



# State Performance and Capacity in the Pacific

Rob Laking

Asian Development Bank

The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a black square background.

ADB

Pacific Studies Series

# **State Performance and Capacity in the Pacific**

Rob Laking

Asian Development Bank

© 2010 Asian Development Bank  
All rights reserved. Published in 2010.  
Printed in the Philippines.

ISBN 978-92-9092-174-5  
Publication Stock No. RPT101704

Cataloging-In-Publication Data.

Laking, Rob

State performance and capacity in the Pacific.  
Mandaluyong City, Philippines: Asian Development Bank, 2010.

1. Public sector. 2. Governance. 3. Pacific. I. Asian Development Bank.

The views expressed in this publication are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Governors, or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

ADB encourages printing or copying information exclusively for personal and non-commercial use with proper acknowledgment of ADB. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the express, written consent of ADB.

Cover photo by Peter Stalker.

Note: In this publication, “\$” refers to US dollars.

6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444  
[www.adb.org](http://www.adb.org)

For orders, contact the Department of External Relations  
Fax +63 2 636 2648  
[adbpub@adb.org](mailto:adbpub@adb.org)

# Contents

Foreword	v
Executive Summary	vi
Abbreviations	xii
INTRODUCTION	1
PUBLIC SECTOR PERFORMANCE IN THE PACIFIC	2
Distinctive Characteristics of Pacific Island Countries	2
COUNTRY PERFORMANCE	4
Economic Performance	4
Social and Environmental Performance—Progress Toward the Millennium Development Goals	5
Delivery of Social Services	6
DEFINING AND MEASURING STATE CAPACITY	8
The Role of the State in Development	8
An Overview of State Capacity in the Pacific	8
INSTITUTIONAL CAPACITY: THE COMPETENCE OF THE STATE AND OTHER INSTITUTIONS	12
The State and Other Institutions	12
Problems of State Institutional Capacity	20
TECHNICAL CAPACITY: THE COGNITIVE CAPACITIES OF THE STATE	29
Developing National Policies, Strategies, and Plans	29
Linking National Plans and Budgets	29
Strengthening Aid Coordination through Planning	30
Building Analytical and Advisory Capacity	30
Building Credible Budgets	31
Major Sources of Risk to Budget Credibility	32
Overview	34
ADMINISTRATIVE CAPACITY: THE ARMS AND LEGS OF THE STATE	35
Decentralization	35
Budgetary and Financial Management: Quality is Dependent on Execution	38
POLITICAL CAPACITY: DEVELOPING THE POLITICAL ECONOMY OF INCENTIVES	52
Political Capacity and Good Governance	52
Custom and Politics	52
Donors and Political Economy	55

## Contents

Electoral Systems	55
Legislative Oversight	55
Other Checks and Balances: Oversight Bodies	56
Civil Society and Nongovernment Organizations	58
Media	59
CONCLUSIONS AND RECOMMENDATIONS	62
Institutional Development	63
Developing Management Capacities	63
Improving Governance	64
References	66

# Foreword

In late 2009, the Asian Development Bank (ADB) launched a new Pacific Approach for its role in the development of its 14 Pacific developing member countries (DMCs). ADB's Pacific Approach places good governance at the heart of the development agenda and identifies public sector management as an important driver of change. This study, prepared as a background for the Pacific Approach, reviews recent literature and analysis on the state's role in the development of Pacific DMCs, and suggests priorities for future support of improved state performance and capacity for ADB and its development partners.

ADB's strategy in the Pacific begins with the recognition of the region's enormous diversity, and the multiplicity of the challenges that its DMCs face in their economic and social development. Nevertheless, there are some important common themes, and lessons for development partners, about the role of the state. This study identifies key themes related to the basic capacities of the state: to secure public order and the rule of law, to plan and execute coherent strategies for improving the well-being of its citizens, and to be responsive to the needs and aspirations of its citizens. As a region where geography, history, and culture intersect in frequently unique ways, the Pacific is a fascinating and demanding area for study.

This paper was prepared by Rob Laking of the Institute of Policy Studies at Victoria University of Wellington under the supervision of Steve Pollard, principal economist, Pacific Department. Barry Lanier, Ma. Priscila del Rosario, Teri Temple, and Corazon Desuasido edited the publication. Ophie Iriberry provided editorial inputs and Cecil Caparas coordinated the publishing process.



Robert Wihtol  
Director General  
Pacific Department

# Executive Summary

## The Distinctive Nature of the Pacific

The Pacific developing member countries (DMCs) of the Asian Development Bank (ADB) encompass a remarkable variety of ethnic groups, colonial histories, and government systems. Their populations also vary enormously. Only two have land borders, and almost all are a considerable distance from developed country markets. Many of the people in the Pacific states live in small, isolated village settlements. For a large number of them, government is much less important in their lives than local customs and traditional governance. Small and scattered populations and physical distance has made economic development difficult despite sometimes huge maritime zones and, in some cases, a wealth of natural resources. A recent history of conflict and weak state governance contributes to the problems of development in some Pacific countries. These problems and other concerns in the region are among the geopolitical interests of the People's Republic of China, Japan, the United States (US), and particularly Australia and New Zealand, the two major developed countries in the region.

## Country Performance

Recent growth in the region has been good, although it is forecast to slow in 2009 because of the global recession. Only Papua New Guinea (PNG) and Solomon Islands are classified as low-income countries. Most Pacific DMCs are classified as lower-middle-income countries, with the Fiji Islands and Palau in the upper-middle-income category. Recent growth has not been widely converted into further reduction of poverty. Movement in the region toward attainment of the Millennium Development Goals has been patchy. Most Pacific countries evidence relatively high per capita spending on health and education, but the outcomes of this spending are variable. Poorly targeted spending, a high proportion of budgets devoted to wages and salaries at the expense of other essentials, and subsidies of unprofitable public enterprises have contributed to budgetary problems.

## Quality of Policy and Institutions

On several scales, Pacific DMCs vary widely in measures of the quality of their policies and institutions. PNG, Solomon Islands, and Timor-Leste appear regularly in most assessments of states with high governance risk. Several other Pacific DMCs—the Fiji Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Tonga, and Vanuatu—show levels that signal a warning on at least some of the World Bank Institute's indicators of governance matters.

## The Four Capacities of the State

The strengths and weaknesses of Pacific states are assessed in this report in terms of the following four capacities, based upon a classification of state capacities created by Merilee Grindle:

- (i) institutional capacity—to design and enforce the laws necessary to regulate the economic and social relationships of citizens;

- (ii) technical capacity—to make informed and rational decisions about how to exercise its powers;
- (iii) administrative capacity—to organize itself and procure resources to carry out its basic functions of regulation and provision of public goods; and
- (iv) political capacity—to be accountable to its citizens and act in their interests and according to their wishes.

### Institutional Capacity—Competence of the State and Other Institutions

Pacific societies challenge the view of the state as the supreme guarantor and arbiter of public order and justice in at least two ways. In PNG, the very notion of statehood is challenged because the state is too weak to enforce its rule throughout its territory. In many Pacific countries, institutions other than the state engender more trust and reliance for ordering interpersonal and societal relationships. Principal among these are forms of traditional governance based on clan or chiefly authority, and the churches. For many, these institutions are more important than the state as a source of social capital.

#### *The State and Other Institutions*

Traditional society in the Pacific has been modified by European contact and colonization and by institutions borrowed from church and state. Customary authority provides a formal basis for national political representation only in Samoa and Tonga. In most other countries, customary chiefs, where they exist, play only an advisory role at the national level. At the local level, however, traditional authority—of the hereditary chief or (in much of Melanesia) the local “big man”—is a significant influence on daily life. In Melanesia, big men also play an important role in national politics. *Wantok* and other obligations to family and kin are important in public life in many Pacific countries.

The Pacific region is strongly Christian. Churches play an important role in many countries by providing health and education services. Not all churches have the capacity or aspiration to expand their role in social services delivery, but governments in several countries depend on them to operate hospitals and schools.

A challenge for Pacific states is to build wider and stronger alliances with a greater range of civil society groups. Particularly in Melanesian societies, building stronger relationships between groups beyond those tied as kin or clan is essential for managing both economic and social assets in the interests of the wider community. The few examples where this has been achieved must be replicated and encouraged. This will need to be complemented by the strengthening of local management capacity in order to help ensure accountability for use of public resources and the support of donors.

#### *Security and Public Order*

For a small number of Pacific DMCs, the first priority is to ensure that the state possesses the “legal monopoly of force” and can thereby maintain a tolerable level of security in its territory. Three countries have recent histories of armed conflict and endemic high levels of violence: PNG, Solomon Islands, and Timor-Leste. These high-risk countries are receiving outside assistance—with Australia prominent in its provision—to build national capacity to maintain internal security and order. This support is likely to be required by these three countries for some time to come. Recent incidents in Tonga and Vanuatu have raised the level of risk in those countries. The Fiji Islands remains an outlier with security maintained by a military junta.

### *Land Issues*

In much of the region, access to land and its resources is a major source of conflict between the traditional world and modernizing influences. Modernization has encouraged internal migration and brought new settlers into conflict with traditional landholders. New economic uses for land—such as contract or plantation agriculture, forestry, mining, and tourism—can override customary land use and encourage misuse of traditional authority to secure personal or family benefits. Although the Pacific is still primarily rural, urbanization is increasing and putting pressure on land use in and around urban areas, particularly in countries where emigration is difficult. Squatter settlements with inadequate housing and unsanitary conditions together with high urban unemployment—particularly among young males—are becoming more common. Donors have supported new laws and systems for land titling throughout the Pacific. Progress, however, is slow when applying Western law to resolve traditional disputes. Nonetheless, there seems to be no alternative to blending establishment of rights through traditional knowledge of land with validation of these rights by formal land titling.

### *The Formal Legal System*

Programs to strengthen formal justice systems are most prominent in the high-risk countries and focus on building the justice system's capacity and credibility and providing equity of access. The training of judicial officers and court administration also has received emphasis. Some countries have used foreign judges to fill gaps in the supply of local judges, but the long-term aim should be placing indigenous judges in courtrooms. Donors need to recognize that judicial reform, although attractive, carries political risks.

### *Conflict Management and Alternatives for Dispute Resolution*

In addition to the state, other institutions can play a role in dispute resolution and conflict management, particularly in relatively low-level disputes between households and in intergroup conflicts that could boil over into major civil disturbances. Some donor projects are aimed at building trust and means of reconciliation in societies emerging from recent conflict. Others are trying to strengthen the role of customary authority to prevent low-level disputes over land or other issues from escalating into major sources of conflict. The influence of traditional authority on public order is still strong in local life in many parts of the Pacific. In some places it has been able to continue asserting itself in the face of modernization and play a significant role in mitigating larger-scale intergroup conflicts. But modernity clearly places traditional authority under pressure, particularly in urban areas and in the face of new kinds of disputes. Ideally, custom and written law would work in harmony and reinforce each other to mitigate conflict, but this requires consensus on their respective roles.

### **Technical Capacity: The Cognitive Capacities of the State**

Considerable donor attention recently has been directed at developing the central strategic and decision-making capacities of Pacific governments, with emphasis on achieving the Millennium Development Goals. Donor programs generally link national planning to budgeting through medium-term budget frameworks and associated budget decision-making procedures. These initiatives also are explicitly linked to the Paris Declaration objectives, which emphasize sector plans as a basis for integrating and coordinating donor assistance with country-led development.

The capacity of Pacific DMC governments to fund and deliver services to the poor varies widely across the region. Public expenditure and financial accountability reviews show that some countries have improved their capacity for planning and budget-making, enhancing the credibility of their budgets as a result. Other countries continue to have problems preparing

realistic and well-targeted budgets. Governments may have national development plans with a primary objective of reducing poverty, but fail to support that objective with appropriate spending priorities. Capital and recurrent budget decisions may be poorly integrated, or budget decisions on regional or local funding may not reflect the priorities of poorer districts or local services. Political priorities and commitments may result in rigidities in resource allocation. Often, governments appear to be caught by surprise by unexpected events. Natural disasters are an obvious source of risk for budgets, but so are unplanned and irresistible wage demands and appeals for public enterprise subsidies. In budgets dominated by high levels of aid, donors may drive priorities.

Donors generally favor rationality in budgeting and try to support it by strengthening analytical and advisory capacities and assisting with improvements in budget decision procedures. Failures are commonly attributed to inadequate staff capacity or information. However, rational planning is more likely to flounder because of inappropriate incentives and irreducible complexity.

### **Administrative Capacity—The Arms and Legs of the State**

A vicious circle of complexity may be seen in many poor states. Low administrative capacity produces fragmentation of effort as stakeholders chart their own courses, often at odds with each other. Service delivery becomes increasingly fragmented and less effective. State provision of institutional infrastructure and coordination becomes more difficult, even if delivery is shared with a range of non-state actors.

Decentralization can place accountability for services closer to clients and address aspirations for greater regional autonomy. Given the geographically scattered populations in many Pacific DMCs and the centrifugal force of regional or ethnic differences, administrative or political decentralization seems an attractive solution to the problem of administrative capacity. In some countries, however, excessively elaborate systems of local governance have been created that cannot be sustained. Decentralization also fails when local offices are not provided adequate resources, when central ministries do not relinquish control of staffing and expenditure to local offices as appropriate, and when the accountability of local offices for proper use of funds is not addressed. A particular problem has been the use of local development funds by members of Parliament in PNG and Solomon Islands to reward their supporters. Local governance of shared public assets must be based on a wider sense of community than just clan or family. Experience in Samoa, for example, suggests that community ownership of public services can produce good results.

### *Quality of Budget Execution*

Robust financial management systems are a critical element in effective decision making and accountability concerning resources. Worldwide, reform of public accounting, revenue, and procurement systems has seemed a relatively low-risk entry point for public sector reformers because of its technical content and apparent low political salience, with better budget execution the payoff. Problems in the region have been widespread, however, with strong incentives to ignore or subvert accounting regulations, an endemic lack of capacity, and high governance overheads unduly complicating approval and reporting procedures.

Donor support can enhance the quality of public financial management. Several major projects in the Pacific have that objective. The lesson from such reform projects, however, is to get the basics right first. Some donor-driven reforms were too sophisticated, based on Australian or New Zealand models or (in Micronesia) on US ideas of performance budgeting. Most projects now focus on strengthening basic accounting control systems. Progress in improving these systems can still be halting, largely because of significant capacity limitations.

Weaknesses in external audit are widespread. The most common problems have been delays in completion of public accounts, particularly receipt of accounts for off-budget funds and government enterprises. Variable quality of legislative review and lack of executive action on audit recommendations are also typical.

Donor support for public financial management systems is a major plank of the Paris Declaration platform. Yet a thread running through reviews of financial management capacity is the sometimes counterproductive role of donors in public financial management. Donors have sometimes supported and imposed inappropriately sophisticated reforms. They have bypassed government budgeting, procurement, and payment systems in favor of their own. While donors' incentives to bypass weak country systems are understandable, doing so can contribute to a further erosion of national standards.

#### *Human Resource Management*

Donor projects aimed at reforming public sector human resource management in Pacific countries in the 1990s and 2000s supported downsizing overstuffed civil services, building technical and management capacity through training and leadership programs, and improving the quality of staff performance management. Success rates are low. After initial staff reductions, wage and salary bills tend to again rise, largely because of high public expectation of the availability of government employment. Nevertheless, most Pacific DMCs face significant problems recruiting, developing, and retaining skilled staff. Several governments depend on expatriate labor to keep key government functions operational. Australian advisers occupy key positions in PNG and Solomon Islands. Training is sometimes ineffective because returning trainees face management unwilling to make use of their new skills. Reformed performance management regimes often flounder on the unwillingness of management and staff to participate in objective performance reviews.

Nepotism and patronage as a basis for appointments is widespread. Public service commissions, commonly charged with protecting the merit principle of appointment and political neutrality in civil services, have either been powerless to halt these developments or actively collusive in them. It is not clear that strengthening projects have done much to improve this situation.

In all Pacific countries, civil servants have opportunities to participate in training or education programs funded by donors. Several donors, led by Australia, fund counterpart programs, where officials from a donor country work alongside local counterparts, mentoring and training them. Two issues commonly surface with these approaches. When civil servants are trained, new skills are created in those newly trained, but not necessarily demand for those skills. Graduate trainees commonly return to a workplace that does not have the capacity (nor their managers the incentive) to make effective use of their new skills. In counterpart programs, foreign advisers and consultants work in Pacific DMC government departments with the expectation that local counterparts will eventually be trained to take responsibility for their work. However, the advisers and consultants often end up under pressure to accomplish the work themselves, and must pay less attention to developing the skills of their local counterparts. For both issues, the basic solution seems to be ensuring that the building of local staff capacity takes place in the context of comprehensive development of the organizations to which the staff belongs, under strong local leadership.

#### **Political Capacity: Developing the Political Economy of Incentives**

Political capacity expresses the values of good governance. A basic assumption of good governance is that political leaders who are accountable to a broad spectrum of citizens are more likely to work in the wider interests of society. An accountable government is answerable to

the interests and views of its citizens when making decisions. Accountability is underpinned by the free availability of information about the decisions and operations of government. It is reinforced by the oversight of mediating institutions such as a legislature, independent public oversight bodies, an active civil society, and free media. Oversight, in this case, means the ability to debate and participate in the decisions of government, and to review, comment on, and criticize decisions after they are made.

The interaction of custom and formal political systems in Pacific countries can have a significant influence on the quality of governance. However, customary authority and social closeness can be much more forceful in social and political relationships than the formal institutions of governance. For much of Melanesia, in particular, politics is strongly local and based on big men and their clan supporters. On the positive side, Parliament members are clearly accountable to their supporters. On the other hand, votes can be bought and sold. Parliament members see themselves as having only a brief period in power, and thus feel compelled to use it to gain maximum benefits for their supporters. Recent reforms of electoral law in some countries may help reduce turnover of Parliament members and stabilize coalitions, but it is too soon to see if stability will be augmented.

Donor support is increasingly aimed at altering the incentives for political decision makers so as to produce better human development outcomes. The interventions assume that executive power is constrained by the prospect of electoral competition, by a formal system of checks and balances, and by the voice of citizens expressed at national and local levels. Strategies emphasizing intensified electoral competition have aimed at strengthening electoral systems and electing more stable and broadly representative coalitions, particularly in PNG. Strategies focused on checks and balances have aimed mainly at enhancing legislative scrutiny and review of executive plans and actions, and strengthening the role of formal oversight bodies such as auditors-general, ombudsmen, and anti-corruption bodies. Measures that strengthen the justice sector may affect the quality of judicial review of state action. Strategies focused on citizen voice have targeted civic education, the role of the media, and increased capacities of civil society organizations and alternative sources of authority, such as traditional and religious leaders.

## Conclusions and Recommendations

Readers who are interested in the policy and strategy implications of this report should refer to Section I, Conclusions and Recommendations, in the main report.

Included there are conclusions and recommendations that (i) deal with issues critical for institutional development in the Pacific, including increasing security, mitigating conflict, and building partnerships for service delivery; (ii) concern development of management capacities, including budget credibility, decentralization, public financial management, and human resource management; and (iii) concern improvement of governance to address strengthening independent oversight of state action and freedom of information.

# Abbreviations

ADB	—	Asian Development Bank
AusAID	—	Australian Agency for International Development
CPA	—	country performance assessment (of ADB)
DMC	—	developing member country (of ADB)
FSM	—	Federated States of Micronesia
GDP	—	gross domestic product
IEG	—	Independent Evaluation Group
MDG	—	Millennium Development Goal
NGO	—	nongovernment organization
OAG	—	Office of the Auditor-General
OECD	—	Organisation for Economic Co-operation and Development
PAC	—	public accounts committee
PEFA	—	public expenditure and financial accountability
PNG	—	Papua New Guinea
PRC	—	People's Republic of China
RAMSI	—	Regional Assistance Mission (in Solomon Islands)
RMI	—	Republic of the Marshall Islands
SWAp	—	sector-wide approach
UNDP	—	United Nations Development Programme

# Introduction

The Pacific is an ocean and a common administrative category for donors, but has little else to unify it as a field for study of the role of the state in development. The diversity of public sector performance in the Pacific developing member countries (DMCs) of the Asian Development Bank (ADB) is considerable according to all measures—income level, social and environmental indicators, access to public services, quality of governance, political stability, and democratic competition. Generalizations about public sector management that would be relevant to countries as different in their endowments, society, and history as Papua New Guinea (PNG) and Tuvalu, for example, are difficult to imagine. Nevertheless, literature and studies about the Pacific raise some important issues—pertinent to many Pacific DMCs—concerning the role of the state. A recurrent theme is that government in Pacific countries can only be understood in the context of each country’s geography, history, and culture. In their politics and administration, Pacific states quite often represent a unique compromise between traditional societies and imposed colonial ideas of the nation-state.

A broad view of public sector management is taken in this paper. Narrowly defined, it is about how governments make decisions on policy and how they get them implemented through the formal machinery of government and civil service. But these capacities depend in turn on the state’s wider capacities to secure public order, provide the necessary “rules of the game,” and respond adequately to the needs and interests of all citizens. The reality of public governance in the Pacific frequently challenges these often unexamined assumptions about the authority of the state.

# Public Sector Performance in the Pacific

The Pacific is home to some significant issues of security and development

## Distinctive Characteristics of Pacific Island Countries

The Pacific DMCs of ADB are countries of Oceania together with Timor-Leste. The DMCs of Oceania may be divided into three regional groupings:

- (i) Melanesia—the Fiji Islands, PNG, Solomon Islands, and Vanuatu;
- (ii) Micronesia—Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, and Palau; and
- (iii) Polynesia—Cook Islands, Niue, Samoa, Tonga, and Tuvalu.

Timor-Leste is not in any of these groupings, but its original inhabitants were Austronesian, like most of the population of Oceania.

The colonial histories and systems of government of these countries vary widely. The countries also are home to many different ethnic groups, and the rural–urban mix in each country differs considerably. The variation in country population is very large, as is the rate of population growth (natural increase and net migration). Economic base, trade, and foreign payments also differ substantially. So why consider the administrative definition of Pacific DMCs as having any significance for ADB strategy and planning? There are some justifications.

**Geopolitical.** The Pacific is significant to the strategic interests of the regional powers. The United States (US) has major security interests in the Pacific as well as ongoing ties with the territories in Micronesia that it previously administered. For Australia and New Zealand, the political stability of the Pacific is important because it is their “back yard”—albeit an immense one—and because of historical reasons it provides a record of colonial administrators and the experience of the Second World War. Another reason is a large diaspora—from the Fiji Islands and Samoa, for example—now living in Australia and New Zealand but retaining strong affinities with their home countries. In the last decade, the People’s Republic of China (PRC) and Taipei, China have challenged each other over access to resources and political influence in the Pacific. Japan also has a colonial legacy in the Pacific and continues to be a significant donor. All of these interests are to some extent at risk from political instability and civil strife, as has been seen in the Fiji Islands, PNG, Solomon Islands, and Timor-Leste.

**Developmental.** It can be argued that Pacific DMCs share some developmental characteristics. Except for PNG and Timor-Leste, none have land borders. They have huge maritime economic zones in relation to their land mass. Their physical distance from regional population centers and dependence on shipping significantly limit their potential for trade. All except Tonga have emerged relatively recently from colonial administration. Most of them still have large parts of their populations living in relatively traditional village settings with subsistence agriculture and fishing as important livelihoods. Climatic conditions, especially periodic cyclones and the effects of climate change, may bear disproportionately on Pacific countries.

**Size and governance.** The Pacific includes several microstates currently among the smallest 10% of the independent nations of the world, including the Cook Islands, the Republic of the Marshall Islands (RMI), Nauru, Palau, and Tuvalu (Table 1). While it is not clear that there is any correlation between size and state of development, small island states present a particular constellation of issues for development and governance because of their geographic isolation; their often scattered populations in small, separate communities; and the small recruitment pools for political and administrative governance of the state. It is sometimes argued that some populations are simply too small to support the overhead of independence and ought to return to some form of associated or dependent status with a metropolitan power such as New Zealand.

