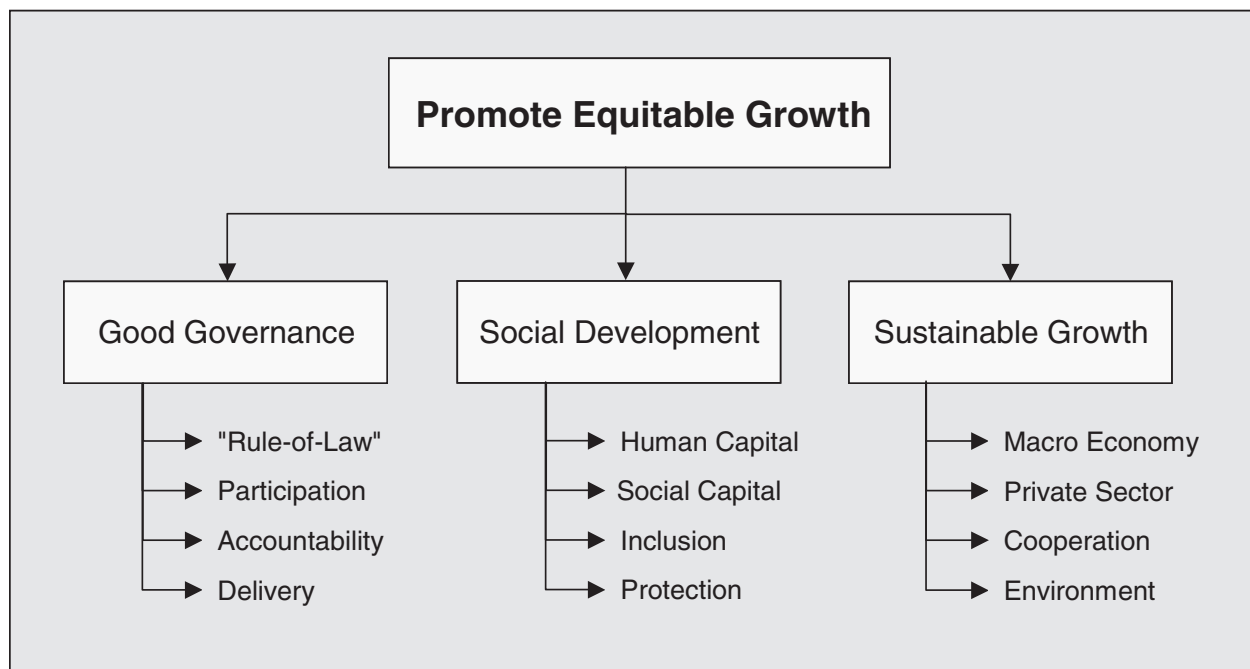


# III. FRAMEWORK FOR ANALYSIS

A framework for analysis should include both the range of the issues that need to be addressed and the priority that should be given to addressing each issue. The range used in the following analysis has been derived from the ADB publication, *Fighting Poverty in Asia and the Pacific*. The priorities are based on the work done by Duncan and Pollard (2001).

## A. *Strategies Framework*

The ADB's approach to encouraging pro-poor economic growth, as set out in *Fighting Poverty in Asia and the Pacific*, is summarized in Figure 3.



**Figure 3: Equitable Growth Goal, Objectives, and Strategies**

The ADB sees its primary role as being to promote equitable growth. Through achieving this goal, it can assist in helping alleviate the problems facing the poor and under-privileged in Asia and the Pacific. Underlying the goal are three objectives, described in the document as the Three Pillars of Growth: Good Governance, Social Development, and Sustainable Growth. Under each Pillar, there are four issues that must be satisfied if equitable growth is to be achieved. Each of the PDMCs has its own mix of issues that need addressing.

## 1. Good Governance

### **Rule-of-Law: *Individual and corporate rights protected***

The Rule-of-Law is the very basis of the State. It provides the security and the legal environment necessary for an economy to develop. The nature of the Rule-of-Law will have a major impact on the extent of inequality in the economy. For equitable growth to occur, it is important that: there is an independent judiciary; the rights of individuals and organizations are protected in the law; all citizens have equal rights under the law; these rights are genuinely accessible to everyone; and there is a functioning law enforcement system. As has been shown in the growth of the developed economies, one particularly important right is that of the right to own and use private property.

