

Reform Programs in PDMCs: Results

PDMC	Implementation Progress	Achievements	Concerns/ Challenges
<p>Cook Islands – loan approved Sept. 1996; funds used to retire Govt.'s short-term liabilities & for general budget support</p>	<ul style="list-style-type: none"> • Loan closed on timely basis. • 86% of policy matrix actions completed Dec. 1998. 	<ul style="list-style-type: none"> • Strong local ownership and participation from the outset • A move toward fiscal balance by reducing the number of public servants by about 60 percent over the period 1996-98. • The passage of key legislation establishing principles of fiscal responsibility, improved accountability, and transparency to be followed by heads of departments and Government. • The establishment of the Public Expenditure Review Committee to review all aspects of public finance. • Introduction of the concept of performance orientation in public expenditure management. • Progress in creating an environment conducive to private sector growth. • Avoidance of a threatened period of serious macroeconomic instability. 	<ul style="list-style-type: none"> • A still fragile fiscal situation • Passage of a 1998-99 budget that was not in compliance with legislative requirements and that relied on unspecified asset sales to fund current expenditure. • Incomplete public service reform, with the number of ministries (22) and public servants (1,340) still too high for a population of 16,500. • A lack of transparency and contestability in government's handling of a key asset sale. • The lack of attention to regulatory arrangements in the sale of government-owned natural monopolies. • Doubts about the durability of output-based budgeting and accrual accounting systems, and the capacity to deliver effective performance monitoring. • The failure to reduce the size and cost of Parliament, and the associated public concern over politicians' real commitment to improved governance.
<p>FSM (national & 4 state govts.) – loan approved April 1997; funds used for early retirement payouts</p>	<ul style="list-style-type: none"> • Loan closed after 1 year delay in full release of 2nd tranche. 	<ul style="list-style-type: none"> • Establishment of general participation in, and ownership of, the reform process through a series of national and state summits. 	<ul style="list-style-type: none"> • The failure to gain the commitment of some state legislatures to reform, and to develop a mechanism that institutionalized participation in the reform process.

Reform Programs in PDMCs: Results *(cont'd.)*

PDMC	Implementation Progress	Achievements	Concerns/ Challenges
	<ul style="list-style-type: none"> • 78% of consolidated policy matrix actions completed March 1999. 	<ul style="list-style-type: none"> • Substantial public service downsizing and pay cuts in the four states during 1996-98, with Bank-funded early retirement schemes operative from late 1997. • A strengthening of state government finances as a result of the downsizing and some revenue-raising measures. • Downsizing of that part of the national public service funded from FSM Unrestricted Funds. • Privatization and contracting out of some departmental activities, and the transfer of power, water and sanitation to public utility authorities. • Some liberalization of the financial sector and the passage of new foreign investment legislation that potentially will improve the investment climate. 	<ul style="list-style-type: none"> • A loss of momentum in the reform process as the political and personal costs have mounted. • The lack of attention at the design stage to governance, the basic framework of government post-reform, and the effective long-term delivery of public services (now being addressed). • The lack of attention at the design stage to the fundamental issue of revenue-sharing between the national and state governments (currently under review). • Deficient monitoring of, and reporting on, the reform program. • Inadequate attention paid to preparing people to manage large voluntary retirement payouts of two years' salary. • The impact of wage cuts and increased workloads on public service morale. • Anomalies in the implementation of the early retirement scheme at the national level. • The need to develop a comprehensive policy framework and an associated action plan for public enterprise reform and private sector development (now being addressed).

Reform Programs in PDMCs: Results *(cont'd.)*

PDMC	Implementation Progress	Achievements	Concerns/ Challenges
<p>RMI – loan approved Jan. 1997; funds used for early retirement payouts, retirement of AMI debt, & support of Trust Fund</p>	<ul style="list-style-type: none"> • One year delay in 2nd tranche release. 3rd tranche yet to be released. • 56% of policy matrix actions completed March 1999. 	<ul style="list-style-type: none"> • A 30 percent downsizing of the public service and a reduction in the number of ministries from 10 to 8. • A three-year public service wage freeze. • Annualized savings in recurrent expenditure from the downsizing and freeze in excess of \$4.2 million. • Elimination of direct subsidies to some public enterprises, most notably to Air Marshall Islands. • A rationalization of the tariff structure and some improvement in taxation compliance. • A start to the establishment of a trust fund as a means of durable revenue generation for government. • The establishment of a Private Sector Unit in government that is reviewing public enterprises and identifying privatization options. • Effective action to privatize domestic shipping services. • Regular reporting to the Bank on implementation of the PSRP. • Facilitation of the Bank's successful technical assistance to the fisheries sector. 	<ul style="list-style-type: none"> • A lack of participation and ownership beyond the Presidential level at the outset of the PSRP and a failure to develop these subsequently to ensure a sustained reform effort. • A consequent slowness in implementing PSRP following the death in late 1996 of President Kabua. • A loss of momentum in the reform process ahead of the November 1999 elections and in an atmosphere of confidence that (1) Compact re-negotiation will be successful and (2) substantial new external assistance will be provided by Taipei, China. • Worrying fiscal developments, including a crisis in government finances in 1998, a rise in appropriations to subsidize government agencies in the last two years, and the inattention to the budgetary implications of the March 1999 announcements to reduce the general import duty and raise the copra subsidy. • The lack of attention at the program design stage to governance, the basic framework of government post-reform, and the effective long-term delivery of public services.