**Table 1: Population Size and Global Ranking of the Pacific Developing Member Countries of ADB**

Country	Population ('000)	Rank <sup>a</sup> (Numerical)	Rank (Percentile)
Papua New Guinea	6,732	99	43
Timor-Leste	1,134	154	67
Fiji Islands	849	157	68
Solomon Islands	523	166	72
Vanuatu	240	182	79
Samoa	179	186	81
Federated States of Micronesia	111	191	83
Tonga	104	195	85
Kiribati	98	197	86
Marshall Islands	62	206	90
Cook Islands	20	218	95
Palau	20	217	94
Nauru	10	221	96
Tuvalu	10	222	97

a Out of 230 countries. The larger the ranking number, the smaller the population.  
Source: United Nations Department of Economic and Social Affairs, Population Division.  
[www.un.org/esa/population/](http://www.un.org/esa/population/)

**The state and society.** In most Pacific countries, custom, traditional authority, and the bonds of kinship and extended family are still important elements in most people's lives. While urbanization (on the microscale of the Pacific as compared with most other ADB developing member countries) is a factor of growing importance, the majority of Pacific islands people still live either in or only one generation away from their villages. For many, particularly in Melanesia, the state is a distant influence. The main institutions in their lives are traditional authority and the church, both challenging the Western idea of the paramountcy of the rational-legal authority of the state. Many of the challenges of development in the Pacific seem to turn on building good social capital, and seeking out and supporting positive relationships between traditional society, new forms of association beyond village or tribe, and the state.

**Custom, tradition, and kinship are still important in many people's lives**

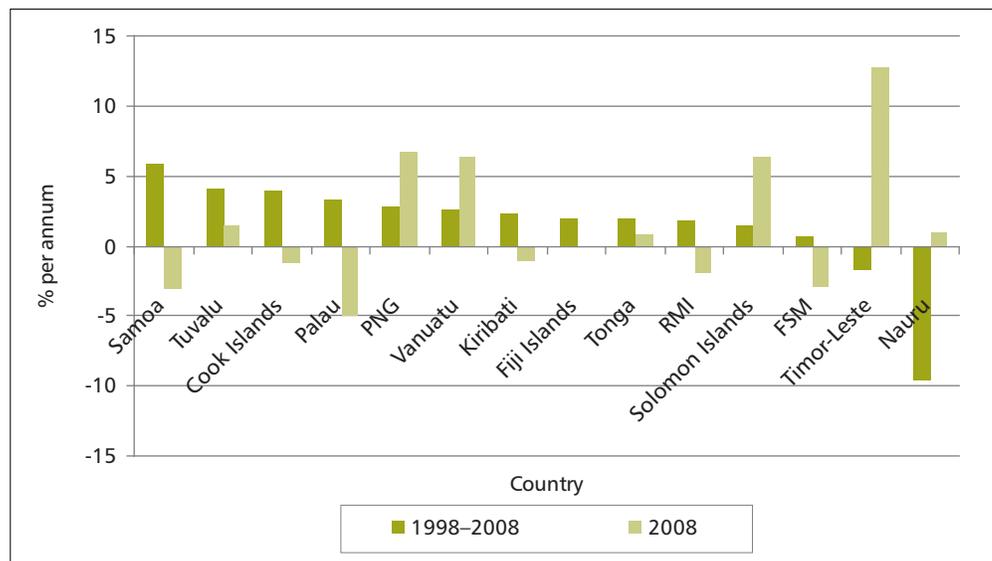
# Country Performance

Recent economic performance has been mixed

## Economic Performance

During 1998 to 2008, Pacific DMC economies overall had a mixed record of economic performance (Figure 1). Only the Cook Islands, Samoa, and Tuvalu managed to achieve an annual average growth in gross domestic product (GDP) of 3% or more. Timor-Leste's economy (and almost certainly Nauru's) actually shrank over the period.

**Figure 1: Gross Domestic Product Growth in the Pacific Developing Member Countries of ADB, 1998–2008**



RMI = Republic of the Marshall Islands, FSM = Federated States of Micronesia, PNG = Papua New Guinea.  
Source: ADB. 2009b. ADB's Approach to Assisting the Pacific (2010–2014). Manila. p. 3.

Overall, the Pacific experienced relatively strong growth in 2008, led by the commodity exporters, PNG, Solomon Islands, and Timor-Leste. Economic expansion in the region is forecast to slow significantly in 2009 and 2010 and real GDP per capita is expected to decline in 10 of the 14 Pacific DMCs (ADB 2009d). In 2009, the Pacific will have felt the effects of the global recession, particularly through declines in tourist numbers and in demand for some commodities (ADB 2009i, 1).

As a result of deteriorating growth and diminishing local employment opportunities, most Pacific governments were coming under greater fiscal pressure in 2009. Political imperatives

for fiscal expansion to offset the recession were colliding with a corresponding deterioration in fiscal positions as revenues declined. A few governments were managing to contain fiscal deficits or to draw on available reserves, but most would not be able to sustain current deficit levels. For many governments, the struggle for fiscal sustainability would put pressure on budgets for services essential to improving achievement on the Millennium Development Goals (MDGs) (ADB 2009i).

## Social and Environmental Performance—Progress Toward the Millennium Development Goals

**MDG1: Eradicate extreme poverty and hunger.**<sup>1</sup> Compared with Southeast and Central Asia, and despite recent economic growth, the Pacific has been relatively unsuccessful in reducing poverty. During the period 1991 to 2005, the Australian Agency for International Development (AusAID) estimates that in Southeast Asia, a 1.0% increase in GDP per capita reduced the number of people below the poverty line (purchasing power parity [PPP] \$1.25/day) by 1.6%. The effect of a 1.0% increase in GDP per capita in the Pacific was estimated at a 0.4% reduction in the number of people below the poverty line. Only Vanuatu and Tuvalu succeeded in converting growth into poverty reduction (AusAID 2009a). ADB estimates that “across the region, excluding PNG, about one-third of the population of the Pacific island countries could be living below their basic needs poverty lines,” and that in PNG the proportion could be as high as 60% (ADB 2009b, 7).

**MDG2: Achieve universal primary education.**<sup>2</sup> Most Pacific countries have been successful in getting children into school. AusAID reports that 11 out of 14 Pacific DMCs now have net primary enrollment rates above 90%. Below that level are Nauru (60%), PNG (55%), and Vanuatu (85%). However, only the Fiji Islands, Niue, Samoa, Tonga, and Tuvalu are rated as on track to achieve MDG2, while Nauru, PNG, Timor-Leste, and Vanuatu are rated as clearly offtrack. Primary school completion rates are deteriorating in some countries, possibly the result of declining household incomes. Achievement also may be declining, with evidence (e.g., from Vanuatu) that graduation from primary school does not mean attainment of basic literacy or numeracy. AusAID reports that “[t]he quality of education and learning achievement is low in the Pacific with many children leaving primary school unable to read, write or solve basic mathematical problems” (AusAID 2009a, 23). Within countries, achievement is unevenly distributed. “Across the region, children particularly at risk of not completing primary school are those living in geographically remote communities, those with disability, those from poorer families and those who undertake paid or domestic labour” (AusAID 2009a, 17).

**MDG3: Promote gender equality and empower women.**<sup>3</sup> AusAID reports that “[m]ost Polynesian and Micronesian countries have achieved, or are on track to achieve, gender equality in primary and secondary education,” but in most countries political leadership remains firmly in the hands of men (AusAID 2009a, 18). There is generally low representation of women in parliaments (AusAID 2009a).

**MDG4: Reduce child mortality.**<sup>4</sup> Infant mortality rates have generally declined in the Pacific since the 1960s and are now below the average for developing countries in all Pacific DMCs. Improvements have been made in primary health care coverage, maternal health care, water supply, and sanitation. But progress has slowed recently and rates have deteriorated in a

Infant mortality has generally declined

1 Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.

2 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

3 Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

4 Reduce by two-thirds, between 1990 and 2015, the mortality rate of children under age 5.

**There is a high rate of government and donor funding for education and health**

few cases. The Cook Islands, the Fiji Islands, Kiribati, Palau, PNG, and Tuvalu are all offtrack to achieve the MDG target of a two-thirds reduction in infant mortality by 2015 (AusAID 2009a).

**MDG5: Improve maternal health.**<sup>5</sup> Only Samoa, Solomon Islands, and Tuvalu are on track to achieve MDG5. In Solomon Islands, women in urban areas and women with higher education have a greater likelihood of receiving skilled birth support. Access to skilled delivery care is very low in PNG and Timor-Leste (AusAID 2009a).

**MDG6: Combat HIV/AIDS, malaria, and other diseases.**<sup>6</sup> Some infectious diseases remain a problem. HIV/AIDS, tuberculosis, and malaria are all significant risks in PNG. In Solomon Islands and Vanuatu, a large reduction in malaria rates has been achieved, but the rates remain relatively high. Tuberculosis is a problem in Kiribati and Tuvalu. Immunization rates vary widely in Pacific DMCs. In four out of the five Polynesian countries, nearly all 1-year-old children have been vaccinated against measles, but rates are low in the RMI (54%), PNG (53%), and Vanuatu (37%) (AusAID 2009a).

Noncommunicable diseases (typically diabetes and hypertension) are rising in incidence. Diabetes is a major health issue in Nauru and Samoa, affecting more than 20% of the population. Noncommunicable diseases are frequently lifestyle diseases, associated with consumption of tobacco and alcohol and with dietary changes (AusAID 2009a).

**MDG7: Ensure environmental sustainability.**<sup>7</sup> Environmental threats in the Pacific region include climate change, deforestation (in PNG and Solomon Islands), and overfishing (particularly for migratory stocks such as tuna). Kiribati, PNG, Solomon Islands, and Tuvalu are unlikely to achieve MDG7 targets for access to safe drinking water and basic sanitation. Improvements are more likely in urban than in rural areas, but problems are more common in squatter settlements (e.g., in PNG) (AusAID 2009a).

### Delivery of Social Services

The Pacific ranked highest “by a substantial margin” in government and donor funding per capita available for education and health in 1997–2003, according to a World Bank comparison of nine Pacific DMCs<sup>8</sup> with other low-income countries with abundant aid and other small island countries (World Bank 2007a, 21). Government funding for education and health as a percentage of GDP was higher in all nine of these countries than the average for low- and middle-income countries. With few exceptions (i.e., the RMI, PNG, and Vanuatu), Pacific island countries increased real spending per capita on health from 2000 to 2006 (AusAID 2009a, 29).

In PNG, government spending on health seems to have declined in real terms in 1997–2004, offset by increasing reliance on donors for development expenditure as well as recurrent spending. Government plus church spending in PNG provinces also appears to have declined. In contrast, combined funding by the government, donors, communities, and parents in PNG for education increased dramatically in recent years, although falling short of the targets of the National Education Plan to 2004 (ADB et al 2007).

Available data indicate that the level of spending on basic social services is relatively high in Pacific DMCs (excluding Timor-Leste, where data are lacking). However, the results achieved

5 Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio. Achieve, by 2015, universal access to reproductive health care.

6 Have halted by 2015 and begun to reverse the spread of HIV/AIDS. Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

7 Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Reduce rate of biodiversity loss significantly by 2010. Halve, by 2015, proportion of people without sustainable access to safe drinking water and basic sanitation. Achieve, by 2020, significant improvement in lives of slum dwellers.

8 The Fiji Islands, Kiribati, the RMI, the FSM, Palau, Samoa, Solomon Islands, Tonga, and Vanuatu.

with this spending are variable. In both the health and education sectors, the primary issues are more about equity and effectiveness than funding. As reported by AusAID, “[t]he reach and quality of services remain poor in many countries” (AusAID 2009a, 34).

Expenditures are sometimes poorly targeted. Health spending goes disproportionately to the better off in the form of curative care and treatment overseas, instead of to preventive programs (AusAID 2009a). In Palau, higher budget priority could be given to preventive and primary care instead of to costly curative care for the relatively wealthy urban minority (ADB 2005a). In the Fiji Islands, curative services dominate the budget. Only about 4% of spending appears to go to public and preventive care services (World Bank 2009a, 41). In PNG, “the provinces have borne a disproportionate share of the cuts in public service positions in recent years, and since health is the sector with the largest proportion of staff, it has taken the greatest share of these cuts” (Bolger et al 2005, 9). On the other hand, some improvement in retargeting health spending has been seen in the RMI (Box 1).

#### **Box 1: The Marshall Islands—Better Targeting of Health Spending**

There seems to have been some success in retargeting health expenditures toward the poor in the Marshall Islands. Tertiary health care rose from 55% to 64% of the budget between 1999 and 2003. More recently, the Ministry of Health seems to have been successful in shifting the emphasis more toward primary care by “improving on-island diagnostic capabilities, reducing politically inspired referrals, and sending more patients to lower-cost health care providers in the Philippines instead of to Hawaii.” More is being budgeted for preventive health care, and “the outer island system is being managed effectively by and large.” Some gains may be attributable to commitments of the administration as part of the Compact of Free Association with the United States (US). Under the compact, US assistance targets specific spending priorities such as “education, health, environment, private sector development, public sector capacity building, and infrastructure development,” and there are “rules governing regularly updated plans and budgets with performance measures, and the US can withhold grants if spending isn’t targeted on the core sectors.”

Source: ADB 2005b.

Across the region, “high proportions of government budgets go on public wages,” leaving little for other operating expenses (ADB 2009a, 18). In the Fiji Islands, wages reportedly account for 80% of the recurrent budget in the health sector, crowding out spending on drugs and other supplies, maintenance, and transport. After the 2006 coup, the government reduced salaries, cancelled a cost-of-living adjustment, and promised a reduction in the number of ministries, but the wage bill remains high at more than 11% of GDP (World Bank 2009a).

In a number of Pacific DMCs, subsidies for public enterprises constitute a significant drain on government resources. Examples in Nauru are Our Airline (formally Air Nauru) and water and electricity utilities (ADB 2007a). In Kiribati, the government airline, copra mill, and shipping line demand continuing subsidies.

**Public spending is sometimes poorly targeted**

# Defining and Measuring State Capacity

## The Role of the State in Development

The state is expected to continue to play an essential role in the development of Pacific DMCs. However, good governance alone will not secure attainment of the MDGs in the Pacific. The success and pace of national development depends on many factors other than state capacity. The physical endowments of a country—its natural resources, climate, and location—are critical, as are trade and investment. History is also important, particularly the role of colonization and conflict. External opportunities and threats (local, regional, and global) play a significant role, as do local social and cultural institutions (e.g., civil society and traditional governance), migration, and development aid and donor interventions. But many problems of collective action important for development are best managed by the state. The state can most efficiently handle political relations with other states and border security, internal law and order, macroeconomic management, human rights, equitable access to justice and basic services, and provision of other essential public services. In the Pacific, the state may not be solely responsible for delivery of many services that are important to the poor, such as education, health, local infrastructure, dispute resolution, and social support. However, the state will still normally have the role of guaranteeing citizens' access to these services.

To exercise their role in development effectively, Pacific governments need certain basic capacities, such as developing strategies, policies, and budgets that meet their development priorities, and organizing and managing the delivery of services for their citizens. Governments need more than technical competence in policy formulation and administration, however. They must also be able to govern throughout their territory, and they require political incentives to act in the interests of all their citizens. These attributes of an effective state will be analyzed in terms of four capacities, first defined by Merilee Grindle (1996): institutional, technical, administrative, and political (Box 2).

## An Overview of State Capacity in the Pacific

Most of the remainder of this paper is devoted to further analysis of the four attributes of state capacity. Some indicators of state capacity in Pacific DMCs are presented in this section to help identify where there are major problems of state capacity that may inhibit development, and Pacific DMCs that appear to be at some risk. None of the measures in the indicators presented correspond precisely to the four capacities discussed in the preceding section, but they do provide an alert as to where there are shortcomings in capacity and performance.

**Box 2: Four Capacities of the State**

**Institutional capacity** enables the state to “set authoritative and effective ‘rules of the game’ to regulate economic and political interactions; [and] assert the primacy of national policies, legal conventions, and norms of socio and political behavior over those of other groupings.” Institutional capacity requires, most basically, that the state can enforce the rule of law throughout its territory. The formal rules of the game usually include laws aimed at guaranteeing basic human rights and ordering economic transactions—including security of property and contracts—as well as provision of formal judicial institutions.

A government with **technical capacity** will be able to “set and manage effective macroeconomic policies [with a] cadre of well-trained economic analysts and managers [and] well-staffed and appropriately placed units for policy analysis.” There will be an “important role for technical input and information in decision making.” A government must be able to make good use of information and advice to decide on policies, form strategies, and make plans.

**Administrative capacity** means “effective administration of basic physical and social infrastructure,” and the “ability to perform basic administrative functions essential to economic development and social welfare.” A government with these capabilities will be effective at organizing itself and managing its resources of money, people, and information. It will have the ability to manage a decentralized system, share and delegate its power, and collaborate with other sectors of society.

**Political capacity** implies the presence of “effective and legitimate channels for societal demand making, representation, and conflict resolution; responsive political leaders and administrators [and] societal participation in decision making.” Most basically, governments must be motivated to act in the interests of all their citizens, usually because their exercise of authority can be contested through democratic processes.

Source: Grindle 1996.

**Good administration depends on good policies, the ability to enforce laws, and responsiveness to citizens’ needs**

The usefulness of aggregate indicators of performance is open to some question. However, measuring state performance and capacity is a growing industry, funded largely by donors, and assessments are often based on subjective perceptions (of so-called experts, local business people, and international agency staff, for example). Some critics see them as imposing “Western” or developed country values of political and economic organization. How much they can really explain about the quality of development in a country is also debated. Donors generally assume that good policies and institutions will lead to good outcomes, but the empirical evidence for this relationship is open to question. Additionally, measures for smaller countries (such as for Pacific DMCs) tend to rely on fewer sources and are less frequently updated than for larger economies. However, available measures for Pacific DMCs do give some indication of where there are widespread concerns about the quality of state performance. Some Pacific DMCs figure as relatively high risk on most available indicators.

Some indicators for Pacific DMCs about the four capacities of the state are brought together in Table 2. Those DMCs for which measures are available are ranked against each other and larger datasets, drawing on three sources. One is ADB’s country performance assessments (CPAs), which are carried out as part of country evaluation for eligibility of access to the Asian Development Fund (ADB 2009c) and presented as numerical scores.<sup>9</sup> The first

<sup>9</sup> The World Bank prepares country policy and institutional assessments of some Pacific countries using similar categories and guidelines as ADB CPAs. Not all Pacific DMCs are regularly assessed by either organization. Despite the common methodology, where there is a basis for comparison, the two agency rankings quite often differ, and it is difficult to compare either absolute scores or ranking. (For World Bank country policy and institutional assessments, see World Bank [2008a]).

**Some Pacific states  
appear on most lists of  
countries with a high  
risk of institutional or  
political failure**

three categories of these assessments (“Economic Management,” “Structural Policies,” “Social Inclusion or Equity”) are, broadly, measures of the quality of formal policy instruments (such as macroeconomic or fiscal management, economic regulation, equity of access to services, and environmental sustainability). The fourth category, “Public Sector Management and Institutions,” relates mostly to the capacity of the state to deliver these policies. The CPAs focus mainly on technical and administrative capacities, although measures of the “Rule of Law” and “Transparency Accountability and Corruption in the Public Sector” also capture some aspects of institutional and political capacities. Rankings are for the 28 countries for which ADB conducts CPAs.

The World Bank Institute’s Governance Matters indicators are a second source of Table 2 data (World Bank 2009b). Governance Matters synthesizes information from a number of sources—currently for 209 countries. Pacific DMC scores are ranked against this larger dataset. Two Governance Matters indicators, Government Effectiveness and Regulatory Quality, relate mainly to technical and administrative capacity. Two others, Political Stability and Absence of Violence, and Rule of Law, relate to institutional capacity. The remaining two indicators—Control of Corruption, and Voice and Accountability—measure aspects of political capacity. In each case, Pacific DMC scores are ranked against the entire 209-country dataset.

Rice and Patrick’s Index of State Weakness (Rice and Patrick 2008) is the third source of Table 2 data. This index attempts to capture risk of state failure explicitly, which relates to the institutional capacity of states to govern. Rice and Patrick define weak states as

...countries that lack the essential capacity and/or will to fulfill four sets of critical government responsibilities: fostering an environment conducive to sustainable and equitable economic growth; establishing and maintaining legitimate, transparent, and accountable political institutions; securing their populations from violent conflict and controlling their territory; and meeting the basic human needs of their population (Rice and Patrick 2008, 4).

The results of comparisons shown in Table 2 can be summarized briefly. Many Pacific DMCs face significant problems with technical and administrative capacity for a variety of reasons discussed at length in this report. Some Pacific island states appear on most lists of countries with a high risk of institutional or political failure. PNG, Solomon Islands, and Timor-Leste appear in all high-risk classifications, while other states appear only in some. A few Pacific island countries appear rarely, and only Samoa is rated relatively low risk on every listing. The Table 2 indicators, however, are only flags, and understanding of the risks flagged requires additional analysis, which is the focus of the remainder of this report.

**Table 2: Measures of State Capacity in the Pacific: Where ADB Pacific Developing Member Countries Rank**

Table 2: Measures of State Capacity in the Pacific: Where ADB Pacific Developing Member Countries Rank

Item	Source	Cook Islands	Fiji Islands	Kiribati	RMI	FSM	Nauru	Palau	PNG	Samoa	Solomon Islands	Timor-Leste	Tonga	Tuvalu	Vanuatu
Rankings by Quintile <sup>a</sup>															
<b>Technical and administrative capacity</b>															
Quality of budgetary and financial management	ADB	...	...	●	●	●	○	○	●	○	●	●	●	●	●
Efficiency of revenue mobilization	ADB	...	...	●	●	●	●	●	○	○	●	●	●	●	●
Quality of public administration	ADB	...	...	●	●	●	●	●	●	○	●	●	●	●	●
Government effectiveness	WBI	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Regulatory quality	WBI	●	●	●	●	●	●	...	●	●	●	●	●	●	●
<b>Institutional capacity</b>															
Property rights and rules-based governance	ADB	...	...	●	●	●	●	●	●	○	●	●	●	○	●
Political stability and absence of violence	WBI	...	...	○	○	○	○	○	●	○	●	●	●	○	○
Rule of law	WBI	●	●	●	●	●	●	○	●	○	●	●	●	○	●
State weakness	R&P	○	○	○	○	○	...	...	●	○	●	●	○	...	○
<b>Political capacity</b>															
Transparency, accountability, and corruption in public sector	ADB	...	...	●	●	●	●	●	●	○	●	●	○	●	●
Control of corruption	WBI	○	○	●	●	●	●	...	●	●	●	●	●	●	●
Voice and accountability	WBI	...	...	●	○	○	○	○	○	○	○	○	○	○	○

... = data not available, ADB = Asian Development Bank, FSM = Federated States of Micronesia, PNG = Papua New Guinea, R&P = Rice and Patrick, RMI = Republic of the Marshall Islands, WBI = World Bank Institute.

<sup>a</sup> Quintiles, lowest to highest: 1 = ○, 2 = ○, 3 = ●, 4 = ●, 5 = ●.

Sources: ADB 2008b, Rice and Patrick 2008, and World Bank 2009b.

# Institutional Capacity: The Competence of the State and Other Institutions

In many Pacific countries, tradition and the Church are more trusted sources of authority than the state

## The State and Other Institutions

Pacific states that are (in the various permutations of recent donor language) “failed,” “absent,” or “fragile” generally lack the capacity to assert their authority over their entire territory, and to establish an accepted set of formal rules for governing transactions between citizens. In PNG, the very notion of statehood is challenged because the state is too weak to enforce its rule throughout its territory. However, the capacity of the state as an institution inevitably must be related to the capacity of other institutions, such as the market, civil society in the Western sense (non-state groups organizing collective choice), and traditional authority systems. In many Pacific countries, institutions other than the state engender more trust and reliance for ordering interpersonal and societal relationships. Principal among these are forms of traditional governance based on clan or chiefly authority, and the moral authority of the churches. These sources of authority remain the main source of moral and practical order for many rural people. They survive despite often being under stress from urbanization, from a lack of capacity or unwillingness to extend beyond a domain of faith (in the case of the churches), or from interest conflicts (in the case of traditional authority).