### **Participation: *Broad based community involvement and support***

The nature and degree of access to the political process can be an important determinant of the direction of growth. For growth to be equitable, it is important that the political process fosters broad based involvement. In narrowly based systems, those that are excluded from the process have difficulty making their needs known and almost inevitably become an under-class in society. It is important that, as far as possible: the system is democratic; the system delivers one vote one value; there are no constraints on who can stand for parliamentary office and whose interests they can represent.

An associated and important issue is the stability of government and the transition between governments. The experience in the PDMCs varies considerably. While most of the countries have remained stable and succeeded in changing government without any unrest, several have not. Where instability has been a problem, the impact on economic growth has been significant. Difficulties in delivering stable government combined with occasional uprisings make it very difficult for governments to deliver public services.

### **Accountability: *Transparent system free from corruption***

Lack of or inadequate accountability in the public sector is a serious barrier to equitable growth. An accountable system incorporates: transparent decision making processes; effective auditing procedures; and enforced anti-corruption laws, regulations, and mechanisms that enable the performance of the public sector to be monitored. Systems where bribes and/or patronage are the normal method used to obtain a favorable decision work for those with money or influence. However, they present serious barriers to the poor or disadvantaged who cannot buy or cajole their way through a system.

#### **Box 1: Mentoring, A Method to Enhance Service Delivery**

One method to fast track the process and help ensure its sustainability would be to develop a mentoring scheme. All the PDMCs are small countries. It is totally unrealistic to imagine that they can provide a comprehensive range of public services from within their own resources. There are many skills that are needed occasionally but where the demand will never be sufficient to justify having specifically trained local staff.

Conventionally these skills are obtained from donors, international agencies, NGOs or purchased through contracts. An alternative approach that could be beneficial to all parties would be to establish mentoring arrangements with foreign organizations. This approach could involve establishing links between agencies in the Pacific and agencies in other countries. Staff could be swapped, specialist skills brought in as required and, in some cases, it may be possible to export special skills. The advantages would be that the agencies at both ends of the arrangement would build up an institutional memory. Instead of ad-hoc technical experts arriving and providing once off services, the on-going relationship would help ensure that there was a clear understanding of the issues to be dealt with and the manner in which they needed to be handled.

**Delivery: *Efficient and responsive public service***

The purpose of the public service is to provide public services as efficiently and effectively as possible given the available funds, resources, and staff. Too often it is used as a vehicle for patronage and social security and becomes a burden on society rather than a service to society. The effective and efficient delivery of government services requires: an independent executive; comprehensive service coverage; and accessibility of those services. When the public service does not perform its functions efficiently and effectively, the people that suffer the most are the poor and under privileged. They do not have the resources to purchase services privately and must fall back on what is provided by the government.

**2. Social Development****Human Capital: *Affordable and available education and training***

There is ample evidence that shows that knowledge is the key to growth. Knowledge, when combined with resources, gives the individual capacity to seek out and utilize opportunities. In the absence of knowledge, it is hard for even resource rich societies to reach their potential. The source of knowledge is a combination of formal and informal education and learning. For people to have the knowledge and skill needed to grow, it is necessary that: primary and secondary education are available to all with the talent and motivation to take advantage of the opportunity; appropriate post secondary training is available; and the workforce has access to on-the-job and other sources of training. It is also necessary that appropriate social and cultural values be learned.

**Social Capital: *Equality of opportunity for whole community***

In many countries, the poor are an under class in society. They are poor because of their status, their class, their ethnicity, their gender, their religion and a host of other justifications for discrimination. In most PDMCs, the communities are of similar ethnic background and religion so people are seldom discriminated against on those basis. However, there are some societies that have distinct social classes, which are used as a basis for discrimination. As with all countries, being born into a poor family is a handicap. Some, by reason of talent and luck, are able to overcome their initial circumstances but many are not.