Reform Programs in PDMCs: Results *(cont'd.)*

PDMC	Implementation Progress	Achievements	Concerns/Challenges
<p>Samoa – loan approved Feb. 1998; funds used to cover fiscal costs of reforms</p>	<ul style="list-style-type: none"> • Generally proceeding smoothly. • 65% of policy matrix actions completed March 1999. 	<ul style="list-style-type: none"> • Strong local ownership of a clearly focused and sequenced reform program, especially in respect of financial sector reforms. • A well-designed financial sector program encompassing governance-improving measures, formulated through a generally effective consultative process, and promoted through a public information campaign. • Significant progress in the development of financial markets. • Progress in strengthening the prudential and regulatory framework of the financial sector. • Privatization of one state-owned enterprise (SOE) and the imminent corporatization of another; the undertaking of considerable preparatory work by the newly-established State Enterprise Monitoring Unit; and an 	<ul style="list-style-type: none"> • The limited action to date on corporatization/privatization. • The failure to design and implement the counselling, training and monitoring of retrenched public servants as planned. • The impact of public service downsizing on staff morale and service delivery. • The failure to take actions in pursuit of the objective of creating an improved enabling environment for the private sector. <ul style="list-style-type: none"> • Insufficient attention in program design to the implications for financial development of small size, and a consequent overstatement of the potential benefits from financial sector reform. • Implementation of some reform actions, especially those affecting privatization/corporatization of SOEs, at a pace slower than planned. • Inadequate and ambiguous division of responsibility in corporate governance of public enterprises. • The possible placement of all public employees on fixed-term contracts, and effective removal of central control and monitoring of Government personnel, without a cautious assessment of the

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PDMC	Implementation Progress	Achievements	Concerns/ Challenges
Solomon Islands – loan approved Aug. 1998; funds used to clear debt & other payments arrears	<ul style="list-style-type: none"> • Proceeding. • 59% of policy matrix actions completed Feb. 1999. 	<p>improvement in the accountability and transparency of most SOEs.</p> <ul style="list-style-type: none"> • Effective use of the technical assistance provided for strengthening of Government financial institutions. <p>• Passage of a new Financial Institutions Act.</p> <p>• Cancellation of tax/duty exemptions and remissions, except those that are legally binding.</p> <p>• A substantial reduction in arrears on public debt.</p> <p>• Confinement of recurrent expenditure within the recurrent revenue level.</p> <p>• Considerable progress in restoring a functioning accounting and auditing system.</p> <p>• Improved co-ordination in the preparation of recurrent and development budgets.</p> <p>• Public service downsized by 7 percent and a saving of 8 percent on payroll expenditure made in the context of a longer-term re-engineering of the public service.</p> <p>• Progress in privatization of two state-owned enterprises.</p> <p>• A shift toward a performance orientation in the public service.</p> <p>• A notable improvement in the governance environment.</p>	<p>consequences that is informed by varied international experience and appropriate advice.</p> <ul style="list-style-type: none"> • The effort required to hold on to power in a situation where the coalition government has a slender majority, and the consequent risk that efforts to improve governance will be compromised. • A loss of impetus to reform in the face of (1) sustained opposition from politicians and public servants adversely affected by the changes, and (2) a lack of enthusiastic support from a sufficient number of those senior and middle level public servants who remain in employment. • The related threat to gains made so far in macroeconomic stabilization (particularly through a failure to contain the public service payroll to the desired level). • The difficulty of implementing the policy on state-owned enterprises because of opposition from the boards of those enterprises.

Reform Programs in PDMCs: Results *(cont'd.)*

PDMC	Implementation Progress	Achievements	Concerns/ Challenges
<p>Vanuatu – loan approved July 1998; funds used to cover adjustment costs of public service reform, rehabilitation of Govt.-owned financial institutions, & fiscal stabilization</p>	<ul style="list-style-type: none"> • Second tranche released on timely basis. • 57% of policy matrix actions completed Dec. 1998. 	<ul style="list-style-type: none"> • Strong public participation and a convergence of local ownership around the key theme of improved governance. • A reduction in the number of ministries from 34 to 9 and of public servants by 289. • An improvement in public servants' autonomy and efficiency through the selection of Directors-General on the basis of merit, the independent functioning of the Public Service Commission, and the introduction of a performance orientation. • The establishment of the legislative framework for improved governance (Leadership Code Act, Public Finance and Economic Management Act, Expenditure Review and Audit Act, Ombudsman Act). • The beginning of the process of preparing a public investment program, including aid-financed projects. • The introduction of a value added tax, and simplification and reduction of import duties and business license fees. • Progress in financial reform through restructuring of the National Bank and Development Bank, and amendment of the Vanuatu National Provident Fund Act. 	<ul style="list-style-type: none"> • The difficulty of maintaining political consensus in coalition government and the associated threat to political stability. • Limited Parliamentary scrutiny of legislative change and restricted explanation of such change to the public • most concerning is the last-minute addition of schedules to the Foreign Investment Act that are contrary to the letter and spirit of CRP and that will discourage foreign investment (though government is reviewing the legislation). • Weaknesses in law enforcement. • The severity of the human resource constraint; the heavy reliance on external advisers and some consequent resentments and feelings of loss of ownership; and the absence of a human resource development strategy. • The delay in completing the public service downsizing and the need to ensure there are credible mechanisms in place that will prevent later rehiring. • The need for institutional strengthening of the Reserve Bank, for improvement of banking legislation and supervision, and for an assessment of the National Bank's capital adequacy.

Reform Programs in PDMCs: Results (cont'd.)

PDMC	Implementation Progress	Achievements	Concerns/ Challenges
			<ul style="list-style-type: none">• The apparent exclusion of the Credit Union League from the financial sector reform process.• The inadequacy of macroeconomic data bases, the difficulty of conducting standard fiscal analyses, and a poor economic outlook.