In most Pacific villages, custom is the only relevant authority for allocation of land use rights and for settling disputes concerning property. Similarly, basic social support in villages is provided by access to land and by sharing within kinship or language groups. Other services, such as local schools and clinics, may be provided by the state or by a church or nongovernment organization (NGO)—perhaps in cooperation with a village council. The state’s role may be as regulator of standards, supplier of financing and technical capacity, or guarantor of access. Just as importantly, the state may provide the formal institutional framework for other important groups, organizations, and institutions, collaborating with them and supporting their development.

A primary concern voiced in discussions among development agencies in the mid-1990s was the limits of the state in human development. Strategies debated included strengthening the bureaucratic capacity of the state (e.g., through reforms of public administration and public financial management); improving governance to strengthen incentives for better performance from politicians and bureaucrats; and reducing the role of the state to better match its capacities. For those viewing the state as “doing too much,” the core roles of the state were seen as addressing market failures and seeking market alternatives or complements to state provision—such as corporatization and privatization, contracting out, and public–private partnerships. The World Bank’s *World Development Report in 1995 (Bureaucrats in Business)* and in 1997 (*The State in a Changing World*) were the defining manifestos for this view of the state (World Bank 1995 and 1997).

The 1996 *World Development Report (From Plan to Market)* took the more general view that there was a synergy between economic capital and social capital (World Bank 1996). The Report cited the views of Woolcock and Narayan that “Investments in civic and government social capital are thus highly complementary to investments in more orthodox forms of capital

accumulation” (Woolcock and Narayan 2000, 235). These authors argue that the synergy extends to the relationship between the state and other social groupings. They see this relationship through a “social capital” lens, distinguishing between “bonding” social capital (inherent in the ties of family, kinship, and local community) and “bridging” social capital (present in the generally weaker but important networks to which we belong outside family and immediate community). The institutional progress that supports economic development requires cooperation and trust beyond the level found in bonding social capital. Social capital, according to Fukuyama, is defined as a “radius of trust, that is, the circle of people among whom cooperative norms are operative” (Fukuyama 1999, 3). Traditional social groupings—“tribes, clans, village associations, religious sects, etc.”—are based on these shared norms, but “have a narrow radius of trust. In-group solidarity reduces the ability of group members to cooperate with outsiders, and often imposes negative externalities on the latter” (Fukuyama 1999, 4).

For Fukuyama (drawing mainly on arguments from the PRC and other East Asian societies), being able to borrow only from people who know you personally or through family connections meant relying on one’s extended family for capital—an inherent limitation to economic development. Moving beyond the extended family meant, in socialist economies, that the state would supply the capital. In capitalist economies, the state supplies the laws of property and contract that enable wider forms of provision and governance of capital.<sup>10</sup>

This argument about the social basis of capital accumulation may be extended to social capital: bridging social capital is produced by connections of trust between people. These connections are weaker than the ties of kinship or tribe, but they nevertheless enable people to cooperate with each other beyond traditional groupings. However, social capital theory tends to assume that the unit of analysis for these connections is the individual, who forms trust relationships outside his or her social base in clubs, churches, or other civil society organizations. What is the role of the extended family, clan, or tribe—and customary authority—in these relationships? It seems tacitly assumed that traditional society is at best irrelevant to and at worst a negative influence on human development. A starting point for examining the role of the state and other institutions in development is that traditional forms of organization and authority continue to be important.

### *The State and Traditional Society*

#### **Formal Role of Traditional Authority**

Traditional society in the Pacific is in varying degrees the result of the effects on pre-European societies of European contact and colonization, and borrowed institutions of the church and state. The latter continued into the post-colonial era and have in turn been modified by contact with pre-European social organization. Bruce Harris asserts that for the most part, “traditional societies reacted strongly against the imposition of a state that claimed legitimacy and domination based on legal-rational authority” (Harris 2007, 26). The reaction varied from one country to another and “depend[ed] on whether the pre-existing traditional society was one based on charismatic or traditional authority” (Harris 2007, 26). The adaptation of formal and traditional governance to each other also varies among societies. Michael Morgan argues that preexisting social forms in Melanesia pervade the state at all levels, organize politics along traditional and local lines, and are stronger forms of social control than the state (Morgan 2005).

Customary authority provides a formal basis for national political representation only in Samoa and Tonga. In Tonga (a monarchy), the Constitution entrenches a hereditary nobility. Only 9 out of 30 members of the legislative assembly are popularly elected, with the remainder either elected from among the nobles or appointed by the king.<sup>11</sup> In Samoa, *fā’amatai*, the

**Traditional society in the Pacific is in varying degrees the result of the effects on pre-European societies of European contact and colonization, and borrowed institutions of the church and state**

<sup>10</sup> An argument addressed at length by Fukuyama (1996).

<sup>11</sup> Recent electoral reforms will increase the number of directly elected legislators.

**In general, colonial powers and written constitutions found it easier to accommodate hereditary chiefly authority, in whatever roles, than the more fluid and competitive clan-based authority of much of Melanesia**

authority of hereditary chiefs, is paramount in villages. The electoral franchise is universal, but only hereditary chiefs may stand for election. The Cook Islands appears to be the only other Polynesian state that bestows any national role on chiefs, but their role is purely advisory.

The role of traditional authority varies in Micronesia. In the RMI, the Council of Iroij (*iroij* are heads of lineage groups) within the legislature has at least nominally a privileged role in governance (Pollock 2004). In land tenure, however, the role of the *iroij* and traditional land managers is still predominant. *Irooj* were recognized by German colonizers as collectors (on commission) of a head tax and continue to derive authority from both formal law and from custom (ADB 2005b). In Kiribati, each island has a *Botaki ni Unimwane* (council of elders) with no legislative basis, but with influence on the island. These councils are distinct from island councils, established in Kiribati by the Local Government Act, with staff appointed and funded by the government (MacKenzie 2004). In Palau, the traditional system of local governance based on the *klobak*, or council of chiefs, has been gradually marginalized by the constitutional provision of state governments (Shuster 2004). The President of Palau, however, is advised by a council of chiefs, and while the relationship between formal and traditional authority is clear in the Constitution, “the traditional hierarchy of chiefs and local practices often lead to misunderstandings and differences over authority” (ADB 2005a, 8). In the Federated States of Micronesia (FSM), the influence of customary chiefs varies from nil on the island of Chuuk to quite substantial on Yap (Hill 2004).

In general, colonial powers and written constitutions found it easier to accommodate hereditary chiefly authority, in whatever roles, than the more fluid and competitive clan-based authority of much of Melanesia. Harris argues that some features of the “big man” system of authority found in Melanesia intensify competition between groups compared with chiefly systems. The big man is in constant competition to maintain and expand his authority, which is based on his ability to command and reward supporters. Ascriptive systems can be more stable politically because authority is heritable. They also produce more stable relations between groups and can provide a basis for larger political groupings (Harris 2007).

The big man system is not universal in Melanesia. Ascriptive chiefly systems exist in the Fiji Islands and Vanuatu, in PNG’s offshore islands of Bougainville and the Trobriands, and in some parts of Solomon Islands. With the exception of the Fiji Islands, their role has been purely advisory.<sup>12</sup> In the Fiji Islands, the Great Council of Chiefs has power under the 1990 Constitution to appoint 24 of the 34 senate members. It has had a checkered record in the modern era, and has been suspended by the present administration. In Vanuatu, the Malvatu Mauri, or National Council of Chiefs, is accorded the role under the Constitution to discuss and make recommendations on “matters relating to custom and tradition” (Cain and Jowitt 2004). A system of island and informal courts exists in Vanuatu, but the chiefs deal only with minor offenses and village court decisions “have no official standing in state terms” (Kernot and Sakita 2008, 14). In the wake of the crisis in Bougainville in PNG, local government there was constituted on the basis of chiefly authority through the Councils of Elders Act 1996. Geoffrey White reports on the development of the Council of Chiefs on Santa Isabel Island in Solomon Islands in the 1970s, and the creation of the position of paramount chief. A United Nations Development Programme (UNDP) project aims to formalize cooperation between the tripod of state, church, and chiefs on Santa Isabel Island (White 2007).

While the formal role of traditional authority is limited at the national level in the Pacific—except in Samoa and Tonga—the picture is different at the village level in much of the region. Custom and traditional governance may have a larger role to play in local decision making, although the extent of that role varies from country to country.

<sup>12</sup> Although, as in the case of the Vanuatu National Council of Chiefs, they may exert influence in other ways.

In Samoa, colonial attempts to impose stronger control from the capital Apia were never fully successful. The hereditary chiefs fought colonial authorities and largely won. Chiefly authority continued at the local level and is now enshrined in the Village Fono Act. Chiefs also hold a privileged position in the national electoral system. Similarly, Tuvalu's Local Government Act 1990 did not sit comfortably with Tuvalan society and the Falekaupule Act 1997 restored (or recognized) the authority of chiefs and family clans in the villages (Taafaki 2004).

In PNG, Solomon Islands, and Vanuatu, authority in the villages is still largely based on *kastom* (traditional culture). Melanesian societies are for the most part ethnolinguistically diverse (language groups are a "few hundred to a few thousand"), which means that politics is "embedded in [small] localized social structures." Politics and administration are mostly personal and local. Political discussion and decision making tends to take place in small open forums in keeping with the Melanesian tradition (White 2007). In PNG, there is "a perception... (fairly widely held) that 'everything is local'. In other words, people's first point of identification and loyalty is to their clan or customary land group, then the broader linguistic group, and outward from there" (Bolger et al 2005, 31).

Overlays of colonial-style provincial or district governments have by and large not succeeded in establishing the authority of formal government or extending services to the villages, particularly in PNG. Conversely, there have been no attempts in either PNG or Solomon Islands to formalize traditional authority. With regard to land law in Solomon Islands, however, "numerous cultural groups have made calls over the years for the recognition of the authority of *kastom* and chiefs" (Roughan 2004, 28). In Vanuatu, local chiefs' councils have unilaterally formalized their role with written constitutions, a formal structure crowned at the national level by the National Council of Chiefs (Cain and Jowitt 2004).

### Custom and Obligation in Public Life

Throughout the Pacific, obligations and responsibilities to extended family and clan continue to play an important role in public life. *Wantok*<sup>13</sup> is not only a positive basis for social support in Melanesian society but also a basis for asserting claims on family members in their business or public lives. For urban dwellers it is often "a source of burdensome obligations or intrusions into the operation of businesses and government offices" (White 2007, 3). In Vanuatu, *wantok* is in conflict with the formal role of public servants and makes it difficult for them to separate official life from private life (Cain and Jowitt 2004). In PNG,

... *wantok* can influence organisational behaviour, including the use of authority to proffer advantage to someone from one's tribe, family or regional grouping; [PNG's] modern state institutions are [thus] superimposed on various traditional customs and institutional arrangements, not all of which fit easily with contemporary Western standards of governance (Bolger et al 2005, 19).

Although *wantok* receives the most attention in the literature, similar obligations also exist in Polynesian and Micronesian societies. In Kiribati, politicians face pressure from *bubuti* (like *wantok*, obligations to kin group) and "traditional and accepted norms of mutual support and communal responsibility" (ADB 2008d, 41). In Polynesian states, public servants also report requests for favors from family members.

The nexus of custom and written law in the Pacific is evident in the interplay of traditional and formal authority in politics. In PNG, the absence of strong political parties and the high turnover of members of Parliament at each election is attributed by Harris to the first-past-the-post electoral system combined with voting on personal allegiance—usually to a big man. The

Throughout the Pacific, obligations and responsibilities to extend family and clan such as *wantok* continue to play an important role in public life

13 Literally (in pidgin) "speaking the same language," but more broadly a system of mutual obligations to family and kinship group.

**Most people of Christian faith and the churches are prominent in providing health and education**

result is large numbers of candidates in elections, with victory going to those who can muster the largest (though relatively small) group of supporters through feasts and distributions of wealth.<sup>14</sup> The high probability of losing the next election encourages Parliament members to garner as much public funding as possible during their term, some of which they are expected to return to their supporters (Harris 2007).<sup>15</sup>

*Role of the Churches*

Christianity is the dominant religion in all Pacific DMCs, and most Pacific people profess a specific Christian faith. Christian churches have played a role in the provision of health and education services since the earliest missionary days of the 19th century, particularly in Melanesia. In PNG, the churches operate about half of the health facilities and make a major contribution to the training of health workers (Hauck et al 2005). Church mission health centers seem to be at least as effective and lower cost than government facilities. Government health services appear to be overstaffed and not efficiently organized compared to church facilities (ADB et al 2007). Some criticism is heard that the quality of church schools has declined in recent years, but churches run four well-respected teachers' colleges and two universities (Hauck et al 2005). In Solomon Islands, "the mainline churches' involvement in education and health service delivery is significant and dates back to the pioneering stage of their missions" (Bird 2007, ii). In Kiribati, the churches are "essential providers" of senior secondary education and also play some role in junior secondary and preschool education. (ADB 2008d, 56). The Catholic Church is "described as the central social institution" in Timor-Leste, providing many social services (Soux et al 2007, 43).

Churches can play a role in other areas as well. In Kiribati, they are assuming a greater role in social support, but tend to limit the scope of their support (ADB 2008d). Cliff Bird reports that in Solomon Islands, "addressing disputes over land has become a big part of the work of church leaders and groups" and that "various church groups and religious communities participated in activities to bring reconciliation and build peace during the ethnic tension, addressed disputes between tribal members, preaching and teaching about the culture of peace" (Bird 2007, 5).<sup>16</sup>

In both PNG and Solomon Islands, "there are established partnerships between the churches and government especially in education and health" (Bird 2007, 12). Government-church collaboration in PNG is close because of the large role the churches play in service provision. The Churches Medical Council has a secretariat in the PNG National Department of Health and negotiates funding arrangements with the government on behalf of 27 churches (Hauck et al 2005). Churches receive more than 80% of funding for their health services from the government and development agencies (principally AusAID) (Hauck et al 2005). The Churches Education Council works with the PNG National Department of Education. However, there appears to be less sense of an equal partnership than in health, as "churches have little say in funding and personnel" (Hauck et al 2005, 79). Church-administered schools are integrated into the government system, except for Seventh Day Adventist schools.

Churches face challenges in maintaining their major role in social services. There are theological differences among the churches. The different churches do not have a uniform role in the provision of services. The older, more traditional churches (Catholic, London Missionary Society, and Methodist) often have social services missions, whereas the newer Evangelical or

14 Treating is similarly observed in Vanuatu (Van Trease 2009). In Samoa, the obligation to treat supporters is also felt by hereditary chiefs standing for election.

15 Written before the 2007 general election, in which a new system of voting (limited preferential vote) was introduced. The effects of the limited preferential vote system are discussed more fully later.

16 Churches themselves are not immune to local conflict. In PNG, increasing conflict affects church congregations and can set back church social work. Bougainville is an example (Hauck et al 2005, 22).

Pentecostal churches may have only “faith missions” (Nelson 2006). In PNG, the scattered headquarters of the different churches inhibits the work of the Churches Medical Council (Hauck et al 2005). The churches encounter problems recruiting and retaining adequately qualified teaching and clinical staff, and in meeting the standards of accountability required when accessing public or donor funding. In Solomon Islands, Bird reports that “an area of genuine concern is whether and to what degree such coverage also reflects the effectiveness of church structures, ‘management’ and networks, and the capacity of such structures and networks to deliver quality service and effect good governance” (Bird 2007, 7). Traditionally, “it is a commonly held view that [church workers] are prepared and happy to accept what churches have to offer, including generally lower salaries and less than attractive terms and conditions of service,” but this view may no longer be valid (Bird 2007, 17). In PNG, however, Hauck and his co-authors believe that churches can only continue to increase their role in public governance and service delivery if they can strengthen their internal governance and management capabilities (Hauck et al 2005).

In both PNG and Solomon Islands, the churches will need to continue to play a major role. Churches in PNG, alone among civil society organizations, enjoy widespread legitimacy and public support. “The government recognises churches as important civil society actors” (Hauck et al 2005, 5). Churches may be a bridgehead for donors and government in building wider groupings at the local level. Churches in PNG have “opened up space” for developing civil society institutions, and some have effectively bonded with local communities right down to extended family and household levels (Hauck et al 2005).

#### *The State and Other Institutions in Service Delivery*

In all Pacific DMCs, the state has primary responsibility for services to the poor and is the principal actor in their delivery. In some countries, however, the state cannot adequately fulfill these responsibilities, necessitating sharing these with other actors, including churches, NGOs, local communities, and private providers.

In many cases, such as the health sector in PNG, the state’s role is setting priorities and supplying financing while other actors deliver the services. A recent report on PNG’s health system seems to accept that the public sector has limited capacity to deliver health services, arguing that “the central aim of any new strategy should be to prioritize delivery of services, particularly at the provincial and district level, and, to reduce the government’s direct responsibility for service delivery and put in place more viable options.” These options would include “appropriate involvement of the private sector in the delivery of private goods, such as ambulatory care,” and identifying “those services best provided by private practitioners at the village level” (ADB et al 2007, 62).

The state also continues to be important, in the words of Michael Woolcock and Deepa Narayan, as “the actor best able to facilitate enduring alliances across the boundaries of class, ethnicity, race, gender, politics, and religion” (Woolcock and Narayan 2000, 236). Harmonizing and coordinating the interests of stakeholder groups and harnessing community leadership is (or should be) a priority. In the RMI, “traditional, religious, business, and civil leaders remain an underutilized resource by the Government for social development” (ADB 2005b, 102). White argues that state and local governance can be connected more effectively by strengthening the role of traditional and church leaders in provincial affairs. “Providing public service support for bodies of indigenous leaders offers one means for empowering traditional leaders and adding greater transparency to their transactions.” Connectivity also can be made stronger with better lateral channels between local and provincial bodies, and by using video and computers to help with “incorporation of oral practices in the institutions of governance” (White 2007, 114).

**The state has primary responsibility for services to the poor but in some countries must share it with other providers**

**Building social capital  
beyond village and clan  
can be important for  
effective service delivery**

Efforts to build wider alliances have been reported. In PNG, the National Department of Health “has a record of successfully engaging a broad range of stakeholders in health policy development processes, which helps explain why there appears to be broad consensus on PNG’s health policies” (Bolger et al 2005, 9). The Vanuatu Association of Non-Governmental Organisations, officially recognized by the government in 2004, provides a central point of contact for donor organizations and international NGOs. However, duplication of services remains a problem due to poor communication between NGOs (World Bank 2005b).

Bolger et al report that “at the operational and administrative levels...management of a diverse range of stakeholder interests has been more of a challenge” (Bolger et al 2005, 9). The PNG National Department of Health has not been as successful at building subsidiary relationships, “despite regular efforts through formal and informal mechanisms (e.g., national–provincial consultations and partnership agreements)” (Bolger et al 2005, 9). However, formation of links between local groups in PNG has been observed, and these must be encouraged. Harris reports, for example, that groups are being brought together into small-scale agricultural enterprises on the Mangalas Plateau. This is a long-term process of building trust between local groups through many meetings and engaging them in creating a development strategy (Harris 2007). Box 3 summarizes an experiment in building bridging social capital at the OK Tedi mine, also in PNG. Other work, such as that conducted by the State Society and Governance in Melanesia Project of the Australian National University, involves seeking out nascent and developing trans-local groups, mapping their membership and assessing their legitimacy, and identifying where they are successful and could be supported. “The work will identify those situations in which local level groups are able to most effectively cooperate to achieve common goals and how they can be most effectively supported in the achievement of those goals” (Harris 2007, 42).

Some donor-supported programs call explicitly for the state to share delivery of public services with other groups. AusAID funds a number of such initiatives in PNG to develop the capacity of local groups and organizations to provide services:

- (i) “[S]mall grants [for] capacity building and community development activities with grassroots communities throughout PNG...including water supply, health, social empowerment, literacy.”
- (ii) “[P]artnership with local NGOs to plan and manage development activities and to build their organisational capacity to fulfill their mission and goals.”
- (iii) The Church Partnership Program, which aims, among other things, to “improve the quality and reach of basic services, and improve churches’ institutional capacity to deliver development programs.”
- (iv) The Basic Education Development Project, which “promotes partnerships between government and communities by working cooperatively with school Boards of Management to upgrade rural and remote schools. It also strengthens the capacity of national, provincial, and district personnel, local level institutions and communities in all provinces, to plan and manage school infrastructure” (AusAID 2009b).

In Timor-Leste, AusAID is supporting Building Social Accountability in Rural Water Supply and Sanitation, a program to help “improve rural access to clean water, sanitation facilities and environmental awareness, as well as build capacity and social accountability among community participants and local civil society organisations” (AusAID 2009b).

Initiatives such as these are not without difficulties. Among them are the inadequate management capacity of service providers and local community organizations, and deficient skills in basic record keeping and accounting. Churches recognize their shortcomings in providing services and ensuring their accountability for proper use of funds. Local community organizations need training and support to strengthen their governance capacity. Governments

and donors need to determine how basic clerical services can be made available to support service providers and community organizations. Another potential difficulty is moral hazard in misuse of funds for political purposes or the benefit of certain groups. The direct control of local development funds by Parliament members in PNG and Solomon Islands is an example. Additionally, donors must play their part. Donors wish to “strengthen the state and the sense of nationalism,” but are funding NGOs and churches to deliver services, which diminishes a sense of nationalism—a contradiction (Nelson 2006, 14). Governments need help in the delivery of important services, but donors should work closely with governments in planning and funding shared service delivery. Sector-wide approaches (SWAs)<sup>17</sup> in the spirit of the Paris Declaration seem to offer the best option (Organisation for Economic Co-operation and Development [OECD] 2005). Their logic—and the objectives of the Paris Declaration—require that all major donors be brought into the fold, including the present independent aid operations of the PRC and Taipei, China.

**Box 3: Economic Organization and Bridging Social Capital  
at the OK Tedi Mine in Papua New Guinea**

In his book, *Trust: Social Virtues and the Creation of Prosperity*, Francis Fukuyama argues that capital accumulation founded on the extended family—a predominant form of economic organization in much of Asia—is a limiting factor for development. He maintains that capitalism requires people to trust each other beyond the ties of kinship (Fukuyama 1996).

Paulina Siop reports on efforts at the OK Tedi Mine to create a governance structure that will ensure that compensation and royalties paid to landowners will be fairly distributed and used for reinvestment in businesses that would be sustainable once the mine was closed. Difficulties were amplified by a “hierarchical leadership structure [that] has not always performed in the best interests of the community.” The mining company created a “representative umbrella company...that would take control of existing local business opportunities and take on other larger business opportunities now and in future.” This company was intended to facilitate “clan companies as portfolio investment opportunities.” Below the clan companies would be “family and individual investment groups.” Two leaders of landowning clans emerged (apparently with community consent) to represent community interests. The consultations appeared to facilitate communication across clan boundaries for the first time. The two leaders supported further bridging consultations, and agreed to allocate some of their royalty streams to a savings program to fund the clan portfolio companies.

Siop concludes that the challenge was to find local leaders who could unite the clans to take ownership of the new investment structures. The case, according to Siop, “highlights the importance of strengthening the capacity of landowner structures in the early stages of a mine’s life in order to harness economic opportunities that can contribute to sustainable development outcomes in the community”—also, one might add, of finding ways to bridge the clan structure of Papua New Guinea’s segmented society and develop new forms of responsible economic organization.

Source: Drawn from Siop 2008.

17 “A sector-wide approach (SWAp) is a process where donors give significant funding to a government’s comprehensive sector policy and expenditure program (for example on health or education), consistent with a sound macroeconomic framework. SWAs typically have a joint review mechanism and performance monitoring system relying on the government’s own performance assessment framework” (United Kingdom Department for International Development 2009).