Many studies have shown that usually, the number of poor women in a society exceeds the number of poor men. This occurs for a range of reasons: women are usually the caregivers and therefore have limited opportunities to find paid employment; some are deserted and others widowed; and girls are often taken out of school before boys, thereby reducing their employment options. Given the intergenerational nature of poverty whereby children from poor families tend to become poor adults, and given the fact that women are generally the child raisers, there is potentially a high pay-off from directing poverty alleviation and mitigation strategies towards women.

**Inclusion: *Broad based involvement in society decisions***

To ensure broad based inclusion, it is important that: the rights to organize are protected; there are no repressive labor laws; and that the right of workers to a safe workplace is legally enforced. The social systems must also allow free and open participation in the community, the freedom to worship, belief to be respected, and the important cultural and social values of all groups to be recognized. And most importantly, the citizens should have the right to elect a representative government. To a large extent, all the PDMCs meet these criteria.

An issue in the PDMCs is the increasing importance of money. All the economies are becoming increasingly monetized with an increasing proportion of the transactions that occur in these

economies now involving money. This is having a profound effect on the balance of influence within many economies. While the traditional roles and responsibilities of women, tribal elders, and chiefs remain intact, the importance of those roles has been eroded and the scales have tipped towards those who control money. Since men, through their traditional role as the community representatives, now dominate parliaments, and since the Governments now control much of the community's money, the power of men relative to women and the power of the political leaders relative to the traditional leadership have been increased.

**Protection: *Social safety net for times of crisis***

Every society has people who are vulnerable or disadvantaged. This can be due to personal crisis such as sickness, accident or disability. It can also be due to wider problems such as natural disasters, economic or political crisis. The effectiveness with which a society addresses these issues can have major impact on the development of the economy. Where there is little or no safety net, the poor, who have few resources to fall back upon, will adopt a very conservative attitude to risk. They will be more concerned about minimizing the risk of a catastrophe than maximizing their chances for economic growth. An economically rational society will try to counter balance this by reducing the risk of change and thereby encouraging people to seek out new opportunities.

The traditional social safety nets throughout the PDMCs are being eroded. This is in part due to the increasing pressure on the available resources and in part due to the increasing monetization of the economies as people leave their traditional land to find work elsewhere in the country.

Another aspect of *Protection* is safety from disease. Most of the PDMCs have made significant progress in eliminating contagious diseases such as yaws, tuberculosis, malaria, and measles. At the same time, there has been a disturbing increase in lifestyle diseases including diabetes and cardio-vascular disease. In several, the rate of sexually transmitted disease is very high, which gives rise to serious concern about the risks from HIV/AIDs.

### **3. Sustainable Development**

**Macro Economy: *Establish and maintain environment conducive to growth***

Having an appropriate macro economic framework is fundamental to achieving economic growth, be it equitable or otherwise. As past experience has shown, striking the correct mix of economic measures can be difficult. The pursuit of self-sufficiency in the 1970s and early 1980s often resulted in inefficient economies with low employment growth and high domestic prices. The negative impact generally fell most heavily on the poor who faced tight labor markets and had to pay higher than necessary prices for basic goods and services. The opening up of economies has generally expanded the employment opportunities and reduced prices albeit at the cost of forcing painful adjustments on the previously protected sectors of the economies. Maintaining the international competitiveness of the economies has also proved to be a difficult challenge. They often have a very narrow production base with few potential exports and limited opportunities to sell services; but resources are tied up by traditional management systems that impede their use. At the same time, the economies are highly dependent on some critical imports, in particular petroleum products. The wages systems are often dominated by a relatively large and well-paid public sector that is loath to take pay cuts, real or otherwise. The combination of a relatively inflexible wages system plus the limited opportunities for earning foreign exchange puts a lot of pressure on casual workers and the small producers who bear the brunt of any adjustment.

