good times. From the aid community's perspective, sustainability requires commitment over a timeframe longer than the normal 18 to 36 months, better design of projects, and more effective use of consultants, especially when capacity building is involved, and most important, a clear set of priorities and sequencing in public sector reforms established by the government and supported by all development partners so as to improve donor coordination and collaboration.