**For several Pacific island countries, a primary requirement is to ensure that the state has the “legal monopoly of force,” and can thereby maintain a tolerable level of security in its territory**

## Problems of State Institutional Capacity

### *Security and Public Order*

For several Pacific island countries, a primary requirement is to ensure that the state has the “legal monopoly of force,” and can thereby maintain a tolerable level of security in its territory. On this basic criterion of statehood is built the ability to construct and enforce a legal framework for relations among citizens and to arbitrate and resolve disputes in law.

The common view of the Pacific, particularly of Melanesia and Timor-Leste, has changed in recent years “from an underperforming but basically benign region, to one that is now characterized as an ‘arc of instability’, comprising ‘weak’ and ‘failing’ states” (Reilly and Wainwright 2005, 122). While there have been few episodes of major political violence,<sup>18</sup> several countries are in a risk category. The Fiji Islands, PNG, and Timor-Leste are all in the lower half of the World Bank Institute indicators for Political Stability and the Absence of Violence. Not far above the low ratings of these countries are Solomon Islands and Tonga (World Bank 2009b).

The Pacific region faces several major challenges, although they are not evenly distributed across countries. One is increasing crime and lawlessness by individuals or gangs. Another is intergroup conflict that can sometimes erupt into major civil unrest in the Fiji Islands, PNG,<sup>19</sup> Solomon Islands, Timor-Leste, Tonga, and Vanuatu. Even armed insurrection is a challenge in the Fiji Islands, PNG (Bougainville), and Solomon Islands. PNG in particular suffers from “chronic low level civil conflict through tribal fighting” and “some of the highest rates of domestic violence per capita in the world” (UNDP PNG 2009). The potential for conflict is exacerbated—particularly among youth—by the separation of individuals from their traditional society and economy and the mixing of groups that accompanies internal migration and urbanization. Disputes over land rights add to the potential for conflict.

Pressure on urban land from in-migrants—who have no customary right to occupy or use land in or near townships—is another element exacerbating the potential for violence. In the Fiji Islands, many urban squatters are “tenant farmers displaced when their leases were not renewed,” indicating that access to land remains an ongoing problem (World Bank 2009a, 19). A 2003 ADB survey in the Fiji Islands reported that Indo-Fijians and indigenous Melanesians (both urban and rural), as well as indigenous Fijians who had migrated to urban areas, identified landlessness as a major driver of hardship. The report said also that lack of land titles in urban areas prevented connection to electricity and water services (ADB 2003). In urban areas in several countries, reports cite increased alienation of young people, alcoholism, prostitution, and gang activity (ADB 2003 and 2008d, and Brown 2007).

In most cases of rapid urbanization, local organizations (government and otherwise) are unable to keep up with adequate shelter, and services. Urban settlement generates multiple causes of poverty: income, shelter, and sanitation being predominant plus increased personal security risk due to crime and conflict (Storey 2006, 10).

The effects of urbanization are seen in the increasing volatility and unpredictability of mob violence, springing mostly from “disproportionate numbers of young men” with “no vested interest in the town” (Nelson 2006, 15).

The first priority in countries most at risk from political or civil conflict—as seen by other states and multilateral organizations—is to support the state at risk to secure public order. PNG, Solomon Islands, and Timor-Leste are in the highest-risk category because of recent

18 Only three such episodes make it into the best-known database (Marshall 2009): (i) the ethnic warfare in Bougainville, PNG (1988–1997); (ii) communal violence in Solomon Islands involving Malaita and Isatabu islanders (1998–2003); and (iii) the Indonesian invasion of Timor-Leste at the time of its independence in 1999.

19 Fukuyama observes that “PNG’s failure of collective action is so pervasive that there are no warlords or regional centers of power strong enough to challenge the state itself” (Fukuyama 2007, 11). Given the high level of intergroup conflict in PNG, this may seem not much comfort.

armed conflict and endemic high levels of violence. Incidents in Tonga and Vanuatu have raised the risk ratings of these countries. Security in the Fiji Islands is maintained by a military junta, but this must be considered some risk.

In a small number of cases with a high risk of escalation into large-scale armed conflict (the Bougainville crisis in PNG, the aftermath of the Indonesian invasion of Timor-Leste, and the Weather Coast rebellion in Solomon Islands), foreign states have shown themselves prepared to intervene with actual or implicit armed force. However, the next step has been to assist the government to build its capacity to take responsibility for public order.

In Solomon Islands, the initial focus for the Regional Assistance Mission (RAMSI) was on stabilizing the security environment and upgrading the capacity and accountability of the Solomon Islands police force using advisors from a number of regional police agencies. A RAMSI corrections program aims at reducing the number of incidents in prisons, refurbishing and rebuilding corrections facilities to meet international standards, and developing rehabilitation and community-based corrections.

In Timor-Leste, in the wake of internal strife within the security forces, the main focus in underwriting public order has been on gaining control of the security sector and developing civilian oversight of security forces—operational competence, financial accountability, and policy formulation (UNDP Timor-Leste 2009). In the Police Development Program operated by the Australian Federal Police, up to 80 police and civilian specialists will increase the capacity of the National Police of Timor-Leste to handle “serious domestic crises...[and] support the increasingly strengthened rule of law in an emerging democracy” (AusAID 2009b).

Police development programs are ongoing in other Pacific countries, with Australia prominent in their organization and funding. The Australian Federal Police is active in police training in PNG<sup>20</sup> and is providing technical support for the Vanuatu Police Force Capacity Building Project.<sup>21</sup> Additionally, AusAID’s Samoa Police Project is providing “training for executive and senior members of the force as well as core police training to improve basic operational and investigative capacity” (AusAID 2009b). The Pacific Regional Police Initiative, harmonized with New Zealand, is providing “support to the South Pacific Chiefs of Police Conference, police leadership and executive development programs and improvement of police technical skills” (AusAID 2009b).

When foreign advisers play a large role in actually directing work as part of foreign assistance and intervention, the exit strategy of the advisers becomes critical. This is particularly true in assistance to police in PNG, Solomon Islands, and Timor-Leste. While the security environment in the Solomon Islands is stable and police professional standards and internal discipline are improving, the public’s perception is that crime is increasing and their confidence in the police is low and falling. Absenteeism is still a major problem. According to a recent RAMSI annual report, a Solomon Islands police force that can operate independently seems some way off. Similarly, building Solomon Islands capacity to manage prison populations also remains a challenge (Winter et al 2008). In the case of Timor-Leste, fighting between the National Police and their paramilitary wing is a vivid recent memory.

### *Land Issues*

The ability to define and enforce general rules for acquiring and holding property is a key role of the state. In much of the region, this comes down to questions of access to land and its resources, and is a major area of conflict between the traditional world and modern influences. Land was owned collectively in most of the Pacific, usually based on kinship, and access and use rights were determined by traditional authority. This authority could rarely be exercised

20 Radio Australia. *Australian Federal Police to return to PNG*. 23 September 2009. Source: [www.radioaustralia.net.au](http://www.radioaustralia.net.au).

21 Australian Federal Police. *Vanuatu Police Force Capacity Building Project*. Source: [www.afp.gov.au](http://www.afp.gov.au)

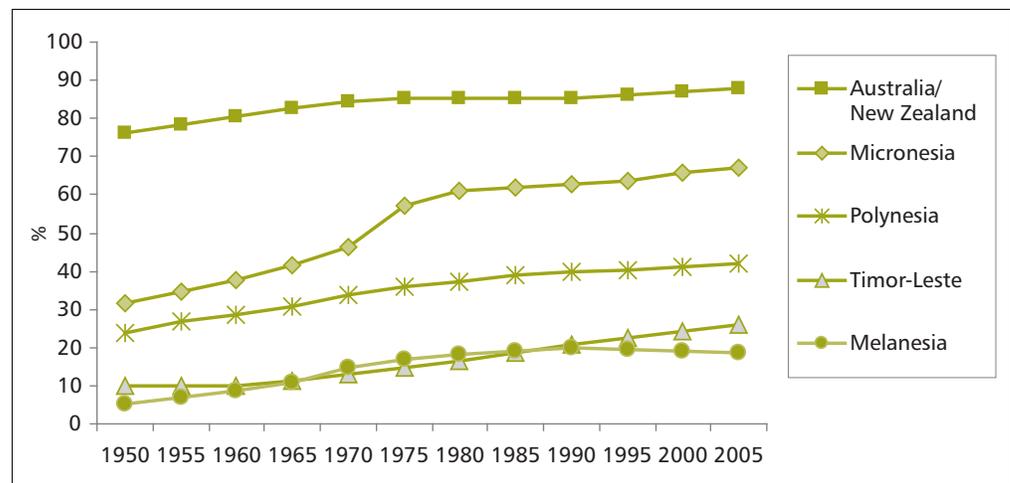
**New economic activities and urbanization can be major factors in land disputes**

arbitrarily. In most chiefly systems, decisions on use or access rights were made after full and open discussion in the community. While the basis for authority over land is different in big man systems in Melanesia, acquisition and use is still firmly grounded in kinship. In much of Melanesia, traditional authority is seen as important in resolving land disputes. Local leaders are repositories of (jealously guarded) knowledge about lineage and customary use.

Modernization has introduced major complicating factors, notably internal migration. New settlers, particularly those migrating from rural to urban areas, come into conflict with existing landowners over habitation and customary rights to use land. These conflicts often are exacerbated by attempts to formalize titles. Conflicts also arise over the use of land—traditional use as a source of sustenance versus new economic uses, such as contract or plantation agriculture, forestry, mining, or tourism. Disputes arise over misuse of traditional authority to secure benefits from new economic activities. Growth in these activities—especially forestry and logging—is increasing the frequency of disputes over land (White 2007).

Urbanization is a major factor in land disputes. Most of the ADB Pacific DMCs are still predominantly rural, but the increasingly common internal drift of people toward urban areas is a source of cultural and ethnic conflict as well as tension over settlement (Storey 2006). While emigration to metropolitan nations relieves some of the pressure of surplus population in some Pacific countries—Australia and New Zealand for Samoa and Tonga, and the US for much of Micronesia—the trend toward urbanization is evident everywhere, as shown in Figure 2. Where urbanization is rapid, local organizations (government and otherwise) are often unable to keep pace with adequate shelter and basic services such as sanitation. Personal security may well be at risk due to crime and conflict (Storey 2006). Lack of land titles in urban areas can prevent connection to electricity and water services (ADB 2003). Illegal squatting can increase the likelihood of the “lack of land-use planning, zoning, or effective building codes [which impedes] environmental improvement and put[s] enormous pressure on the environment” (ADB 2005b, 113).

**Figure 2: Urbanization of the Pacific**



Source: United Nations Department of Economic and Social Affairs. World Urbanization Prospects: The 2007 Revision Population Database. <http://esa.un.org/unup/> (accessed 15 February 2010).

Landlessness resulting from involuntary displacement can be a major source of hardship. This is true in the Fiji Islands for Indo-Fijian tenant farmers whose leases were terminated. Many moved to squatter settlements in the Suva–Nausori corridor. But indigenous Melanesians—urban and rural—as well as indigenous Fijians have also suffered from landlessness and migrated to urban areas. In Timor-Leste, extensive displacement and forced resettlement resulted from two major upheavals: when the Indonesians left in 1999, and the conflict in Dili in 2006 (Integrated Regional Information Networks 2008).

Donors see secure land titles, particularly for the urban poor, as a basic form of economic security, offering some protection against arbitrary occupation or alienation of land by those claiming authority over it. A land title also is a prerequisite for investment in housing and other land-based assets. Multiple owners of land, it is commonly argued, discourage maintenance or improvement of assets on land, such as houses (ADB 2007a). It also may lead to excessive subdividing as a result of inheritance, as well as fragmentation of holdings and absentee ownership (ADB 2008d). Francis Fukuyama asserts in his review of governance in PNG that “PNG’s lack of alienable land for foreign investment or even for public buildings constitutes a major obstacle to development” (Fukuyama 2007, 7).

Donors have thus supported new laws and systems for land titling throughout the Pacific. However, efforts to establish formal systems of land tenure have run into difficulties in many countries. In Palau, land was owned on customary title until 1971, when the process of individual land titling began. The process was to have been completed in February 2008, but has dragged on, probably because of the sensitive nature of land (ADB 2005a). In the FSM, ADB and other donors have assisted efforts to improve land surveys and registration, but these systems are apparently still not adequate to properly support public sector infrastructure and private sector development. In the RMI, “[t]he Land Registration Authority has made limited progress in making land held under customary ownership available for development by private enterprise, but a lot remains to be done” (ADB 2005b, 53).

Nelson observes that the failure to resolve long-standing land disputes and grievances “is a clear warning to those who think that legislation and titles may solve land disputes” (Nelson 2006, 18). In part, this is because land has “historical, cosmological and genealogical significance” as well as economic value (McLeod and Morgan 2007, 15). But land does have new forms of value in an increasingly cash-based and urbanized economy, leading to conflicts over its use—not just between customary owners and outside interests, but also within traditional society.

Are there any solutions? It seems inevitable that land use conflict will grow. There is no firm basis for traditional authority to deal with many disputes because of increased intermingling of kinship groups as a result of urbanization and interest in non-traditional investments. In West Papua, former President Suharto used force majeure to simply nationalize much land, thereby removing most potential sources of conflict (whatever else the consequences of corrupt acquisition) (Fukuyama 2007). It is hard to see this being a viable option in the Pacific. There seems no alternative to some blending of establishment of rights through traditional knowledge of land, and validation of these rights through formal land titling. Possible models for the Pacific are Samoa’s Lands and Titles Court, and New Zealand’s Waitangi Tribunal. Both of these approaches accord painstaking attention to questions of occupation and use of land, as well as to genealogy and lineage. But in no case should it be assumed—paraphrasing Nelson (2006)—that adoption of either of these models would put disputes and grievances to rest once and for all.

### *The Formal Legal System*

Programs aimed at widening access to and strengthening formal justice systems in Pacific countries have been most prominent in countries considered at high risk of conflict. The

**Landlessness resulting from involuntary displacement can be a major source of hardship**

**Reform of the justice sector has often seemed attractive to donors as a target for assistance because views about how court systems should function and be staffed are generally clear in donor countries**

programs emphasize building the capacity and credibility of the systems, as well as increasing their accessibility by all segments of society.

In PNG, the Law and Justice Sector Program under the Australia’s Enhanced Cooperation Program embeds Australian professionals in PNG justice sector agencies, including the police, correctional services, ombudsman commission, justice and attorneys-general, judiciary, and magisterial services.<sup>22</sup> The Enhanced Cooperation Program “provides flexible and coordinated support to law and justice agencies and community organisations” based on annual plans provided by PNG’s law and justice agencies. It includes both “co-operative efforts across agencies, for example, improving criminal case management,” as well as single-agency initiatives, such as improving prison security and health. The work is coordinated by the Australian-led Justice Advisory Group, a “team of independent advisors who work closely with the senior management of all law and justice agencies” (AusAID 2009b).

Similarly, programs assisting the justice system in Timor-Leste work across the sector. UNDP’s Strengthening the Justice System Program provides “support to the courts, the prosecution and the Justice Ministry, including the Legal Training Centre, Public Defenders Office and the prison sector... The Legal Training Centre trains judges, prosecutors and public defenders, court clerks and police investigators.” The Justice Sector Support Facility “fills gaps in current assistance, such as strategic planning, human resource management, public financial management, logistics and IT [information technology] support services.” A senior justice adviser “provides high level guidance and policy advice on critical development issues in the justice sector” (UNDP Timor-Leste 2009).

Also in Timor-Leste, the World Bank Justice for the Poor program explores the means by which poor people can defend their interests through formal and informal justice systems. This program is “part of a larger AusAID–World Bank collaboration which includes a number of countries in the Asia Pacific region and draws on the technical and regional expertise of both organisations” (AusAID 2009b).

In the Solomon Islands, the Justice Delivered Locally program is aimed at “overhauling local and customary justice, particularly in the resolution of minor land disputes” (Winter et al 2008, 11). An evaluation supported by RAMSI reports that the backlog of “tension trials” arising from the disturbances has mostly been eliminated. Attention is turning more to rebuilding the capacity of the legal system and courts to handle normal criminal and civil cases. Provincial circuit judging seems to be improving. Solomon Islands judges and lawyers are starting to replace expatriates, but capacity development is still “constrained by the political environment” (Winter et al 2008, 11).

In the context of Timor-Leste—but more applicable generally—UNDP observes that “excessive dependence of governance institutions on international expertise has the danger of undermining long-term capacity development” (UNDP Timor-Leste 2009, 8). Consequently, the UNDP plan for strengthening central state institutions in Timor-Leste aims to increase the number of courts and local judges and lawyers to reduce reliance on international judges, prosecutors, and public defenders.

At a regional level, the harmonized Australia–New Zealand Pacific Judicial Development Program “aims to strengthen governance and the rule of law in Pacific Island countries by strengthening their judicial systems through training and in-servicing of judges, magistrates and court officers” (AusAID 2009b).

Reform of the justice sector has often seemed attractive to donors as a target for assistance because views about how court systems should function and be staffed are generally clear in donor countries. However, justice sector reform can be difficult. As the World Bank pointed out, “[b]ecause it lent itself more readily to technical solutions, judicial reform became the

<sup>22</sup> Australian Government. AusAID. [www.ausaid.gov.au/country/png/justice.cfm](http://www.ausaid.gov.au/country/png/justice.cfm)

entry point for addressing a problem that was fundamentally political in nature” (World Bank 2005a, 284). Reform efforts often produced little change because incentives for justice system participants may encourage resistance to or subversion of change. Reforms in many countries foundered essentially because of patronage, corruption, and the unwillingness of politicians to relinquish control. AusAID reports that in Vanuatu, despite the support of senior politicians, other elements in the government undermined the credibility of Australian advisors on issues seen as sensitive. The government consequently “remains largely disengaged from any capacity-building agenda” (AusAID 2008, 13–15).

In an earlier strategic review of the Pacific, ADB staff views of the judiciary in its Pacific DMCs seemed to be relatively benign. In their 2004 review, Thuy Mellor and Jak Jabes concluded that “[t]he judicial systems in most Pacific DMCs are seen as generally independent, relatively free of corruption, and ‘reasonably resourced’” (Mellor and Jabes 2004, 49). The primary issues were seen as the inadequate number of properly trained judicial officers, and the expense to the poor of access to the courts.

In some countries, international judges are used to fill gaps left by an inadequate number of local judges. States emerging from colonialism often had to do this because their legal systems mirrored those of their former colonizers, and there was effectively no choice but to retain judges experienced in those systems. It is not surprising that local customs are rarely argued in the courts of Pacific countries when most of the lawyers populating the formal legal systems are either Western-trained or expatriates (Scaglione 2008). In Timor-Leste, all local justices went abroad for training in 2004 and 2005 and foreign judges, mainly from Lusophone countries, were recruited as substitutes (World Bank 2006b, 19).

Mellor and Jabes argue that “[t]he use of external judges to help make up for the lack of qualified local judicial officials is seen as effective and as providing the independence needed to overcome the problems of rendering judgment in such close-knit, hierarchical societies” (Mellor and Jabes 2004, 49). An alternative view is that “local judges, every day, are making difficult and controversial decisions in accordance with their judicial Oath without favour or affection” (MacFarlane 2006, 106). The relationship between Pacific governments and foreign judicial officials is not always positive, as indicated by periodic difficulties in the Fiji Islands and Solomon Islands. Sometimes governments faced with inconvenient rulings from their own courts presided over by foreign judges have resorted to calling on the spirit of nationalism. Macfarlane argues that local judges are in a much better position to make informed decisions when custom is relevant to a judicial decision (MacFarlane 2006).

#### *Conflict Management and Alternatives for Dispute Resolution*

Peacekeeping has been accorded high priority in the donor agenda for institution building in the Pacific. Strengthening police enforcement while keeping it accountable to civil authority has become part of peacekeeping. But are there alternatives to the police and the formal legal system that can play a role in resolving interpersonal and intergroup disputes and managing conflict? What role, if any, can such alternatives play in low-level disputes between households, and in intergroup conflicts that could boil over into major civil disturbances? Some governance initiatives are based on the assumption that public order is supplied not only by state enforcement, but also by trust, cooperation, and leadership in other social interactions. A small number of programs reflect the attempt to build or rebuild such values in societies with high risk of conflict.

In Solomon Islands, a joint Pacific Islands Forum–UNDP project in partnership with the government aims at resolving conflict and fostering reconciliation, including by addressing the needs of Solomon Islands youth. A related project is helping establish the Solomon Islands Truth and Reconciliation Commission (UNDP Fiji Multi-Country Office [www.undp.org.fj/](http://www.undp.org.fj/)).

**Donors have encouraged alternative forms of dispute resolution including using traditional authority**

In Vanuatu, the Vanuatu Kastom Governance Partnership (with the University of Queensland, Australia and the National Council of Chiefs) is, among other things, focused on “conflict prevention, community governance and community development” (AusAID 2009b).

However, possibly the most extensive range of such initiatives is in PNG, where UNDP is involved in a number of crisis prevention and recovery projects under the general umbrella of Nation Building through Crisis Prevention and Recovery (UNDP PNG 2009). The thematic pillars of this program include building peace and community security through such means as identifying and training stakeholders with “potential for local level peace building and dispute resolution,” such as “women’s organizations, youth councils, parish councils, [and] private sector and civic leaders,” and individuals (in the public sector) “from village court officers to police and government servants working in different ministries.” Another measure is enabling local government to do “conflict sensitive development planning.” A third measure is raising public awareness of the problem of small arms and light weapons through consultations and workshops with the aim of “generating broad-based ownership and political will among PNG’s political leadership.” Another thematic pillar of the program addresses gender-based violence, aiming to protect women and children from domestic violence and rape.

There is growing donor interest in the extent to which customary authority can play a larger role in dispute resolution. In much of rural Melanesia, the customary role of local elders is significant in informal dispute resolution. Using the formal legal system to settle a dispute within one’s kinship group would be unusual. Abby McLeod and Michael Morgan note that in rural Vanuatu, “state penetration is extremely limited” and customary informal dispute resolution under the aegis of local chiefs is the principal means of maintaining community order, mainly through mediation (McLeod and Morgan 2007, 10). Relationships within groups are thus based on consensus and on public discussion of conflicts, with resolution through the group. Relationships between groups, on the other hand, tend to be ritualized, competitive, and often violent (Harris 2007).

Customary authority commonly holds that all points of view be heard and debated before an elder sums up the discussion and decides the way forward. The emphasis on debate and consensus is strong. Decisions by elders tend to ratify the consensus already reached by the group (Harris 2007). In Vanuatu, informal village courts are frequently used to resolve disputes and hand down punishments, though they hold no formal legal power to do so (Cain and Jowitt 2004). Similarly, in chiefly systems (e.g., in Samoa), issues are debated in the open forum of the *fono* (village council), where rules about who may speak and who will decide are well understood, and decisions are usually based on the consensus.

Can customary authority be effectively used for resolution of disputes in a wider range of circumstances, particularly in the rural Pacific? Fukuyama (2008) suggests that in Solomon Islands, indigenous institutions may work better than modern courts for resolution of local disputes. PNG’s 2001 National Law and Justice Policy seeks to build on customary dispute resolution to complement formal justice systems with traditional restorative justice approaches (Seta 2008). Sarah Kernot and Lai Sakita highlight the role of chiefs in defusing riots in Port Vila in 1998 and 2007, and also note that in 2002 the National Council of Chiefs played a central role in ending a standoff between the Vanuatu police and its paramilitary wing, the Vanuatu Mobile Force (Kernot and Sakita 2008). Experience in Timor-Leste following the end of Indonesian rule suggests that traditional means of conflict resolution were quickly reinstated and accepted (Nixon 2006).