**Private Sector: *Foster the development of private sector***

For an economy to grow, it is important that private sector investment be allowed to flourish. Even after allowing for the limitations imposed by resources, location, and markets, the growth of private sector investment in the PDMCs has been disappointing. A major reason for this is the property rights systems that are used throughout the Pacific. The tight restrictions on the use and transfer of land have protected the traditional ownership but have been a serious impediment to private sector investment. For the private sector to flourish, it requires an appropriate economic environment that must include enforceable private property rights. In particular, the right to own, occupy, develop, and transfer land is crucial. In the absence of private property rights, there is little incentive for investors to move beyond basic trading activities. Why risk large sums of money in developing something belonging to someone else or something that cannot be sold. Equally, there are few financial institutions that will lend anything more than trivial sums without security. And for property to provide security, it must be transferable.

Another issue that needs to be considered in the PDMCs is the culture. In many PDMCs, few people have more than a superficial understanding of business. Unlike the developed countries of the West where children are exposed to markets, business, money, and the principles of buying and selling on a daily basis, many in the PDMC grow up in an environment where most of their daily needs are grown and harvested from their own land. This cultural experience has a profound effect on the capacity of individuals in PDMCs to establish and operate a successful business.

The very small atoll countries also face a major problem finding employment opportunities for their growing population. The virtual demise of the copra industry has hit these communities very hard. With very limited resource bases, they have few options for creating domestic employment. In the past, many young adults (almost invariably men) have taken jobs in the Nauru phosphate mine or on merchant and fishing vessels. In the future, they will have to seek work elsewhere. An associated issue is the burden an absentee adult places on the remaining adult. Frequently, households are left with few adults (usually women) to bear the burden of caring for the children and elderly while their partner and older children are working overseas.

**Cooperation: *Establish regional and sub-regional cooperation***

Cooperation both within a regional and between regions and with international agencies and other donors can help in achieving equitable growth. It provides access to funds and technical support and can improve trading relationships.

**Environment: *Environmentally sustainable development***

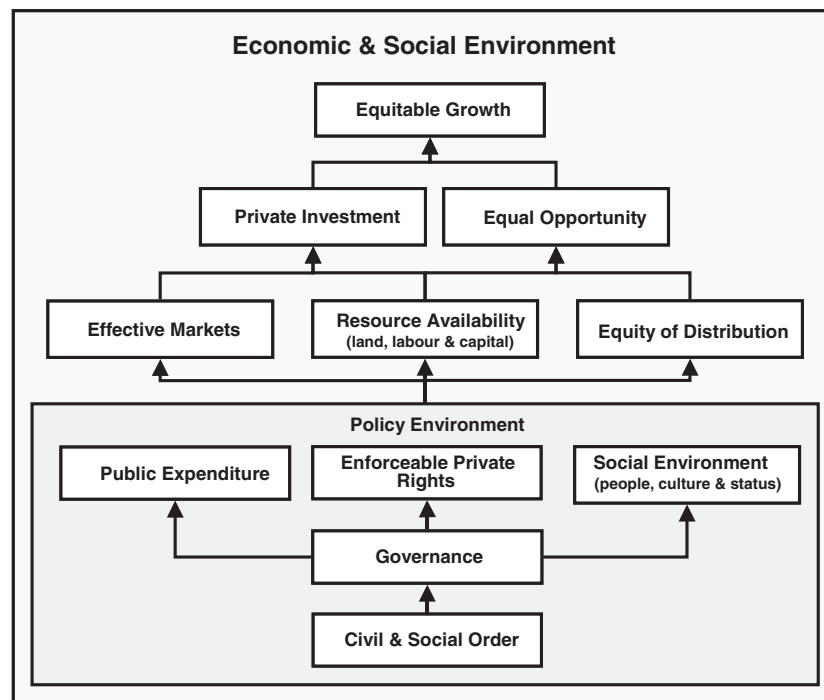
The pursuit of sustainability has long been accepted as the sensible strategy. However, too often, developing countries, including several in the PDMCs, have sold off their natural resources to foreign interests for an immediate payment of relatively small sums of money. On occasions, this money is pocketed by a greedy few with little or no benefit reaching the people whose livelihood is most directly damaged.

In practice, it all comes down to property rights: who owns the resources and how are their rights acknowledged. In the case of fisheries and minerals, it is common for the Government to claim ownership on behalf of the general community. The Government is then free to use or sell the rights as it sees fit. The experience on Bougainville is an example of the serious problems that can arise if this is done with little regard for the interests of the people who would otherwise use the resources.