The idea that customary means are available as an alternative to the formal legal system to resolve interpersonal and intergroup disputes is an attractive one. Customary means seem to offer a low-cost and more accessible form of justice for the poor that is built on principles of reconciliation rooted in Pacific cultures. Kernot and Sakita assert that “whilst the role of the

state is widely accepted as being an essential element of the justice process, customary processes continue to retain their importance” because “they address the concerns of both victim and perpetrator” (Kernot and Sakita 2008, 110).

Skeptics argue that advocates of strengthening traditional means of conflict resolution may underestimate the extent to which these traditional sources of authority have broken down (Nelson 2006). In Kiribati, ADB reports that “the elders of the village and clan have considerable moral authority. Their influence on island affairs has dwindled, however, as younger, better-educated leaders, such as those coming from the churches, have gained more voice” (ADB 2009h, 11). In the Fiji Islands, a survey reported a widespread view that “declining respect for traditional values and elderly and traditional leaders by a younger, better educated generation has resulted in individualism ‘brought about by modern ideas’” (ADB 2003, 6).

As might be expected, however, the weakening or breakdown of traditional authority is not uniform. In some parts of PNG, for example, provincial and local governments have been able to work with traditional authorities to secure law and order and resolve disputes. But in other parts of the country, traditional authority is no longer respected (Nelson 2006).

Several factors govern the viability and effectiveness of traditional authority in conflict mitigation and dispute resolution.

**Scale.** McLeod and Morgan (2007) point out that there is a wide range of situations in disputes and conflicts, including interpersonal disputes, inter- and intra-group disputes, armed fighting, and violent crime.

While it is clear that extreme problems such as heavily armed criminal gangs may be difficult or impossible to control without the intervention of coordinated and disciplined paramilitary operations and disarmament programs (such as RAMSI), local systems capable of resolving disputes and hence preventing—on a routine basis—the escalation of minor disputes into conflicts, must be considered an invaluable component of the extremely limited range of public administration tools available in the new subsistence state (McLeod and Morgan 2007, 91).

**Urbanization.** In Vanuatu, when state authorities send young offenders back to their home villages (Kernot and Sakita 2008), this seems to acknowledge that customary authority is likely to be stronger in the villages than in town. In urban settings, the admixture of in-migrating populations (such as Malaitans into Honiara) not only creates tension but limits the exercise of customary authority. In Vanuatu, “[i]t is perceived that in the urban centres, knowledge and respect for custom governance is weakest, contributing to a growing sense of disenfranchisement, particularly amongst youth” (Kernot and Sakita 2008, 16). The exercise of chiefly authority in urban areas may also be challenged because of the proximity of state institutions and the emergence of new and unfamiliar types of disputes—such as business disputes.

**Pressure on land.** These are problems that cannot be resolved by traditional authority. In the RMI, “the traditional system is clearly not coping with the unsustainable growth of some neighborhoods, necessitating direct intervention by the local or national government” (ADB 2005b).

**Conflict of interest.** Local chiefs, as landowners, are frequently involved in disputes. Fiduciary problems arise when local leaders receive cash payments (say from mining or logging companies) as representatives (White 2007).

**Intergroup conflict.** The principles of harmony and reconciliation may extend only to other members of a clan. Trust may be very high within a kinship group, but fall off rapidly beyond that. As noted, relationships between groups in a segmented society like PNG may often be ritualized, competitive, or violent (Harris 2007). Traditional authority is not effective in segmented societies such as PNG and Melanesia.

**Conflict over public assets.** Nelson argues that, generally, neutral intervention is a myth. Services supplied by the state, a church, or an NGO are likely to be regarded as the “property”

of the group that made the original link to the supplier. Local factions might align themselves with colonial administrators in expectation of advantages. Church schools might “belong” more to one faction than another. “The location of roads, government rest houses and schools, and the appointment of individuals as village officials all increased the relative prestige and/or material advantage of families and clans” (Nelson 2006, 14).

Traditional authority as a source of public order cannot be completely discounted. It still exerts considerable strength in local life in many parts of the Pacific in the face of modernization, and has in some places continued to play a significant role in mitigating larger-scale intergroup conflicts. But modernity clearly places traditional authority under pressure, particularly in urban areas and in the face of new kinds of disputes. Ideally, custom and written law would work in harmony and reinforce each other to mitigate conflict, but this requires a consensus on their relative roles.

# Technical Capacity: The Cognitive Capacities of the State

The application of technical capacity is not limited to economic decision making. It underpins the state's ability to see its domain through the information available to it, and to form strategies and plans for all its fields of action. To be effective, a state needs the capacity to see itself and its environment, decide what to do, and carry out its decisions.

Considerable donor assistance has been directed recently at building up the central strategic and decision-making capacities of Pacific governments, with emphasis on achieving the MDGs. The importance UNDP places on developing capacities for competent policy making, for example, is spelled out in the overarching objectives of its Pacific island programs. These include "national policies and sustainable development strategies that are aligned with MDGs, linked to national budgets and based on strengthened national statistical systems focusing on poverty indicators." Also included is the associated objective of implementing "improved aid management systems linked to national plans and budgets" (UNDP Fiji Multi-Country Office 2008c).

## Developing National Policies, Strategies, and Plans

UNDP has used preparation of MDG reports that link national and sector strategies to MDG outcomes as a means of leveraging development of planning and policy-making capacities throughout the Pacific. In the FSM, for example, work on preparing a report on the MDGs incorporates a number of tasks aimed at building such capacities, including (i) "mainstreaming" the MDGs into a "national planning and budgeting framework," (ii) developing strategies and plans aligned with the MDGs and linked to national budgets, (iii) training national planners in MDG planning and budgeting, (iv) analyzing current targets and statistical information and identifying gaps, (v) strengthening data collection systems, and (vi) raising awareness of and consulting on the MDGs, and finalizing the report (UNDP 2009). In Kiribati, the national MDG report is "informing [the] Kiribati Development Plan for 2008–2012" (UNDP Fiji Multi-Country Office 2008a, 5). In Timor-Leste, UNDP is helping to develop planning and monitoring based on the MDGs, both nationally and with pilot projects in districts and municipalities. (UNDP Timor-Leste 2009, Annex p. 25).

Other prominent efforts to strengthen government planning include those of RAMSI in Solomon Islands. RAMSI has sponsored a program of developing corporate planning in government agencies as part of assistance aimed at strengthening government policy coordination and review. After a hiatus (due mainly to the "political differences between the Solomon Islands Government and RAMSI contributing countries"), RAMSI recently resumed assistance with development of "corporate, annual and capability plans" (Winter et al 2008).

## Linking National Plans and Budgets

Donor programs generally try to link national planning to budgeting through medium-term budget frameworks and associated procedures for making budget decisions. In Timor-Leste, the aim of UNDP is to develop standard policies and practices and advisory support for a

Preparation  
of Millennium  
Development Goals  
reports has been a  
means of developing  
planning and policy  
making capacities

**ADB has funded several initiatives to improve public financial management**

planning process to drive the budget, rather than the other way around (UNDP Timor-Leste 2009). A medium-term development strategy developed with donor support in Solomon Islands aims to link planning for medium-term expenditures to development priorities (Winter et al 2008, 17). In Samoa, ADB is supporting public financial management with attention to the “medium-term fiscal framework, which presents 3-year forward estimates of revenues and expenditures, as provided for in the Public Financial Management Act 2001” (ADB 2008a, 83). An ADB technical assistance project in the FSM is to develop performance budgets and link state and national budgets to the National Strategic Development Plan (ADB 2007b). In Kiribati, the ADB Economic Management and Public Sector Reform Project will help develop a medium-term fiscal framework by June 2012. Proceeding in phases, the project will begin with “a consultative and participatory assessment and analysis of capacity within the public enterprise oversight and budget-related units of MFED [Ministry of Finance and Economic Development], as well as the budget-related capacity in line ministries” (ADB 2008e, 3).

### **Strengthening Aid Coordination through Planning**

Initiatives with these objectives reflect the goals of the Paris Declaration (OECD 2005), which emphasize sector plans as a basis for coordinating donor assistance with country-led development. Sector-wide approaches (SWAs) are employed in PNG. AusAID reports that its Education Capacity Building Program is a

sector-wide approach...that works collaboratively within existing PNG systems,... [and a] sector-wide approach to improve health services is now more widely used, with the Government of PNG taking the lead. PNG and all major donors agree on a single set of priorities that they collectively monitor and review (AusAID 2009b).

In Timor-Leste, the World Bank will direct financial support based on the Health Sector Strategic Plan and Medium-Term Expenditure Framework (World Bank 2008b, 7).

### **Building Analytical and Advisory Capacity**

UNDP is using the MDGs as a means of building analytical and advisory capacities. UNDP assistance in Solomon Islands is funding creation of an MDG programming and support unit. MDG-based planning and costing tools were to be introduced in 2009 to strengthen capacity in the Ministry of Development Planning and Aid Coordination and associated sector task forces (UNDP Fiji Multi-Country Office [www.undp.org.fj/](http://www.undp.org.fj/)). In Vanuatu, an “MDG costing tools workshop [was] conducted to strengthen government’s capacity in planning and costing interventions to support...MDGs” (UNDP Fiji Multi-Country Office 2008a, 12).

Other donor-funded programs target analytical and advisory support. Prominent among them is Australia’s Enhanced Cooperation Programme in PNG, which places Australian officials in central PNG ministries. Similarly, one goal of the PNG–Australia Treasury Twinning Scheme is to improve PNG treasury officials’ skills in developing and implementing economic and fiscal policy (AusAID 2009b). In Timor-Leste, the Public Finance Capacity Building Program, implemented by the World Bank, is a 5-year technical assistance program aimed at “strengthened planning, budgeting, public expenditure management and revenue administration: in the Ministry of Finance.” (World Bank 2008b, 4).

Several projects support development of national economic and social statistics. Strengthening statistical systems is an element of the Governance for Growth Program in Vanuatu, which includes “reforms that will provide better quality expenditure and public investment. The program aims to improve public financial management and statistics and will include technical inputs from the Australian Bureau of Statistics” (AusAID 2009b).

## Building Credible Budgets

The capacity of Pacific DMC governments to fund and deliver services to the poor varies widely, as reported by AusAID in its progress report on the MDGs (AusAID 2009a). Shortcomings in service delivery result from a range of causes, but some can be attributed to weak capacity to prioritize spending to meet the needs of the poor. Governments may list poverty reduction as a primary objective in their national development plans, but then fail to support that objective with appropriate spending priorities. Capital and recurrent budget decisions may be poorly integrated, or budget decisions on regional or local funding may not reflect the priorities of poorer districts or local services. Political priorities and commitments may result in rigidities in resource allocation. Often, governments appear to be caught by surprise by unexpected events. Natural disasters are an obvious source of risk for budgets, but so are unplanned and irresistible wage demands and appeals for public enterprise subsidies. In budgets dominated by high levels of aid, donors may drive priorities.

Seven Pacific DMCs have undergone public expenditure and financial accountability (PEFA) reviews sponsored by ADB, the World Bank, and other agencies.<sup>23</sup> As part of these reviews, countries are scored for “budget credibility.” The scores broadly measure the reliability of revenue and expenditure estimates shown in national budgets, based on comparison of estimates with actual results in both aggregate and major categories. Results of the reviews vary widely, according to the four publicly available PEFA reports and secondary sources.<sup>24</sup>

The PEFA report on Samoa describes that country as having a model budget process that leads to broadly credible results with relatively minor shortcomings. The budget system “tends to be very realistic in terms of aggregate revenue and expenditure projections and outcomes,” although requirements for health and education tend to be underestimated. The Ministry of Finance budgets revenue conservatively, and the budget preparation process is orderly, has a clear timetable, and accords “due regard to government policy.” The budget is nearly comprehensive in coverage and includes estimates of the fiscal risk of state-owned enterprises. It is “implemented in an orderly and predictable manner” (European Union 2006, 4).

The Vanuatu budget also scores highly in credibility—both in terms of aggregate expenditure and expenditure composition—in the PEFA report. Although multiyear budgeting was found to be weak, the government had “a clear budget calendar which is broadly followed.” Like Samoa, the government also budgeted conservatively for revenue (European Commission Delegation Vanuatu 2006).

For PNG, a 2008 PEFA by ADB reports that budget preparation was “more orderly, transparent, and consultative” (ADB 2009f, 57). A World Bank report on Planning and Financial Management Capacity Building in Timor-Leste asserts that

... the 2009 budget will be implemented with a greater focus on key [public finance management] principles and, for the first time in Timor-Leste, in a clear strategic framework. This includes a more sustainable budget envelope, reducing or eliminating various categories of carryovers, and demanding greater planning discipline in resource bids by line ministries (World Bank 2008b, 6).

<sup>23</sup> In this section and later ones on budget execution and financial management systems, reports (direct or indirect) are drawn upon from seven relatively recent reviews conducted under the PEFA program sponsored by ADB, World Bank, and other agencies. The seven countries in the region with PEFA reviews are PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

<sup>24</sup> Other documents refer to PEFA reports that had been completed but were still under consideration by governments, and not available. Only secondary sources can be quoted regarding these PEFA reports.

**Budget credibility  
varies widely**

**Some governments seem to have little sense of fiscal limits**

Timor-Leste received a low PEFA score in the past because it had “very ambitious... aggregate projections when compared to actual cash expenditure outcomes,” mainly in capital works<sup>25</sup> (Linpico 2007, 6).

Problems with budget credibility were found by the PEFA review in Solomon Islands of the 2004–2006 period. It found that the budget process “has not followed a consistent timetable” for political reasons and “adherence to deadlines has been problematic for a variety of reasons” (European Commission 2008). “Compliance with budget processes remains poor, and expenditure, particularly aid expenditure, can be entered in the development budget with little scrutiny or consideration of recurrent cost implications” (Winter et al 2008, 17). Much expenditure, particularly that funded by aid—including aid from RAMSI—is made outside the budget process and not well reported. There was weak observance of the budget process in 2008, “with large additions to plans being agreed late in the process” and inadequate review of the quality of spending proposals. In 2008, “approximately 50% of development funding was decided during the final cabinet meetings, without reference to a project proposal.” A new budget format was developed for 2008, but the new government decided not to use it (Winter et al 2008).

### Major Sources of Risk to Budget Credibility

#### *No Sense of Limits*

Achieving realism in revenue forecasts and constraining budgeted expenditure to the limits imposed by these forecasts is no mean accomplishment. In many developing countries, a combination of overoptimistic revenue forecasts and no sense of limits in budget decision making leads to hand-to-mouth budgeting during the year, where the budget document is a fiction and monthly cash allocations by the treasury represent reality. An extreme example is Nauru. Budgeted government expenditure in fiscal year (FY) 2007 and FY2008 nearly equaled GDP. Expenditure was “far in excess of the Government’s current sustainable revenue base” (ADB 2007a, 7). In other Pacific island countries, budgets fail to take account of realistically available revenues or sustainable debt obligations. In Kiribati, budget deficits are emerging that may not be sustainable from revenue sources, including the country’s Revenue Equalisation Reserve Fund created from phosphate revenues (ADB 2008d).

There are no technical solutions for a problem rooted in politicians’ inability to accept limits. Acceptance of limits was hard-won in New Zealand, for example. The capacity of decision makers to “see ahead” is a necessary condition, but requires a level of policy coherence and forecasting competence to which very few Pacific DMCs can aspire.

Part of the conventional technical solution for the limits problem is a medium-term framework, so that annual budget decisions are made within a multiyear expenditure envelope.<sup>26</sup> In Kiribati, it is a common observation that the absence of a multiyear framework means that “imbalances are tackled through disruptive cuts to expenditure programs or through poorly planned new revenue measures—if imbalances are addressed at all” (ADB 2008d, 179).

Medium-term frameworks have been popular with international agencies for a decade or more. They have assumed greater importance in the wake of the Paris Declaration, with its emphasis on coordinating donor commitments with national spending plans and development strategies (OECD 2005). ADB concluded in 2005, however, that no Pacific DMC has yet

<sup>25</sup> The assessors tried to make allowance for security disruptions during the period under review, when many staff members were not at work.

<sup>26</sup> Various known as medium-term (expenditure, budget, or fiscal) frameworks (MTEF, MTBF, and MTFF), depending on whether they cover just public expenditure, budgetary transactions, or public revenue and expenditure.

successfully implemented any form of medium-term fiscal framework (Mellor and Jabes 2004, 43).<sup>27</sup> The scores for multiyear budgets in the seven PEFA reports on by the AusAID review are as follows: one country (Timor-Leste), B+; three countries (PNG, Samoa, and Solomon Islands), C; and three countries (Tonga, Tuvalu, and Vanuatu), D+ (AusAID 2009a, 33).

Timor-Leste's budget includes 3-year forward estimates of expenditure in both economic and functional classifications, and the budget paper in which they are published implies that these estimates will be based on fully costed sector strategies. However, the actual links between sector strategies, investment decisions, and budget estimates were assessed as "weak" in 2006–2007 (Linpico 2007, 33). In Vanuatu, the PEFA reported that multiyear budgeting "is in its infancy." There was no medium-term strategic framework, and although aggregates were forecast 2 years ahead, they were not based on commitments to expenditure ceilings and their consequences for sector budgets (European Commission Delegation Vanuatu 2006, 45). In the Solomon Islands, a medium-term development strategy was developed with donor support, but "it is too early to say how far it will become entrenched in planning and budget systems" (Winter et al 2008, 17).

ADB reports that the systems for forward estimates that exist generally cover only recurrent expenditure and were not closely linked to capital expenditure or its consequences for recurrent spending (Mellor and Jabes 2004). The failure to look ahead for operating expenses also exacerbates the divisions between operating and capital budgets, which remain a problem in some countries (AusAID 2009a). Kiribati, for example, reportedly faces problems reconciling recurrent and development budgets.

#### *Lack of Decision Control*

Unpredictable developments and surprising turns of events are major risks to budgets in Pacific DMCs. Unplanned, large wage increases and subsidies for public enterprises are a common problem in this regard. In Kiribati and Nauru, loss-making public enterprises receive subsidies to service operating deficits (in many cases with little discernible benefit to the poor). These deficits are notoriously difficult to predict, particularly for public enterprises that are poorly supervised with inadequate accounting and reporting—a common circumstance. Fiscal crises are another major risk. These can be created by off-budget risks that eventually have to be covered by the budget, and may be linked to a lack of budget comprehensiveness and transparency. PEFA report scores and practices with regard to budget comprehensiveness and oversight of fiscal risk for four Pacific DMCs are summarized in Table 3.

The PEFA reports do not lower budget scores because of variability in donor-funded project expenditures, on the grounds that recipient governments have little control over the reliability of payment forecasts or actual disbursements. This issue is discussed later in the context of donor support of financial management systems in partner governments. Shortcomings in management of development budgets are linked to poor forecasting of cash flow requirements for capital projects and a failure to budget for their recurrent costs.

<sup>27</sup> Nevertheless, a medium-term discipline is not impossible for developing countries. The recent World Bank study of its support for public sector reforms concluded that even though medium-term expenditure frameworks "have been challenging for many developed countries," several developing countries have nevertheless "adopted well-functioning systems, with [World] Bank support" (World Bank IEG 2008, 51).

**Unpredictable developments and surprising turns of events are major risks**

**Table 3: Public Expenditure and Financial Accountability Scores and Criteria in Four Pacific Developing Member Countries of ADB**

Country	Extent of Reported and Unreported Government Operations		Oversight of Aggregate Fiscal Risk from other Public Sector Entities	
	Score	Comment	Score	Comment
Samoa	A	All government expenditure reported. Special purpose accounts disclosed in public accounts. Donor funding reported in economic statement but not in budget.	A	SOE Monitoring Division produces detailed analysis of exposure due to 23 SOEs. All entities submit fiscal reports and fiscal risk issues consolidated at least annually.
Solomon Islands	C-	Major potential sources of risk: unreported special funds, revolving funds, grants administered by Parliament members, and donor project funding.	D	Four SOEs, three companies and eight statutory bodies. Some in financial difficulty. Reporting out of date. No regular monitoring of provincial governments.
Timor-Leste	A	Nearly all government expenditure reported in budget except donor-funded projects.	A	All entities submit fiscal reports and accounts and fiscal risk issues consolidated at least annually.
Vanuatu	D+	Revenues not reported in budget include school fees, hospital fees, and medical charges, as well as donor funding for projects.	D	Ten SOEs and seven statutory bodies. Some in financial difficulty. No up-to-date reporting or monitoring. No annual monitoring of provincial or municipal governments, and accounts not up to date.

PEFA = Public Expenditure and Financial Accountability report, SOE = state-owned enterprise.  
Source: Australian Agency for International Development 2009a.

## Overview

Donor approaches to strengthening the cognitive functions of Pacific states have been founded mostly on technocratic approaches. Evaluations by donors, such as the recent survey by the World Bank's IEG, are relatively positive about the success of technical assistance that has helped produce development plans linked clearly to national goals on the one hand, and budgets on the other (World Bank IEG 2008). Failures are largely attributed to shortcomings in staff capacities and information. History suggests, however, that rational planning is more likely to flounder on failures of incentives and the irreducible complexity of implementation, rather than on deficiencies in the wit of the planners or the shortage of adequate statistics. National development plans, which governments produce mainly to satisfy donors, can have a very short useful life and little impact on actual priorities.

# Administrative Capacity: The Arms and Legs of the State

Good government administration requires

- (i) leadership at all levels that is competent, effective, and responsible;
- (ii) demarcation of responsibilities and powers among government units and delegation that is clear and effective;
- (iii) devolution of responsibilities to different levels of government on the principle of subsidiarity—an issue for those Pacific states with a federal structure (e.g., the FSM) or with significant functions allocated to provincial governments (e.g., PNG and Solomon Islands);
- (iv) management of financial and human resources; and
- (v) coproduction of important outcomes with civil organizations and NGOs.

A vicious circle of complexity may be seen in many poor states (Box 4). Low state administrative capacity produces fragmentation of effort as stakeholders chart their own courses, often at odds with each other. Service delivery becomes increasingly fragmented and less effective. State provision of institutional infrastructure and coordination becomes more difficult, even if delivery is shared with a range of non-state actors.

## Box 4: A State without Clerks?

Nelson suggests that Papua New Guinea is a “state without clerks,” where despite high growth in the number of public servants, the basic functions of an office may not be carried out. Some reports of incompetence and shirking

...can be dismissed as the standard criticism made of bureaucracies in Canberra, Washington, Brussels, and Brasilia, but there is much other evidence of the failure of government at the level of those who answer questions from the public; look after files; make, receive and record all small payments; manage recurrent costs of power, building maintenance and cleaning; order stationery, ink for printers and photocopiers; and issue permits for trading, vehicle registration, liquor licenses and building (Nelson 2006, 6).

According to Nelson, a large part of this breakdown can be attributed in Papua New Guinea to the failure of Australian colonial administrators to train their indigenous replacements before independence. But the problem has been exacerbated by a further neglect and incompetence, corruption, and political instability.

Source: Nelson 2006.

## Decentralization

With the wide dispersion of population in many Pacific DMCs and the centrifugal force of ethnic or regional differences, administrative capacities are decentralized to varying degrees in most countries in the region. Decentralization can offer both efficiency and gains in

**Decentralization  
requires that central  
government politicians  
and administrators  
relinquish control of  
appropriate levels of  
resources and accord  
priority to building  
up local budgets and  
capacities**

governance by placing accountability for services closer to clients and by addressing aspirations for greater regional autonomy. This is in accordance with the basic principle that governance of service delivery is best placed as close as possible to service users. Decentralization may be a matter of necessity in states with populations scattered over large areas of land or sea. But effecting basic principles requires governance and management capacities matched to the requisite scale of the production input, and these capacities may not exist. A key role for the state is thus to foster the development of local capacities. For example, UNDP's overall strategy for Pacific island countries is to support "decentralisation of governance and participatory decision making" by increasing the proportion of resources flowing through local government (accompanied by stronger technical and administrative capacity) and developing participatory local planning (UNDP Fiji Multi-Country Office 2008c). However, political and administrative decentralization has frequently been rushed or under-resourced, and some countries appear to be "over-governed" (Mellor and Jabes 2004).