Even when the ownership rights are recognized, the Government still has a responsibility to the rest of the nation to regulate the use of natural resources. There are public good issues that need to be taken into account. Ownership should not confer unlimited rights. Private owners should not be allowed to pollute the environment to the detriment of the rest of the community.

### **B. Constraints to Development**

Economic development is a complex and multi-faceted process, whether focused on equitable growth or any other policy objective. The flow chart in Figure 4 shows the basic steps in the economic growth process. If any of these steps are missing or not fully developed, they will be a constraint on further growth. The steps in the growth process provide a useful guide to the prioritization of equitable growth strategies.



**Figure 4: Constraints to Equitable Growth<sup>15</sup>**

The successful outcome to a project or program largely depends upon the state of the economy. Equitable economic growth is dependent on private investment, which in turn requires Effective Markets, Resource Availability, and opportunity. These cannot flourish without a sound Public Expenditure program, Enforceable Private Rights, and supportive Social Environment. Only Effective Governance can deliver Public Investment and Enforceable Private Property Rights and it can only operate when there is Civil & Social Order. The further up the hierarchy of constraints a country is located, the more likely it is that development projects and programs will be successful.

<sup>15</sup> The figure is derived from the work Duncan & Pollard (2001) op cit.

## 1. Civil and Social Order

In the absence of civil and social order, it is difficult if not impossible to foster any form of growth, equitable or otherwise. Fortunately, most of the PDMCs have avoided the worst manifestations of civil and social disorder. However, they are not immune to the problem. The catalyst for unrest has varied from economic disadvantage in Bougainville and Vanuatu and the inter-communal tensions in the Solomon Islands and Fiji. Elements of at least some of these issues exist in most of the PDMCs and, when manifested, are the most fundamental constraint to development, investment, equitable growth, and poverty reduction.

## 2. Effective Governance

In the absence of open and transparent governance, the skills needed to succeed are more political than entrepreneurial. It is the type of climate that encourages influence peddling and outright corruption. While it is possible for business to function in the absence of effective governance, it usually does so through patronage and bribery. Approaches are seldom available to the poor and under-privileged who generally find themselves oppressed in three ways: they have difficulty obtaining access to government services; they must take lowly paid jobs in inefficient industries; and they must pay higher prices for the goods and services purchased.

## 3. Social Environment

While in the PDMCs where direct corruption is less pervasive than in some other developing countries, the culture of patronage is common. It is an ingrained carry-over from the traditional system resource allocation. In most of the PDMCs, patronage remains a key method for fostering inter-personal linkages through obligatory reciprocity.

Each country has its own word for the process. In Papua New Guinea, the Solomon Islands, and Vanuatu, it is the *wantok*<sup>16</sup> system; in Fiji it is the *kerikeri*; the I-Kiribati call the process *bubuti*; and in Yap it is known as *ayum thew*. Whatever the name, the system is similar: while it is perfectly proper to request a gift, it is quite improper to deny the gift. People who are in a position to give are expected to, and in return, their prestige in the community is enhanced. The system is seen as a laudable practice, one that helps define the very nature of being a Pacific Islander, the **obligation** to help and support others. This creates an environment where politicians, public officials, and business people are under considerable pressure to assist their community.

When confined to the communal level, the patronage system can work quite well. Where the patron knows the resources that are available and the competing demands for those resources, it is possible to equitably allocate access to the resources. Bearing in mind that under the traditional system, if a patron acted inappropriately, the sanctions could be severe.

As the size and range of the resources decreases and the number of competing demands for those resources increase, the patronage system falls apart. When it is no longer possible for the patron to know the limits of the resources or the extent of the competing demands, it is no longer possible for the patron to equitably allocate the resources. In these circumstances, a structured transparent and open system provides a far more equitable method of resource allocation.

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<sup>16</sup> *Wantok* is the term used in Melanesian Pidgin (the lingua franca of Papua New Guinea, the Solomon Islands, and Vanuatu) to define the fellow members of a community or clan.

It should also be noted that the Pacific reciprocity system is not all that unusual. A virtually identical system continues to be used by peasant communities of Asia, South America, and Europe.

#### **4. Access to and Availability of Resources**

A major cause of inequality in growth is differential access to resources. Over time, as populations grow, the pressure on the communities' resources increases. In many cases, the right of access to the resources is captured by a few. Those that lose their access must find alternative ways to sustain themselves. Some are able to find employment while others rent out their labor to the resources owners.

One common issue in the PDMCs is the restrictions put on the ownership and transfer of land. In many cases, these restrictions are the primary constraint to private investment. For most Pacific Islanders, access to land is a fundamental right and many define their very nature in terms of their land. The restrictions on the use and transfer of land are deliberately aimed at ensuring that the land is not permanently alienated from the people.

An advantage of this very conservative approach to land use is that it has largely succeeded in protecting the landownership of the Pacific Islanders. Unlike many developing countries where land was taken by colonists or sold to immigrants, most Pacific Islanders still retain control over their traditional land.

A major disadvantage of the system is the limits it puts on development. Often, the land laws are so conservative that only the direct owners can use the sites; and even then, financial institutions cannot get enforceable security for their loans. This is a significant impediment to both domestic and foreign investment.

In addition, traditional land tenure systems are breaking down or changing as land is abandoned or bought in exchange for goods and services.

In the context of the Constraints to Growth process, if there are difficulties with Enforceable Private Rights, the risk to Private Investment is likely to be high and therefore, projects and programs designed to foster private investment have a high likelihood of failing to deliver the intended outcome.

#### **5. Public Sector Expenditure**

While it is not possible to ensure equality of advantage, it should be possible to ensure equality of opportunity. Public sector expenditure is one of the keys to ensuring that the poor and under privileged have equality of opportunity. For instance, to transport infrastructure that provides the rural population with access to markets, health services, and education; to water and sanitation; to communication networks that enable people to keep in contact, enhance awareness, and increase knowledge; to power that provides the light necessary to study; to schools that provide access to

the knowledge necessary to break out of the poverty trap; to health clinics that help prevent disease, a major cause of disability and disadvantage.

## 6. Effective Markets

Hernando de Soto<sup>17</sup> argues persuasively that “...most people cannot participate in the expanded market because they do not have access to a legal property rights system that represents their assets in a manner that makes them transferable and fungible, that allows them to be encumbered and permits their owners to be held accountable.” De Soto is writing about the failure of the market to deliver growth in developing countries. He argues that much of the failure can be attributed to the lack of appropriate property rights system, in particular the inability of individuals to exercise control over and mobilize property.

Much of what De Soto has written is directly applicable to the situation in the PDMCs: land is often held in common; the commercial environment is characterized by complex rules and regulations; the rights of the individual are subordinate to the community; the capacity to mobilize and modify property is highly constrained; and the ability to transfer property is very limited. In these circumstances, it is easy for the powerful, usually the traditional elite and/or those in government, to retain control over the economy. It is very difficult for others to rise above a basic standard of living.

Another issue that needs to be considered is culture. In many PDMCs, few people have more than a superficial understanding of business. Unlike the developed countries of the West where children are exposed to markets, business, money, and the principles of buying and selling on a daily basis, many in the PDMC grow up in an environment where most of their daily needs are grown and harvested from their own land. This cultural experience has a profound effect on the capacity of individuals in PDMCs to establish and operate a successful business.

## 7. Equity of Opportunity

The social structure varies markedly across the Pacific, ranging from the very individualistic *bigman* culture in much of the Papua New Guinean highlands to the absolute monarchy of Tonga. In general, the Melanesian cultures are more individualistic, with a person's status deriving from personal achievement. The Micronesian cultures are more communally based with strong loyalties to traditional leaders. The Polynesian cultures of the central and east Pacific are generally based on a hierarchical leadership structure.

## 8. Private Sector Investment

Throughout the PDMCs, the rate of private sector investment has been disappointing. There are several factors involved: some PDMCs are simply too small and too isolated to attract much investment interest; nearly all suffer from land tenure difficulties; and the institutional environment is not attractive to sustained long-term investment in most.

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<sup>17</sup> De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Basic Books.