At a very late stage in planning for independence of PNG (in 1975)—and partly because of the strength of separatist sentiment in Bougainville—Australian administrators opted for a federal structure for the new state, based on the 19 preexisting Australian administrative districts. Each of 19 provinces, together with the capital territory, was constituted with its own system of electorates, government, and administration. "This was a prescription for, at best, inefficiency and, at worst, disaster" (Harris 2007, 21) (Box 5).

In the Fiji Islands, time has seen the accretion of provincial councils (from 1874), rural local authorities, rural advisory councils, and elected municipal councils.<sup>28</sup> In the FSM, the federal level of government has three branches, with the same divisions replicated in each of the four states (Chuuk, Kosrae, Pohnpei, and Yap). Each state also has local governments. In total, about 60 administrative units exist for a population of 110,000 (Mellor and Jabes 2004).

In Vanuatu, the Decentralisation Act (1994) created six provincial governments, but "these provincial governments continued to act inefficiently and have not contributed a great deal to the development of different regions" (Cain and Jowitt 2004, 27). An ADB governance assessment in 2009 reports that "[d]ecentralization is in its infancy and although charged with the legal responsibility, subnational activities are relatively minor" (ADB 2009g, 2). A recent AusAID report is more optimistic that despite "a longstanding culture of distrust between central and line agencies—not unique to Vanuatu—there was some improvement, especially in the education sector." The support by donors of sector-wide approaches (SWAp) in education and health was a contributory factor, particularly because donors channeled funds through government systems to delivery agencies in the provinces. AusAID, in parallel, was supporting decentralization by helping the Department of Finance establish provincial offices (AusAID 2008, 19).

Island states with many small, isolated populations frequently face significant hurdles in decentralized administration of their outer islands, including "[severely constrained] capacity and lack of delegated resources" (UNDP Fiji Multi-Country Office 2008c, 8). Decentralization requires that central government politicians and administrators relinquish control of appropriate levels of resources and accord priority to building up local budgets and capacities. In Solomon Islands and elsewhere, getting this to happen is often difficult because "central ministries are reluctant to delegate, let alone devolve responsibilities for service delivery and development management to provincial governments, citing the lack of provincial capacity." The problem is how to "break the vicious circle of low capacity, limited responsibilities and limited resources" (UNDP Fiji Multi-Country Office, [www.undp.org.fj/](http://www.undp.org.fj/)).

The result, particularly in PNG and Solomon Islands, has been to overlay an ineffective and poorly resourced formal government structure on largely traditional local societies. The

<sup>28</sup> The government received a report on rationalizing these structures in 2003, but it is unclear what, if anything, has occurred since then.

complexity of devolved structures, unclear definitions of functions, and inadequate resourcing may have contributed to capacity limitations and deterioration in service delivery. In PNG, 9 years after the New Organic Law of 1995 restructured provincial government, “the consensus within the health sector is that [devolution] has contributed to the deterioration of health services” (Bolger et al 2005, 17).

Problems were exacerbated by inequitable or inadequate funding formulas, and—in PNG and Solomon Islands—by placing funding decisions in the hands of local big man Parliament members (Harris 2007). This practice was an “an invitation to corruption, patronage and favouring of particular constituencies” (Fukuyama 2008, 16). The funding of projects or local services should be managed equitably in the interests of the entire community. This is unlikely if local members of Parliament control funding and distribute it according to the interests of their relatively small group of supporters. Such practices damage the standing of the state as a dependable source of support.

Harris argues that the state’s standing could be improved if control of funding was removed from local Parliament members and funds supported the needs of groups with development objectives (Harris 2007). He would find support from others for his argument that local members of Parliament must either distribute grants more fairly, or grants should be distributed directly to local communities. For small development projects, government could experiment with support of local social funds managed by local communities. A model is Indonesia’s Kecamatan project in West Papua, where the government sought to bypass corrupt financial systems and deliver funding directly to villages. The hope is that villages develop community-based systems for fund allocation and accounting (Seta 2008). This approach in the Pacific would require trust in the equability of community allocation of funds. In PNG at least, despite attempts to improve the situation (Box 5), it remains an open question whether any coalition of national legislators would support distribution of funds directly to local communities (Fukuyama 2007).

#### **Box 5: The Provincial Performance Improvement Initiative in Papua New Guinea**

The Provincial Performance Improvement Initiative, funded by the Australian Agency for International Development (starting in 2004), has attempted to identify and influence local leaders who control the allocation of funds, as well as civil society agencies, to support a strengthening agenda. The initiatives have aimed at rebuilding national–provincial links and provincial public administration processes, and persuading leaders to act responsibly in the administration of funds and other areas. There seems to have been improvement in some provinces in terms of corporate planning, better links between budgets and development plans, closer links between provincial and district administrators, clearer communication of national policies to the provinces, and involvement of the main national agencies in steering the Initiative. Beyond improved systems and processes in some localities, it is not clear whether the initiative has translated into improved services at the local level.

Source: Saldanha 2008.

In the more remote areas of PNG and Solomon Islands, traditional authority and the churches are dominant due to the effective absence of government. Geoffrey White argues that in Melanesia, “[e]ven though the discourse of ‘failing’ and ‘failed’ states is somewhat new... the local view of *gayman* (government) as a distant presence with uncertain relevance for everyday life is not,” and “[h]istorically, informal mechanisms of traditional leadership (including church leaders) have provided much of the organizational strength for local governance” (White 2007, 4). White maintains that this is in keeping with Melanesian society, where

politics and administration are mostly personal and local, and political discussion and decision making tend to take place in small, open forums. Legitimizing and strengthening local governance implies amplifying the importance of local communities.

Samoan experience suggests that at the correct “granularity” (the normal unit of social organization and traditional authority, such as the extended family, clan, or village), community ownership of public services will produce good results (Box 6). In PNG, a Deakin University study for AusAID suggests that

...schools that reported increased interaction with their communities secured more community support than those who had fewer interactions; and the stronger the community support, the more positive the teachers’ and students’ attitude to school (Deakin University 2006, 100).

But the conclusion was that the effect of local governance on the quality of schooling does depend on the strength of the school board. “A strong and fair Board ensures that the community plays its part in the education of the children, whether directly or indirectly. Schools with weak Boards were not able to function properly” (Deakin University 2006, 7).

#### **Box 6: Primary Schools in Samoa—What Villages Can Do**

In village schools in Samoa, primary education is the joint responsibility of the village council and the Ministry of Education. The village is responsible for supervising attendance of pupils and teachers, monitoring the learning of pupils, housing and meals for teachers, construction and maintenance of school buildings, basic school furniture, toilets and water supply, and grounds maintenance. The state is responsible for curriculum; textbooks, classroom materials, and equipment; training and certification of teachers; appointment, remuneration, and performance of teachers; and inspection of schools.

Source: So’o and Laking 2008.

Effective administrative decentralization requires local responsibility and accountability for local services and central responsibility and accountability for policy and monitoring. Local administrative capacity and reporting mechanisms must be developed or restored. Central ministries and authorities must be persuaded to surrender direct control over budget implementation and delegate such control to local authorities. This can be encouraged by helping build up the oversight capabilities of central authorities.

This approach has been pursued in Solomon Islands, where the Provincial Governance Strengthening Programme aims to build capacity for public expenditure and financial management in the nine provinces. The program is to “provide provincial governments with a limited, but meaningful, amount of discretionary resources for development spending,” and strengthen the relevant central ministries to support and oversee provincial government performance (UNDP Fiji Multi-Country Office [www.undp.org.fj/](http://www.undp.org.fj/)). In PNG, the Provincial Capacity Building Programme is currently supporting implementation of a decentralized financial management system and the strengthening of local capacity in financial management (UNDP PNG 2008).

### **Budgetary and Financial Management: Quality is Dependent on Execution**

#### *Common Problems*

Robust systems for tracking revenue and procurement and for accounting are the foundation for effective decisions and accountability concerning resources. Financial management system

reform has seemed a relatively low-risk entry point for public sector reformers because of its technical content and apparent low political salience. A review by the World Bank IEG found that, on the whole, countries where it was supporting improvements in public financial management “were doing better in that area” (World Bank IEG 2008, 48).<sup>29</sup> The World Bank IEG observed, however, that “[b]udget formulation and reporting usually received more attention and had more success than the downstream phases of the spending cycle, like procurement and auditing” (World Bank IEG 2008, v). To be effective, budget execution must be consistent with allocations made during budget preparation. Despite extensive technical assistance in some cases, very few Pacific DMC governments have been able to achieve the standards of accounting and control required for reliable budget execution. The accounting system must ensure that payments are made for intended purposes, and that reports are available in time to take corrective action if required. Unless the system can perform these essential functions reliably, more sophisticated uses of accounting information for management purposes—such as output or performance budgeting—are not possible.

Since the mid-1990s, ADB has funded a number of projects in the Pacific with the objective of upgrading public sector financial management. It was expected to continue doing so through 2009, concentrating on planning, efficient budget allocation and management, and reporting on budget implementation (Mellor and Jabes 2004, 6). Results—in terms of improvements in institutional performance at the intermediate level—have been mixed, but some evidence of better performance has been seen in finance ministries in the Cook Islands, Samoa, Tonga, and Vanuatu (ADB 2009a). In Kiribati, the RMI, the FSM, and Timor-Leste, however, ADB assessments find that budget and financial management remains a source of relative risk to public sector performance (ADB 2008b). ADB reports that in Palau, “[b]udget and performance management systems are broadly sound, but implementation of these systems is weak” (ADB 2009e, 5). In PNG, budget preparation processes seem to have improved recently, and the budget has been in surplus since 2004 (due largely to windfall revenues from natural resources). But there are still significant weaknesses in execution:

Fundamental arrangements are in place, but implementation weaknesses mean that the systems and procedures for expenditure and payroll control cannot be relied upon to ensure appropriate accountability. Transparency in budget execution is weak, with budget integrity undermined by unauthorized diversion of funds, including resources for regional development. Hence, it is difficult to track expenditures to ensure the budget is delivered as approved. Accounts remain open and active long after the financial year-end. Oversight has been weakened by delays in preparing and releasing public accounts and audit reports. Statutory authority accountability is particularly weak (ADB 2009f, 57).

The PEFA reviews for PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu reported on by AusAID show “widespread weakness in payroll control and internal and external audit” (AusAID 2009a, 37). The publicly accessible PEFA reviews and other available information report that the problems include the following:

- (i) Poor or nonexistent forecasting of cash flow. This complicates cash management for the treasury, possibly leaving it flying blind on how expenditure is being committed in both recurrent and development budgets.
- (ii) Reconciliation and audit of actual payrolls to personnel records. These increase the risk of ghost workers where this is not done well.

<sup>29</sup> The IEG study found that 28% of the countries where it was providing loan support to advance public financial management showed “major improvement” in the quality of budget and financial management, compared with 10% in countries with no such support.

**To be effective, budget execution must be consistent with allocations made during budget preparation**

**Government accounting can be hampered by weak systems and shortage of skilled personnel**

- (iii) Poor compliance with procurement rules, or lack of reliable reporting on tender operations.
- (iv) Weak compliance with the rules on separation of duties and control for both payroll and non-salary approvals. The lack of audit trails can compromise the tracking of irregularities.
- (v) Nonexistent or ineffective internal audit functions. Where internal audit units exist, they may be understaffed, conduct only sporadic reviews, and find their recommendations largely ignored.
- (vi) Significant delays in completing and auditing annual financial statements. These vitiate their usefulness for legislative review and public accountability, and increase the probability that audit recommendations will be ignored.

*Institutional and Incentive Problems*

Institutional and incentive problems contribute to poor financial management. In some cases, there are incentives to ignore or subvert accounting controls on handling public money. Counterproductive incentives also may encourage entities, such as state-owned enterprises, to ignore requirements for reporting and audit. In Kiribati, for example, ministries and public enterprises are deficient in cash management and recording expenditure commitments (ADB 2008d).

Pervasive poor governance has resulted in budget systems and processes being flouted in practice. While PNG's budget systems were judged to be "quite good" by the World Bank (2003), poor governance contributed to "a decline in the integrity of budget institutions and systems" (World Bank 2007b, 55). Budget appropriations are routinely breached, procurement procedures are bypassed, trust accounts are used to facilitate off-budget transactions, spending agencies accumulate arrears without apparent threat of penalty, and control systems for accountability appear to be impotent (World Bank 2003, 4).

An endemic lack of institutional capacity contributes to poor financial management. Trained professionals are often very scarce, and management understanding of the organizational requirements of accounting control or the use of accounting information for management purposes is inadequate. Also common are weaknesses in basic data entry requirements and poorly staffed internal and external audit functions. These problems may result in accounting systems relying on computer software that cannot be dependably operated or maintained.

High governance overhead is at the root of institutional problems and poor financial management in some countries, such as the FSM and Palau—where systems of separated powers has resulted in excessive layers of government—and in PNG and Solomon Islands, with their highly decentralized systems. Overcomplicated, cumbersome, rigid, and slow centralized approval processes are a problem in some countries, such as Timor-Leste.

*Inappropriate Solutions: Overly Sophisticated Reform*

A recurrent theme in past reforms of financial management systems in Pacific DMCs is excessive sophistication and inadequate attention to fundamentals and reliable basic systems (Mellor and Jabes 2004). Such reforms were often donor-driven and based on Australia or New Zealand models featuring medium-term budget frameworks, output budgeting, and performance measures, or (in Micronesia) on US ideas of performance budgeting. Mellor and Jabes (2004) report that some reform efforts were badly sequenced or poorly implemented, and some were reversed (e.g., in the Fiji Islands) or redesigned (in Samoa).

Samoa introduced output budgeting and forward estimates based on an Australia–New Zealand model, but significant control in central agencies was retained (Box 7). Officials concede that management by performance indicators has been difficult (So'o and Laking 2008).

**Box 7: Budget Reform in Samoa**

In Samoa, budgetary reforms in the late 1990s formed the basis for output budgeting and a system of forward estimates, culminating in the Public Finance Management Act 2001. Departmental corporate plans and management plans were linked to high-level policy objectives in Strategy for the Development of Samoa 2005–2007 (Government of Samoa 2005). Public management reforms were strongly influenced by advice from Australian and New Zealand consultants, with the architecture of financial management and public administration thus influenced by managerial ideas from Australia and New Zealand. Although its new legislation imported managerialist ideas from Australia and New Zealand, the Government of Samoa did not go as far as its mentors on decentralization. Important controls are still centrally held. The Ministry of Finance retains the power of pre-audit expenditure, with officials clearly concerned about the capacity of lower-level staff to manage budgets. Early delegation of some aspects of personnel management to chief executive officers was withdrawn, and a “proper and effective check and balance system has been put in place to avoid misuse of powers and bribery in the public sector” (Public Service Commission, Samoa 2006, 6).

Early appraisals were approving. An ADB (2000) review concludes, among other things, that benefits flowed from setting outputs and performance measures, increasing emphasis on strategic planning and community consultation, increasing autonomy and incentives for agencies, and allowing ministers to agree in advance about outputs and measures.

While the language of planning and results seems to have taken root at the senior level of the public service, there appears to be a gap between formality and reality. Corporate plans are built strongly around results, and the estimates have been comprehensively restructured around outputs. Senior managers note the advantages of integrating departmental tasks with national policy objectives through a corporate planning approach. But while devolution to ministries was supposed to lead to better management, results-based management is proving difficult. Some ministries and agencies are better than others in dealing with the concept of outputs and performance measures. The estimates contain large numbers of output measures of marginal value in assessing government performance. The Ministry of Finance admits that in some ways it was struggling with the new approach. When budgets must be reduced, for example, ministry staff thinks in terms of cutting inputs—such as by blanket reductions in operating costs—rather than selective reduction of lower-priority outputs. Performance management by results was also difficult. Key performance indicators for chief executive officers have been in place for only 3–4 years and chief executive officers have difficulty interesting their ministers in them.

Sources: So’o and Laking 2008; Government of Samoa 2005; Public Service Commission, Samoa 2006; and ADB 2000.

In the Fiji Islands, reforms following the model of Australia and New Zealand were introduced in the 1990s in an effort to improve government performance. However, the Public Finance Management Act was suspended the same year it was introduced (1999). Managerial delegation ran into a traditional preference for central control and (particularly with the exodus of Indo-Fijians) inadequate accounting and auditing skills to maintain internal control. Privatization of public enterprises foundered, as did efforts to improve internal efficiencies. In 2006, the post-coup government formally abandoned the system of chief executives and returned to the older system of permanent secretaries.

In the RMI, an ADB assessment found that while the government has shifted toward performance-oriented budgeting, it has not allowed managers greater flexibility in managing resources and does not effectively monitor compliance with regulations. The report concludes that “[a]dopting performance-oriented budgeting is a step toward better overall management,

**Programs for improving public expenditure management worked best when they concentrated on the basics**

but institutionalizing it remains a challenge for MOE [Ministry of Education] and the other Government entities currently adopting it” (ADB 2005b, 124).

Kiribati unsuccessfully attempted from the mid-1990s to adopt New Zealand-style output budgeting. The budget instead shifted to “programs aligned as closely as possible with government organizational structure” (ADB 2008d, 178). In the FSM, an ADB assessment found that “output or performance budgeting...has been demanded by the ADB and [the] US Government but is not demanded by FSM legislatures and the executive, nor is it understood by them, civil servants nor the public despite more than a decade of technical assistance” (ADB 2008c, 6)

Generally, reviews of reforms in Pacific DMCs based on sophisticated accounting systems and increased managerial authority have concluded that these countries need to walk before they can run. The ADB capacity assessment in the FSM concluded that

...[g]iven the financial and management sophistication of the legislatures, the public service as a whole and the units themselves and the apparent lack of interest in fundamentally improving the performance of the public service, the present situation of producing simple expenditure accounts is sensible (ADB 2008c, 5).

Similarly, in Kiribati it is argued that “financial and administrative systems must be kept as simple as possible” (ADB 2009h, 22). A World Bank IEG study also concluded that programs for improving public expenditure management worked best when they concentrated on the basics:

...control inputs before seeking to control outputs, account for cash before moving to accrual accounting, and operate a reliable budget for inputs before moving to budgeting for results, make a comprehensive budget and reliable accounting system before trying an integrated financial management system, get a proper budgeting and accounting function before strengthening the auditing function, and do reliable financial auditing before trying performance auditing (World Bank IEG 2008, 49).

#### *Current Public Financial Management Initiatives*

The PEFA reviews for PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu previously discussed indicate that most financial management weaknesses originate in the fundamental and essential accounting control systems. Improvements in decision support systems are not underpinned by reliable control and reporting. Current programs for improving financial management in the Pacific, after past experimentation with performance and output budgeting, seem to be following the World Bank recipe of focusing first on the basics. Thus a RAMSI program in Solomon Islands covers, among other things,

...modernised government financial rules and regulations; improved and efficient revenue collection; timely and accurate reporting of Government finance position; timeliness of National Accounts; capacity and reliability of automated systems to deliver reliable and secure payroll, payments and accounting services (Winter et al 2008, 24).

In PNG, ADB has been supporting the development of an integrated financial management information system in all 45 national government departments as well as in one province and two districts (ADB 2009f, 27).

Progress in improving these systems, however, can still be halting, largely because of significant capacity limitations. Some of the difficulties encountered in improving budget decision making in Solomon Islands were mentioned earlier. RAMSI evaluation reports present a mixed picture of their implementation as follows:

- (i) No progress on programs to update financial instructions or improve financial management skills in ministries. RAMSI work developing “manuals and standard tools...had not

often led to their use,” but there were some signs “where persistent follow-up and use of incentives has led to evidence of possible sustainability” (Winter et al 2008, 18).

- (ii) Improvement in tax and excise collection rates, reduction in discretionary exemptions, and greater use of automated collection systems.
- (iii) Improvements in the timeliness of financial reporting. The Office of the Auditor-General has cleared most of the backlog of audits. Some concerns about their reliability remain, however, and audit reports are expected to be heavily qualified.
- (iv) Some progress developing a new payroll system, but no progress in upgrading the general ledger system. Difficulties remain in reconciling payroll to the general ledger.
- (v) Overall, some improvement in areas of financial management and revenue capacity, but “these pockets of good practice do not add up to a coherent capacity development strategy or organisational strengthening of MoFT [Ministry of Finance and Treasury]” (Winter et al 2008, 3).

#### *Weaknesses in External Audit*

ADB reports indicate that among other oversight bodies, audit offices are often “poorly resourced and ineffective” (Mellor and Jabes 2004). Additionally, progress has been limited in strengthening external audit functions and legislative review (ADB 2009a). AusAID’s report on PEFA reviews in PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu show widespread weakness in external audit functions. The endemic weakness in audit is part of the broader issue of the Pacific DMC institutions’ inadequate strength in political and administrative accountability, and the role of oversight bodies in these countries. Effective external audit requires an audit authority that is independent of the executive, capable of auditing government financial statements promptly upon their receipt, and able to make relevant qualifications and recommendations. The ability to undertake performance audits is a highly useful add-on, but the financial audit function is fundamental. The latter must be based on compliance and systems audits, and linked to stronger accounting and internal audit and control functions. Public accounts must be available to the audit authority soon after the end of each financial year. The accounts and the audit report should be reviewed—also in a timely fashion—by a standing committee of the legislature. The auditor’s recommendations need to be followed up with appropriate action by the executive branch of government.

The PEFA reviews for PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu reported on by AusAID all showed significant weaknesses in one or more of the essential requirements for effective audit. The most common problems identified were coverage, timeliness, and lack of follow-up on auditor recommendations.

**Coverage and timeliness of financial statements.** Typical problems are delays in completion of public accounts, particularly the completion and submission of accounts for off-budget funds and government enterprises. Tardiness is often compounded by delays in finalizing audits of financial statements. In Vanuatu, a substantial backlog in financial audits existed at the time of the PEFA review (2006). The most recent audits, tabled were for 1994–1997, and the 1998–2001 accounts were sent to the auditor-general in 2003. In Samoa and Solomon Islands, there have been delays in completing audits but evidence points to a reduction in the backlog. Capacity, as previously mentioned, is sometimes at the root of the problem. Audit offices in Pacific countries often are competing with government agencies and the private sector for a very limited supply of qualified accountants. Contracting out auditing to the private sector may be a necessary strategy.

**Legislative review of external audit reports.** Public accounts committees (PACs) of legislatures can be rendered ineffective by poor attendance, lack of community consultation, and poor information (e.g., on public accounts) (Morgan 2005). In Samoa, the PEFA review

**Effective external audit requires an audit authority that is independent of the executive, capable of auditing government financial statements promptly upon their receipt, and able to make relevant qualifications and recommendations**

**Effective legislative review and executive follow-up are essential to complete the audit cycle**

reported no significant problems. Scrutiny by the PAC was timely, in depth, and provided follow-up recommendations (European Union 2006). In Timor-Leste, scrutiny of audit reports was usually completed within 3 months of their presentation, but the PEFA review found no evidence of in-depth hearings or recommendations (Linpico 2007). In Vanuatu, the PEFA review found that the last meeting of the PAC was in 2003, and no report had been issued by the PAC since 2000 (European Commission Delegation Vanuatu 2006). A Vanuatu report (circa 2003) reported that the PAC had been dormant (Cain and Jowitt 2004). Activities of the Fiji Islands PAC have been on-again, off-again in recent years. The Parliament elected in 2006 was unable to agree on the composition of the PAC, and the military regime that took power in December 2006 suspended its operations and established a new PAC reporting to the executive (Global Integrity 2008).

**Executive action on audit reports.** Delays in the presentation of accounts and the completion of audit reports, and delayed or ineffectual review of audit reports by legislature PACs, can reduce the relevance of PAC recommendations. However, in some cases, there is no evidence of any meaningful response from government agencies to PAC recommendations. The executive branch in some countries routinely ignores their PAC (Morgan 2005).

*The Role of Donor-Supported Improvements in Public Financial Management*

Donor support for country financial management systems is a major plank in the platform of the Paris Declaration (OECD 2005). Nonetheless, a thread running through assessments of financial management capacities of Pacific DMCs is the sometimes counterproductive role played by donors in programs aimed at strengthening financial management in these countries.

Major donors—including Australia and New Zealand in Melanesia and the Pacific, and the US in Micronesia—have supported and sometimes imposed reforms that reveal a misdiagnosis of the problems of capacity and informality. As a result, the reforms have been inappropriately sophisticated, attempting to leapfrog the basic requirements of good internal control and audit and go straight to output budgeting and decentralized financial management based on Australian and New Zealand models. This has occurred in countries lacking sufficient capacity to efficiently process and report payments.

A related problem is aid distancing: donors drove financial management reform programs. The financial reforms of the 1990s thus “were seen as aid provider and consultant driven” with little local ownership—some were operationally staffed by expatriates (Mellor and Jabes 2004). In some cases (e.g., RAMSI in Solomon Islands, and in Timor-Leste), foreign nationals virtually assumed control of country financial management, reinforcing the governments’ sense of distance from their own responsibilities for accountability and transparency.

Despite commitments under the Paris Declaration, donors in effect undermined efforts aimed at strengthening public financial management systems in Pacific DMCs by bypassing those systems and developing their own parallel systems for managing aid money (Box 8). Experience in the Pacific seems to reflect the general conclusions of OECD’s Development Assistance Committee that progress toward the goals of the Paris Declaration—better aid harmonization, country leadership of development programs, and greater use of country public financial management systems—is clearly important for increasing the effectiveness of public financial management systems in recipient countries. Separation of aid funds jeopardizes good expenditure planning and reinforces the separation of (and inconsistency between) development and recurrent budgets. It also means that there is no single comprehensive accounting for public spending, weakening the authority of internal control—particularly over procurement systems—and contributing to delays in external audit and review.

### Box 8: Effectiveness of Australian Aid

The 2008 Development Assistance Committee Survey on Monitoring the Paris Declaration paints a mixed picture of Australia's efforts on aid effectiveness. The country performed well in areas like joint donor approaches and aid untying, but had weaker results in its use of partner country systems, the share of aid flows channelled through partner country budgets, and its reliance on parallel project units. Australia emphasizes the particular challenges associated with implementing and monitoring the Paris Declaration principles in small island states with poor administrative capacity and states in fragile situation, which are major recipients of its official development assistance. Taking this into account, AusAID has developed a pragmatic approach combining principles that must be applied systematically and modalities that can be adjusted to the specific partner country context. This allows Australia to adapt the aid program to each context and responds to the need for accountability to maintain high-level political and public support in Australia. While it is understandable that AusAID needs to adapt the way it engages in the aid effectiveness agenda to its specific context, it is important that the Paris commitments remain a focus of the overall program. As a way to disseminate further the aid effectiveness principles, AusAID has begun to share extensively the Accra Agenda for Action among its staff and across government.

Australia is developing whole-of-government country strategies to drive the planning and implementation of its aid. AusAID is aware that it will need to enhance whole-of-government engagement in strategy development, results-orientation, and performance reporting to achieve real, sustainable development gains. This also requires a shared understanding of the aid effectiveness principles among Government of Australia's stakeholders. Other challenges ahead include ensuring a country-driven approach to the regional programs in the Pacific; continuing to improve aid predictability by addressing budget mechanism constraints so as to provide timely information on multi-year budget allocations to partner governments; and engaging further in program-based approaches, as called for in the Accra Agenda for Action. AusAID should annually track progress on the latter and could consider setting intermediate targets for achieving this. Finally, Australia should also build on its experience of partnerships with other donors to provide evidence of their impact on transaction costs and identify good practice. This would not only be useful for the Australian program, but also for other donors as the importance of an effective division of labor to avoid fragmentation and reduce transaction costs becomes increasingly obvious.

Source: Organisation for Economic Co-operation and Development, Development Cooperation Directorate 2009.

Problems attributable to donor practices crop up in several of the PEFA reviews as identified in the AusAID report on those reviews (AusAID 2009a). Some of the sources cited in the following examples are several years old and conditions may have since changed, but the examples provide an indication of where donors needed to upgrade their support of country public financial management systems to better meet the objectives of the Paris Declaration.

Limited amounts of aid have been provided in the form of subventions to government budgets. SWAs may offer considerable promise for integrating donor assistance into overall budget preparation in recipient countries. They are being increasingly used in the region. According to AusAID, they offer best potential in the form of targets with good quality cost estimates, clearly identified funding sources, and incentives for donors to offer "more flexible aid" (AusAID 2009a, 52).

When donor assistance is not integrated into national budgets, ministries of planning and finance sometimes find it difficult to obtain useful estimates of donor commitments for use in budget planning. Information available may be merely optimistic projections of cash flows to projects, or too aggregated to reconcile with government budget categories. Some

**Donors can be tempted to bypass government financial systems but need to work through them wherever they can**

comments from the PEFA reviews and other documents shed some light on these problems. In Vanuatu,

...[a]t the moment the Government of Vanuatu does not have a donor coordination strategy and reliable and comprehensive information on the actual value and composition of all donor assistance provided to the Government is not available (European Commission Delegation Vanuatu 2006, 65).

In Solomon Islands,

...[t]imeliness and inability to provide the level of detail requested by [the Government of Solomon Islands] is highlighted as a problem by both donors and government... Projections for global and regional funds are limited (European Commission 2008, 68); and

...[m]ost aid expenditure is unappropriated (not subject to Parliamentary consideration) and reporting by donors of aid flows is patchy (Winter et al 2008, 17).

In Timor-Leste, the Ministry of Planning and Finance compiles a Registry of External Assistance based on information from donors, but the data are “best possible outcome” rather than “genuinely likely data” (Linpico 2007, 51).

Donors have often bypassed national financial management systems for their spending. In Timor-Leste, government procurement systems are

...generally relied upon only for local purchases. Loan agreements generally involve extra procurement procedures such as World Bank prior review of many transaction types and “no objection” requirements. Internationally competitive bidding processes are managed through the bilateral or multilateral agency’s procurement and other procedural frameworks (Linpico 2007, 52).

In Vanuatu, AusAID reported “a substantial increase in funding directed through Vanuatu government systems—19 per cent of the bilateral program in 2007–08” (AusAID 2008, 6). In PNG, ADB reports that most of its funding is “processed through the Development of Budget and uses government procurement and financial systems (backed up by ADB systems),” but that using government systems can slow down project implementation (ADB 2009f, 5).

Donors, in fact, have some powerful incentives not to use the public financial management systems of recipient countries. Often, they are required (as in the case of the multilaterals) to comply with their own organizational rules for procurement and accounting control. They may simply not trust national systems to meet the fiduciary standards of their own governments or boards, or both. Several reports refer to the erosion of fiduciary standards. A World Bank report on strategic directions in PNG acknowledges that the “progressive erosion of the integrity of government processes,” which led to donor funds being moved outside the budget framework into trust funds, needed to be reversed (World Bank 2007b, 65).

Aid from the People’s Republic of China and Taipei, China, has posed a particular problem; they are not even nominal members of a wider grouping of donors in the Pacific, and neither reports to OECD’s Development Assistance Committee. The PRC and Taipei, China are both relatively large donors. The PRC grant aid is estimated at \$100 million–\$150 million per year, placing it fourth among bilateral aid programs. No reliable estimate is available of aid from Taipei, China, but it might amount to about \$60 million, or about 5% of the total for the region in 2007 (ADB 2009a). Activities in PNG and Solomon Islands are an example: “Some donors [e.g., Taipei, China] understate their technical assistance and other non-cash assistance” (European Commission 2008, 68). Some practices, such as Taipei, China’s direct grants to local Parliament members in PNG, have a corrupting influence on the quality of democratic

governance. There are persistent rumors of under-the-table payments to Pacific politicians by both PRC and Taipei, China.

### *Human Resource Management*

Donor support of human resource management reform in the public sector in Pacific island countries has followed fairly well-trodden paths since the 1990s. The emphasis of reform has continued to be on downsizing overstuffed civil services, building technical and management capacity through training and leadership programs, and improving the quality of staff performance management.

Civil service reform has a poor track record generally,<sup>30</sup> and efforts in the Pacific appear to be no exception. The results were “modest” in ADB projects with public sector reform objectives in 1999–2002. A review by the ADB Independent Evaluation Department concludes that redundancy exercises were “budget driven and generally unconnected to substantive reforms of the public service.” Little attempt at prioritization was found. Cuts in staff numbers were expected to be accompanied by improvements in service delivery based on a general expectation of an improved “performance culture,” when such a culture would in fact require “attitudinal changes” of slow gestation (ADB 2009a, 8).

Redundancy programs ran into opposition from vested interests and were sometimes later reversed. “While reduction targets were generally achieved, employment and wage bills have generally crept back up, in cases exceeding previous levels” (ADB 2009a, 28). Some examples in the region are as follows:

- (i) In the RMI, a “PRSP [poverty reduction strategy paper] funded by the ADB required spending cuts. Staff were cut from 1,800 (1997) to 1,500 (mid-2000), other operating expenses were reduced, and subsidies to public enterprises were cut. The budget was balanced, but there were some adverse social impacts, and productivity in the public service did not appear to improve” (ADB 2005b, 63).
- (ii) In Palau, efforts were made to control the public sector wage bill through a freeze on pay rates and natural attrition. Public employee numbers resumed their growth, however, through political appointments and a new class of advisers on performance contracts (with higher salaries) (ADB 2005a).
- (iii) In the Fiji Islands, the post-2006 coup government reduced salaries, cancelled a cost-of-living adjustment, and promised a reduction in the number of ministries, but the wage bill remains high.
- (iv) In PNG, the failure to control the size of the civil service and public payroll is seen as a failure of governance (World Bank 2007b).

The reasons for difficulties in redundancy programs are generally well understood. The public sector is an important—if not the most important—employer in the formal sector of most Pacific DMCs. In Nauru, employment is historically “dominated by government departments and public enterprises” (ADB 2007a, 13). Kiribati, according to UNDP, “is challenged by large public sector budgets and unprofitable state-owned enterprises that between them employ 95% of the workforce” (UNDP Fiji Multi-Country Office 2008a, 5). In Palau, public wages and salaries are about 25% of GDP (ADB 2005a), while in the Fiji Islands, the wage bill is more than 11% of GDP (World Bank 2009a). The Government of the Marshall Islands (including public enterprises) accounts for about half of total formal employment, and this workforce grew by 16.5% during 2000–2004 (ADB 2005b).

<sup>30</sup> See, for example, World Bank Operations Evaluation Department (1999) and World Bank IEG (2008). Both conclude that civil service reform projects had, among public sector reform projects, a relatively low success rate.

**The emphasis of reform has continued to be on downsizing overstuffed civil services, building technical and management capacity through training and leadership programs, and improving the quality of staff performance management**

**Most Pacific developing member country governments face significant problems recruiting, developing, and retaining skilled staff from local sources**

Public expectation is that governments will continue in their role as principal employer. In Kiribati, for example, evidence of overstaffing is plentiful, but public employment is seen as an unspoken means of distributing national income (ADB 2008d, 176). Proposals to reduce the drain on public resources resulting from subsidy of public enterprises in Kiribati are resisted, largely because of the role of these enterprises in providing employment. Politicians have a patronage interest in the public service in several countries, and therefore resist downsizing. Appointment and promotion based on political interference, family connections, or *wantok* is widespread (Windybank and Manning 2003; Mellam et al 2003, 26; Cain and Jowitt 2004; and ADB 2005b and 2008c). In PNG, payrolls have been inflated by ghost workers (Temby 2007, 32).

Most Pacific DMC governments face significant problems recruiting, developing, and retaining skilled staff from local sources. Shortages are critical for qualified teachers, nurses, and doctors. In PNG, there is a “limited supply of appropriately qualified people to enter the sector as health workers” (Bolger et al 2005, 16). Other professions in short supply include engineers, lawyers, and accountants. Many Pacific DMC governments also lack staff with the basic clerical skills necessary to keep the machinery of government functioning. In Kiribati, for example, an ADB study reported that most ministries and public enterprises interviewed reported low levels of English language skills and computer skills (ADB 2009h, 23). The problem is exacerbated in countries with migration opportunities for skilled workers, such as the Cook Islands, the Fiji Islands, Samoa, Tonga, and the former US dependencies in Micronesia.

Several governments in the region now depend on expatriate labor to keep essential functions operational. Australian advisors are in key positions in PNG under the AusAID-funded Enhanced Cooperation Program (AusAID 2009b). They also constitute an important part of RAMSI in the Solomon Islands. In the RMI, a persistent shortage of skilled workers is met by importing foreign workers (ADB 2005b). In the FSM, three state governments depend to a significant degree on expatriate consultants for management and technical services in infrastructure management. The fourth state, however, has no expatriates and “exiguous capacity” (ADB 2008c, 3).

In some cases, low public service pay rates compared with salaries for local employment alternatives may contribute to problems. The FSM, for example, has a “poorly rewarded public service with no incentives for above average performance” (ADB 2008c, 2). In other countries, however, poor pay relativities do not fully account for labor supply difficulties. Pay in the RMI civil service is significantly higher than in the private sector, and the margin for public sector workers is increasing (ADB 2005b). In the Fiji Islands, a strong collective bargaining system has historically provided cost-of-living adjustments plus real increments in public service pay.

The Fiji Islands faces a particular problem in the aftermath particularly of the 1987 and 2000 coups because of the emigration of large numbers of professional workers, many of whom were Indo-Fijians. The Indo-Fijian group in particular once provided much of the professional and clerical support for the public service. Indo-Fijians still account for about 33% of the civil service, but only 9% of chief executive officer grades (Fiji Public Service Commission Annual Report 2006, cited in World Bank 2009a, 36). Some of this low share of senior management positions is certainly due to emigration of qualified candidates; but it is also arguable that a factor in the emigration itself has been the perception of some Indo-Fijians that there is a “glass ceiling” that discriminates against them.

Arbitrary reductions in retirement ages may also be a problem. The fact that public servants in Kiribati must retire at 50 years of age is a concern. In 2007, the Government of the Fiji Islands announced the reduction of the compulsory retirement age from 60 to 55, effective 1 January 2009, as a means of containing the size and cost of the public service (Fiji

Government Online 2007). The consequence, however, was to slice off a layer of the most experienced public servants (including teachers), who may prove difficult to replace.

Provision for in-service training in PNG is described as “limited and ad hoc” (World Bank 2007b, 139). In Vanuatu, 54% of teachers have no professional training (AusAID 2009a). Part of this is attributable to poor human resource planning. In the FSM, there has been “insufficient attention by FSM Governments to...set externally funded formal training within a longer-term HR [human resource] plan” (ADB 2008c, 3). In common with other regions, donor-funded training has had mixed success. In the FSM, “[t]he ADB funded training road-map [sic], as presently implemented, is unlikely to have any significant impact on current capacities” (ADB 2008c, 4).

The FSM report just cited also describes a significant lack of improved management regimes. The result is no demand pull for trained staff as a consequence of “improved work methods and procedures” (ADB 2008c, 4). Trainees may return to a workplace that is unable to make use of their skills because of shortcomings in management, procedures, equipment, or (not infrequently) hostility to the new ideas they bring. Training may have immediate benefits and longer-term payoff for trainees, but there must be demand for trainees’ newly acquired skills before the workplace can effectively exploit those skills.

Some programs for civil service reform in the region have relied on strengthening formal bureaucratic accountability through performance management systems emphasizing goal-setting by managers, review of employee performance against those goals, and pay and promotion linked to achievement of goals. In the FSM, it has been suggested that all staff should be given “the opportunity to go onto a performance contract.” Those who perform well would receive pay increases. Those who will not accept such contracts would be gradually removed from office (ADB 2008c). In the Fiji Islands, a new system of performance assessment was piloted based upon self-assessment by staff. The pilot failed for a reason common to experiments that depart from traditional seniority rules: managers “felt unable to discuss weak performance with subordinates” (World Bank 2009a, 36). Honest appraisals of performance and acceptance of the outcome by most employees is an essential building block of any such performance appraisal regime. There are very few countries where it works, however. The incentives are for such systems to default to traditional principles of seniority.

Good performance by civil servants depends on more than training, rewarding them properly, and motivating them through performance management systems. Civil servants do not leave their personal values and attachments at home when they go to work. Communal societies, as found in much of the Pacific, may value service to family or clan more highly than the ethic of public service. In societies with a very strong egalitarian ethic, such as in Kiribati, appearing to put oneself above others may be an obstacle to good performance in the workplace (ADB 2009h).

Nepotism and patronage as a basis for appointment to public service or office is commonly found in the Pacific. While most countries in the region have some form of legislated protection of the principle of merit in appointments, departure from that principle in practice is common. A variety of reasons are offered for these problems. One is the smallness of Pacific countries: “[i]n a small society with a general shortage of highly qualified personnel it is difficult to avoid the perception of patronage in its various forms” (Global Integrity 2009, 62). Another reason cited is obligation to kin to share the benefits of employment: “[t]raditional loyalties place added pressure on those within the public service to [hire family and friends] and diminish the likelihood that the practice will be openly challenged” (Hill 2004, 21). “[T]he perception of employment in the public sector as a way of distributing government income through the extended family, can be used by those in positions of authority to justify nepotism and the appointment of their close relatives” (MacKenzie 2004, 16). Many breaches of the

**Communal societies may value service to family or clan more highly than the ethic of public service**

**Civil servants in all Pacific countries have opportunities to participate in training or education programs funded by donors**

rules in this regard stem from the lack of a clear separation of politics and civil service, and the incentives of mutual benefit in the relationship of civil servant and patron: “public sector jobs are not necessarily valued for the services provided by the position, but for the resources generated for the patron and supporter” (ADB 2009a, 26). In the RMI, “[a]ppointments continue to favor ministerial favorites, while rewards for innovation and strong contributions to work programs are overlooked” (Pollock 2004, 15).

In both PNG and Solomon Islands, changes in laws on governance of the public service in the late 1980s were widely credited with facilitating patronage relationships. In Solomon Islands, the

...shift to politicizing the position of permanent secretary in 1989 was instrumental in opening up the entire public service to political pressure, as well as compromising its professionalism.... The fact that disciplinary powers have been delegated to permanent secretaries, who are themselves political appointees, has meant that internal mechanisms for public service integrity depend exclusively on political interests. This has created an important conduit for political influence throughout the service, and created clear potential for that influence to undermine standards of professionalism free from disciplinary oversight (Roughan 2004, 21).

Patronage and collusive practices between the executive branch and the public service were closely linked to an “influx of logging money” (Roughan 2004, 21).

In PNG, the shift of the powers and functions of the Public Service Commission to a Department of Personnel Management, ostensibly to reduce delays in making appointments, meant that

...the civil service has become more open to nepotism and political appointment and has been excessively abused almost to the extent that there is no longer appointment by merit. The high turnover in departmental heads, especially during the change of political regimes is the testimony to this (Mellam et al 2003, 26).

Public service commissions, commonly charged with protecting the merit principle of appointment and political neutrality in civil services, have either been powerless to halt these developments or actively collusive in them, and it is not clear that projects aimed at strengthening these commissions have done much to improve the situation.

#### *Capacity Building*

The following discussion, particularly of financial management, highlights the limits of technical capacity in much of the Pacific. Trained administrators and professionals, such as accountants and lawyers, are in very short supply. Donors have responded with support for a mix of off-site training and education programs, and counterpart initiatives where expatriate advisers work in government offices with local counterparts. In counterpart initiatives, twinning programs are often seen as part of a more comprehensive program with organizational development objectives, where attention is devoted to upgrading all aspects of a government unit’s mission, structure, systems, and processes.

**Training.** Civil servants in all Pacific countries have opportunities to participate in training or education programs funded by donors. The Papua New Guinea Targeted Training Facility, for example, offers

...targeted short-term training to selected government agency personnel consistent with the capacity and skills development needs of selected agencies... [and] selects and places suitably qualified PNG candidates for long-term training in Australia supported by Australian Development Scholarships (AusAID 2009b).

In Solomon Islands, RAMSI provides a considerable amount of training, and the government Institute of Public Administration and Management supplies entry-level as well as training-of-trainer courses (Winter et al 2008).

**Counterpart Programs.** Several donors fund counterpart programs.<sup>31</sup> In PNG, Australia's Enhanced Cooperation Program (ECP)

...places senior Australian government officials in PNG to work alongside their counterparts, mainly in central agencies. Other placements ensure system-wide linkages on policy and management issues. Australia provides most resources to the Departments of Finance and Treasury and the Internal Revenue Commission. Australia also has ECP officials placed in the Department of Personnel Management, the Office of the Auditor General, the Department of Prime Minister and National Executive Council, the Department of Defence, and the PNG Customs Service.

Similarly, the Australia–East Timor Public Sector Management Capacity Development Program “places technical advisers and trainers within the Government of East Timor to strengthen the management and administration skills of public servants in a range of Ministries.” A program led by the World Bank will place up to 80 experts in the Timor-Leste Ministry of Finance. Also in Timor-Leste, an ADB-led project for infrastructure project management support “places project engineers and project managers within the Ministry of Finance to manage the Government's more complex and high risk infrastructure projects.”

Australia also “twins” PNG government ministries with their Australian counterparts. The primary twinning program is with the Australian Treasury, but there are smaller schemes with Australia's Department of Finance and Administration and its National Audit Office. Additional twinning arrangements are planned with Australia's Customs Service and Tax Office. A good example of twinning is that which “twins the St John of God Hospital in Ballarat [Australia] with Tonga's Vaiola Hospital in triage, emergency care, intensive care, nursing and medical records.”

Two issues commonly surface in Pacific DMCs with the approaches just described. Newly trained civil servants may return from off-site training to a workplace that does not have the capacity (nor their managers the incentive) to make effective use of their newly acquired skills. Counterpart programs usually include a component for training local counterpart staff. Foreign advisers and consultants work in Pacific DMC government departments with the expectation that local counterparts will eventually be trained to take responsibility for their work. However, advisers and consultants often end up under pressure to accomplish the work themselves, and must pay less attention to developing the skills of their local counterparts.

For both issues, the basic solution seems to be ensuring that the building of local staff capacity takes place in the context of comprehensive development of the organizations to which the staff belongs, under strong local leadership. This may help assure that new skills will be effectively used. Comprehensive development of the capacities of an entire organizational unit is the objective of a number of donor programs. The problems that are most likely to arise in such programs are more systemic. Civil service practices in appointment and promotion may not effectively motivate trainees to acquire skills, or their managers to use them. There is little evidence that such fundamental systemic issues are being effectively tackled by either donors or partner governments. In the absence of effective civil service reform, the goal of a long-term sustainable supply of competent and motivated professional civil servants will be difficult to attain.

Donors fund counterpart and twinning programs in some countries

31 Information and quotations in this section are from AusAID (2009b) unless otherwise indicated.

# Political Capacity: Developing the Political Economy of Incentives

Traditional governance practices can influence national politics through electoral competition, party politics, and the effective roles of legislators

## Political Capacity and Good Governance

Political capacity expresses the values of good governance. A basic assumption of good governance is that political leaders who are accountable to a broad spectrum of citizens are more likely to work in the wider interests of society. A government that is accountable is answerable to the interests and views of its citizens when making decisions. Accountability is underpinned by the free availability of information about the decisions and operations of government. It is reinforced by the oversight of mediating institutions such as a legislature, independent public oversight bodies, an active civil society, and free media. Oversight, in this case, means the ability to debate and participate in the decisions of government, and to review, comment on, and criticize decisions after they are made.

International agency views on political capacity usually tread carefully around questions of systems of government, particularly whether this agenda is best-served by liberal democratic institutions.<sup>32</sup> This is an attempt to generalize the idea of “representativeness” beyond the tenets of Western democratic theory. The World Bank *Global Monitoring Report 2006* asserts that “a democratic electoral process does not guarantee that politicians will focus on the general interest, and...the general interest can also guide the action of some politicians in nondemocratic societies” (World Bank 2006a, 4). But it is difficult to avoid considering how effective representative institutions are in underpinning these values. In Western democratic theory, it is assumed that good representative institutions include regular free elections, strong parties able to espouse policies in the interests of a broad range of the electorate, legislators capable of scrutinizing and debating the policies and actions of the executive, and (particularly in political thought in the Americas) the existence of a number of “veto players” whose support the executive will require for any significant policy change.

## Custom and Politics

Except in Samoa and Tonga, traditional governance has little formal role in Pacific DMCs. However, traditional governance practices can influence national politics in ways other than the purely formal, through electoral competition, party politics, and the effective role of legislators.

Melanesian politics, in particular, is a unique synthesis of electoral rules and local clan loyalties. In PNG, Solomon Islands, and Vanuatu, a combination of first-past-the-post electoral systems and local politics based on big men has historically produced a very large number of candidates in elections and parliaments with many small parties.

In PNG elections, up to 40 candidates may stand for Parliament in a district, so that under first-past-the-post a candidate can win with quite a small percentage of the popular vote (Harris 2007, 23). Support of the core constituency is ensured during the campaign with feasts and distribution of wealth. Allegiance after the election is to the successful candidate’s core support group. The resulting “instability and proliferation” of political parties has led to very

<sup>32</sup> See for example World Bank (2006a), particularly Chapter 5, “Monitoring Developing Country Governance.”

high turnover in Parliament—75% of incumbents were not returned in the 2002 election. This motivates Parliament members to make the most of their 5 years in office (Harris 2007). A limited preferential vote system was used for the first time in the 2007 general elections (Box 9). The aim was to encourage candidates to build broader constituencies and form alliances with those with similar policy objectives. The new system seems to have had some effect in reducing the number of parties and independents in Parliament (Table 4).

**Table 4: Party Composition of Papua New Guinea Parliament following General Elections in 2002 and 2007**

Parties with:	2002	2007
10 or more members	2	1
2–9 members	13	14
1 member or "independent"	26	21
Vacant pending by-elections	6	0
<b>Total</b>	<b>47</b>	<b>36</b>
<b>Number of seats</b>	<b>109</b>	<b>109</b>

Source: Adam Carr's Election Archive. <http://psephos.adam-carr.net/>

#### **Box 9: Limited Preferential Voting in Papua New Guinea—Will it Make a Difference?**

The 2007 general election in Papua New Guinea was the first conducted under the new limited preferential voting (LPV) system. A report on the election by Nicole Haley and Ray Anere states that, while it is too early to say definitively how LPV influenced the outcome, the "early indications are positive." After the allocation of preferences, "the mandates of winning candidates broadly doubled" (Haley and Anere 2009, 7). Another report on the election by Ray Anere with Katherine Wheen (2009) states that "there was an increased focus on policy platforms by some parties at the national level" (p. 35), and a reduction in the number of parties contesting the election. However, "the lack of influence of political parties at the local level does not appear to be changing" (p. 36). The report concludes that LPV needs to be better understood by voters (p. 29). "[I]n the long term, electoral engineering instruments such as voting systems are not likely to create better leaders, or change the reasoning behind voters' choices, on their own. This is done by methods of genuinely engaging citizens in elections and increasing the avenues for their participation in political life more generally" (p. 29).

Source: Anere and Wheen 2009, and Haley and Anere 2009.

The fractionalization of politics in Vanuatu increased in the 1990s and 2000s. Figures cited in Van Trease indicate that since 1998, while the number of seats in Parliament remained unchanged at 52, the number of candidates contesting general elections rose from 212 to 345. The number of parties grew from 12 to 28, and the number of independents increased from 19 to 68. The percentage of the total vote received by successful candidates fell from 47% to 38% (compared with 76% in the first election in 1979) (Van Trease 2009).

Governments in Melanesia are frequently toppled through votes of no confidence (Morgan 2005). In the first 30 years of PNG independence, shifting parliamentary coalitions led to every government being turned out of office before its term. A change of government, however, has rarely led to new elections because there has been no enthusiasm among Parliament members for cutting short their term of office (Harris 2007). In Vanuatu, Parliament members' chances of survival from one election to the next appear to be higher, but parliamentary politics has been chronically unstable due to shifting allegiances and opportunism (McLeod and Morgan

**For much of Melanesia,  
politics is extremely local**

2007). Premature dissolution of Parliament on members' votes is a regular occurrence. Three major parties dominate, but there is a history of splits and factionalism (Cain and Jowitt 2004).<sup>33</sup> Van Trease reports that the increasing fractionalization makes it "ever more difficult to form robust governing coalitions and to maintain these in office," and "leading politicians have had to negotiate multiple deals with a bewildering collection of small parties and independents in order to form a government." Between 1995 and 2002, there were nine coalition governments, and votes of no confidence were a regular occurrence (Van Trease 2009, 2). Politics in Solomon Islands has similarly been dogged by factionalism and floor-crossing due to "lack of strong political identities above the level of the *wantok* and island" (Fukuyama 2008, 10).

For much of Melanesia, politics is extremely local. On the positive side, this means that Parliament members are clearly accountable to their supporters. PNG, at the local level, is "arguably one of the most inherently democratic societies in the world" because leadership is mostly achieved rather than ascribed, and is "constantly subject to challenge and change" (Fukuyama 2007, 9). The negative side is that elections and the national legislative arena are seen as a contest for access to economic rents, led by big men on behalf of their supporters (Fukuyama 2008). Members of Parliament use the resources of the state to cement relationships with kin and community (Morgan 2005). Although Melanesian parliaments appear weak (compared with the executive), fragmented, and unstable, they have value for local stakeholders as "crucial sites of contestation for political power" (Morgan 2005, 12). Parliament members see themselves as having only a brief period in power, with the need to use it to maximize benefits for their supporters.

In PNG and Solomon Islands, legislative contestation of resources has been exacerbated by giving Parliament members control over local development funds. PNG Parliament members employ district support grants mostly to benefit their supporters. In Solomon Islands, more than half of Taipei, China's aid goes through the Rural Constituency Development Fund and other programs, which "effectively bypass[es] public sector delivery mechanisms by providing funds directly to Members of Parliament" (AusAID 2009a, 56). Grants administered by Parliament members are an invitation to corruption, patronage, and the favoring of particular constituencies (Fukuyama 2008). Corruption is a contested concept, however, because of the linked influences of traditional obligation, big man patronage, and electoral and parliamentary instability (Mellor and Jabes 2004). "Many Melanesians consider the cultures of dominance that characterise parliamentary politics normal and bankable, if not ideal" (Morgan 2005, 112).

The unique qualities of politics in PNG, Solomon Islands, and Vanuatu are created by the segmented nature of those societies, and are not replicated in the rest of the Pacific. In Timor-Leste, politics is dominated by the two major factions that emerged from within Fretilin (the liberation party) after independence from Indonesia, and by a division between west and east (Polity IV Project 2009). Politics in the Fiji Islands has been characterized by ethnic tensions between Indo-Fijians and ethnic Fijians, and by struggles for power within the ethnic Fijian community. Patronage through jobs and favors for supporters is, however, a widespread phenomenon over a range of political systems. In Timor-Leste, politicians use public employment to cement sometimes fragile coalitions of supporters in the aftermath of the violence and dislocation. In Kiribati, politicians are beholden to their constituencies and are expected to give them jobs. Cabinet ministers "have considerable discretionary power, enabling them to provide support to their constituencies" (ADB 2009h, 20).

Customary authority and social closeness can be much more important forces in social and political relationships than the formal institutions of governance. Discussions of patron-

<sup>33</sup> Electoral instability continued in the 2008 elections, with no stable government 3 months after the election, and "intense manoeuvring by the major parties, involving accusations of 'member stealing' and allegations of the exchange of large sums of money to secure support" (Van Trease 2009, 1).

age and corruption in the Pacific tend to emphasize the contested boundary between buying favors and customary gift giving. The obligations imposed on those with resources or power by *wantok* and *bubuti* are well known. Similar exchange obligations exist in Polynesian societies. For example, a recent report on a Global Integrity Forum in Tonga noted that

[w]hile not wanting to use “culture” as an excuse to water down important accountability and transparency reforms in the country, participants felt that any reform efforts would stand a better chance of taking root should they be designed with Tonga’s cultural and religious realities in mind. This could significantly shape the design and implementation of reforms that touch on resource allocation (including the budget and procurement processes as well as decentralization of government service delivery in the outer islands), which have historically been prone to a habit of “bringing home the goods” to one’s family and extended kinship network (Matangi Tonga Online 2009).

### Donors and Political Economy

Donor support is increasingly aimed at altering the incentives for political decision makers so as to produce better human development outcomes. The interventions assume that executive power is constrained by the prospect of electoral competition, by a formal system of checks and balance, and by the voice of citizens expressed at national and local levels. Strategies for increasing electoral competition have aimed at strengthening electoral systems, but also at election of more stable and broadly representative coalitions—particularly in PNG. Strategies for building up checks and balances have aimed mainly at enhancing legislative scrutiny and review of the executive’s plans and actions, and strengthening the role of formal oversight bodies, such as auditors-general, ombudsmen, and anticorruption bodies. Measures taken to strengthen the justice sector may also affect the quality of judicial review of state action. Strategies to bolster citizens’ voice have targeted civic education, the role of the media, and building the capacities of civil society organizations and alternative sources of authority, such as traditional and religious leaders.

### Electoral Systems

The countries in the Pacific region are now almost all democracies with regular elections. Pacific Island Forum nations have been putting pressure on the one main exception—the Bainimarama regime in the Fiji Islands—to commit to a timetable for a return to free elections. The most significant recent development in electoral systems in the region has been the introduction of limited preferential voting in PNG by the PNG Electoral Commission, with donor support (Box 9). Australia is providing regional electoral assistance with the objective of

...building capacity in the South Pacific to conduct free and fair elections. A workshop organised by the Australian Electoral Commission has set up a network that encourages members to exchange information on electoral processes and to address common electoral problems (AusAID 2009b).

In Timor-Leste, an electoral capacity building program “supports the Technical Secretariat for Electoral Administration officers to deliver training modules to their own staff and other Timorese stakeholders” (AusAID 2009b).

### Legislative Oversight

Donors often advocate stronger legislative oversight of the executive, particularly through more effective committee scrutiny of government bills, budgets, and accounts (Morgan 2005). The check and balance role of Pacific legislatures varies between US-style separated powers

**Donor support is increasingly aimed at altering the incentives for political decision makers so as to produce better human development outcomes**

**In Timor-Leste, UNDP supported a project to provide stronger secretariat support for Parliament and train Parliament members to improve their skills in budgetary oversight, legislating, and representing the electorate**

systems—as in much of Micronesia—and the Westminster systems prevalent in Melanesia and Polynesia. In legislatures based on the Westminster system, fragmented and fractious parliaments can act as a significant check on executive action. Executives are unsure of their ability to command a parliamentary majority, and protest that more oversight will interfere with their ability to govern (Morgan 2005). Legislators, on the other hand, frequently lack the capacity or incentive to exercise supervision over the activities of the executive (Mellor and Jabes 2004). Any number of factors may account for the failure of legislative oversight. It may be due to the volatility of the party system, as in PNG and Solomon Islands. The legislature may be dominated by the executive and seen as merely a rubber stamp for government legislation. More generally, it may be the result of an imperfect understanding or lack of acceptance of the concept of the legislature as a check on executive powers.

A number of projects have attempted to build legislative capacity by resourcing research and advisory support, particularly for committees, and educating legislators about how to exercise their oversight role. UNDP has supported a range of such projects in the Fiji Islands, Kiribati, the RMI, the FSM, Nauru, Palau, Solomon Islands, Tuvalu, and Vanuatu aimed at enhancing the functioning of legislative committees. It reports that the function of such committees improved in the RMI and Solomon Islands, but “identified capacity gaps” in other countries (UNDP Fiji Multi-Country Office 2008c, 8). The Solomon Islands project recognized that “the process by which any parliament strengthens and matures in its capacity to fulfill its role and functions, particularly vis-à-vis executive power and control, is historically a long and complex one.”<sup>34</sup> In Timor-Leste, UNDP supported a project to provide stronger secretariat support for Parliament and train Parliament members to improve their skills in budgetary oversight, legislating, and representing the electorate (UNDP Timor-Leste 2009, 30).

Donors have advocated strengthening legislative committees, especially public accounts committees (PACs). Active PACs or their equivalent exist in only a few Pacific countries. In Vanuatu, the PAC has not met since 2003 (AusAID 2008, 12). PAC operation can be hindered by domination by the government party, or by deliberate manipulation of the budget process by the government to limit PAC scrutiny and review. They can also be rendered ineffective by poor attendance, lack of community consultation, and poor information (e.g., on public accounts). Executives in some Pacific countries routinely ignore their PACs (Morgan 2005).

Michael Morgan comments that the high turnover of legislators, poor induction of new ones, and poorly funded and staffed secretariats contribute to the ineffectiveness of legislators. Institutional strengthening can help, through better training of new legislators and stronger secretariats that provide training to legislators rather than rely on external assistance. However, it can be argued that, at least in Melanesia, the ineffectiveness of Parliament is due more to “political fragmentation and patronage politics” than to the incompetence of Parliament members. Parliament members are often adept at using parliamentary processes for their own purposes (Morgan 2005).

### Other Checks and Balances: Oversight Bodies

An audit function is universally available in Pacific DMCs, although not every country has a supreme audit institution independent of the executive and reporting to the legislature. Auditors throughout the region face one or more of a common set of problems. Public financial statements may be late or incomplete. The number of qualified staff and budgets may be inadequate and legislative oversight weak. Governments and their officials may obstruct audit functions or exhibit hostility toward them. The public may be indifferent to audit reports and

<sup>34</sup> Unless otherwise indicated, information on UNDP governance-related operations in Solomon Islands is taken from the UNDP Fiji Multi-Country Office. [www.undp.org/fj/](http://www.undp.org/fj/)

findings, or in a few cases, powerful people may attempt retaliation when politically inconvenient reports are presented.

Inadequate budgets are common. In Tuvalu, “the Auditor-General has consistently argued that his responsibility to audit public accounts has been severely frustrated by the lack of resources allocated by the government to his office” (Taafaki 2004, 18–19). In Solomon Islands, “[u]nder-resourcing has been systematic and taken the form of denial of necessary trained personnel for the effective execution of the office’s role, and of necessary equipment and facilities” (Roughan 2004, 18). The functions of the PNG auditor-general are “restricted by lack of capacity and resources, which have also prevented the annual report from being up-dated” (Mellam et al 2003, 24). In Kiribati, “it can be argued that full deployment of resources to enable the Auditor-General to exercise his functions may be constrained due to insufficient provisions (from the Ministry of Finance) and delays in the recruitment of additional staff when required” (MacKenzie 2004, 15). In Vanuatu, “a recent assessment by the European Union confirms that the Auditor General is ineffective” (AusAID 2008, 12).

Governments are sometimes deliberately unhelpful. In a well-known case in Samoa, the auditor-general lost his job for reporting on corruption among senior politicians. The national public auditor in the FSM “uncovered irregularities and missing funds in public audits and indicated where responsibility lay. Members of Congress were not receptive to this ‘un-Micronesian’ behavior and, when the auditor’s term was complete, he was not reappointed” (Hill 2004, 20). The Solomon Islands auditor-general was reportedly “sidelined in the budgetary process by government allowing insufficient time for the office to consider and comment on the proposed budget and supply bills” (Roughan 2004, 18). Nevertheless, the RAMSI *Performance Report 2007–2008* stated that the Office of the Auditor-General (OAG) “went from strength to strength” during the year, clearing most of a backlog of audits. Further, “the Public Accounts Committee considered three reports from the OAG in 2007, requiring Ministries appearing before them to publish action plans to deal with the audit findings” (Winter et al 2008, 19). The ability of the Solomon Islands OAG to provide timely audits to the PAC may well have contributed to this response. The RAMSI report also noted that parliamentary committees significantly increased their number of hearing days in 2006–2007, and that the PAC “has established a pattern of scrutiny of annual and supplementary budgets” (Winter et al 2008, 20). In PNG, ADB reports that “more active engagement by the Parliamentary Public Accounts Committee and the Auditor-General’s Office are important indicators of improving financial accountability” (ADB 2009f, 57).

Projects with the objective of strengthening supreme audit institutions and ombudsmen’s offices, or similar agencies, have been common in the past. A report for the World Bank on the role and effectiveness of oversight bodies included PNG and Timor-Leste as case studies, and concluded that “[s]ome oversight bodies appear to have some success in improving accountability.” Examples include “PNG’s Ombudsman Commission and (for a period) its Public Accounts Committee of Parliament; ... and Timor-Leste’s Office of the Inspector-General and Provedor de Direitos Humanos e Justiça” (Laking 2008, 4). The report also concluded that

...[t]he factors that seem important in the success of these bodies include a political climate that at least tolerates their activities; operational independence (de facto or de jure) from the executive; reasonably secure and adequate funding; powers of investigation; a public profile and some support from civil society and the media; and ability to get implementation of their findings and recommendations. More general factors may be that they are part of an effective system of accountability: with a clear legal framework and mandates; there is a reasonable degree of capability and compliance in public agencies they oversee; and there are cooperative relationships between agencies and with civil society. We were impressed by the number of cases

**Oversight bodies such as audit offices and ombudsmen need strengthening and support**

where success did seem at least partly dependent on dynamic and proactive agency leaders with a high public profile (Laking 2008, 4).

Several countries in the region have ombudsmen or similar offices designed to investigate and report on complaints by citizens of maladministration, and sometimes human rights abuses or corruption. Ombudsmen or their equivalents exist in the Cook Islands, the Fiji Islands, PNG, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. Ombudsmen sometimes successfully report abuses by government or officials, but may be handicapped by lack of power or resources (such as in the Cook Islands, PNG, and Solomon Islands). They also may face obstruction or hostility from powerful people.

**Because of their legitimacy and public support, churches could play a larger role in national or local politics**

### Civil Society and Nongovernment Organizations

Civil society groups and NGOs<sup>35</sup> that carry out advocacy and monitoring in the field of public governance are a relatively new phenomenon in most Pacific island countries. Their prevalence, activities, and relationship with government reflect this nascent status. As a mode of organization outside households, the most prevalent forms in most of the region are traditional village councils, village- or church-based women's groups, and churches themselves. None of these groups exist primarily to speak critically about or press causes upon government. They are essentially assemblies for collective debate and choice making, mutual help, and organization of daily village life—"faith and works," in local religious terminology.

Of the longer-standing groups, churches are most likely to engage with government on issues of national policy of importance to their members. This is especially true in Melanesia. Because of their legitimacy and public support, churches there are significant civil society actors and can or could play a larger role in national or local politics. In Solomon Islands and PNG, churches have played a role in electoral education. Bird (2007) says that in Solomon Islands, "[a]ll five mainline churches and some Pentecostal churches engaged in election-related educational awareness programs with their constituents on a non-partisan basis" (Bird 2007, 21). According to Volcker Hauck and co-authors (2005), PNG churches "also recognize that corruption [and the] decline in government services must be addressed by increased accountability and this is encouraging them to support measures for greater accountability." Catholic Church leaders "are speaking out about the quality of governance in PNG." Churches there belong to the Community Coalition Against Corruption. The Catholic Church also ran a nationwide community education program before the 2002 election (Hauck et al 2005). Michael Morgan observes that churches are "often reluctant" to tackle the government on specific policy issues, which can bring them into conflict with political leaders (Morgan 2005). In Timor-Leste, the Catholic Church has sometimes found itself in direct conflict with the government over matters such as religious education (Soux et al 2007). In the Fiji Islands, the Bainimarama regime cancelled the 2009 Methodist Church Annual Conference and associated choir competition because "inciteful issues are going to be discussed" (The Australian Online 2009).

Commitment to governance issues varies among churches and by country. In Solomon Islands, the five main churches are described as the "anchors of the civil society sector" (Roughan 2004, 27). In the RMI, the "churches have taken on a greater advocacy role on behalf of their parishioners in recent times" (Pollock 2004, 16). Some churches may remain silent on the accountability of government because they do not see it as their role to enter the political arena. It seems likely, however, that where the churches are significant providers of

<sup>35</sup> Civil society organizations are defined as any purely national organization (established by citizens, for citizens) for charitable, self-help, recreational, or advocacy purposes. NGOs are mainly international organizations (following the World Bank's classification) established for purposes of international developmental, relief, or advocacy in order to increase awareness, acceptance, and knowledge through lobbying, media work, and activist events.

social services, such as health and education, they are more likely to be drawn into discussion and debate with the government on related policy issues.

In Polynesia, churches play a less active role as civil society actors. Samoan churches, by long-standing tradition, have avoided “interference” in the exercise of chiefly authority, which was the basis of political action. Samoan villages “became congregations through a ‘covenant’ dividing local governance between the secular realm controlled by the councils of hereditary chiefs, and the religious realm, controlled by resident pastors” (Hooper 1998, 24). This effectively proscribed pastors’ participation in village affairs, although pastors do play a part in decision making in matters of education and health. With the exception of Kiribati, very few references were found to church activism in Micronesia.

Women’s voices remain ignored or undervalued in national debate in much of the Pacific. This is despite the dominant role of women in many mutual help groups, and the emergence in some countries of national women’s collectives. Women’s organizations in Tuvalu have “elaborate networks” throughout the country and the National Council of Women claims to represent about 90% of Tuvaluan women (Taafaki 2004, 23). In the RMI, a national women’s rights organization has “espoused several causes to government,” but “struggles” to make itself heard by government (Pollock 2004, 17). This level of activism, however, appears unusual in much of the Pacific. Women remain largely absent from national politics in the region.

Umbrella groups have developed in some places. The Tuvalu Association of NGOs acts as an umbrella organization for about two dozen NGOs. It receives most of its funding from external donors (Taafaki 2004, 23). In PNG, the Community Coalition Against Corruption was “beginning to have some bearing on society’s response towards corruption,” but could only be active in Port Moresby and its surroundings (Mellam et al 2003, 34).

The responsiveness of governments to these voices varies. In Tonga, “the level of effective input [by civil society organizations into public policy] has been low, but the situation is changing, and CSO [civil society organization] input is increasingly sought and accepted by government” (Global Integrity 2009, 10). In PNG, the government has taken some steps to formalize civil society’s role through a national consultative council and provision for women, youth, church, and employer and employee representatives in provincial and local legislatures (Mellam et al 2003). On the other hand, civil society in Timor-Leste appears relatively undeveloped and has so far not played a large part in the national debate on governance (Soux et al 2007).

## Media

The strength of the media in the Pacific as a watchdog and multiplier for other advocates varies a great deal by country. Nearly every country has a constitutional or other legal basis for press freedom, and with a few exceptions the media seem relatively free. The Freedom House 2008 ratings of press freedom rate 9 of 13 Pacific DMCs as “free.” The press in the Fiji Islands, Timor-Leste, and Tonga are rated “partly free” (the Cook Islands was not rated). For various reasons, the media may be passive or occasionally under threat. In Tonga, the media “appear muzzled, either by Government interference or self-censorship” (James and Tuful 2004, 20). In Timor-Leste, journalists have been threatened and abused (Freedom House 2009). Fiji Islands’ media remains under tight control of the interim administration.

In a report for the World Bank, Parison distinguishes between supply-side and demand-side strategies for improving governance. A standard supply-side package could include ...basic financial management reforms; strengthening of core institutional checks and balances such as parliament and the supreme audit institution; and transparency and external accountability, including budget coverage and transparency and freedom of information (Parison 2005, 82).

**Women’s organizations in Tuvalu have “elaborate networks” throughout the country and the National Council of Women claims to represent about 90% of Tuvaluan women**

**Donor funding helps support demand-side projects for good governance**

A demand-side strategy focuses on voice: increasing the capacity of citizens to review the performance of their governments and the responsiveness of those governments to citizen concerns. AusAID's strategy for democratic governance explicitly refers to "work[ing] at as local a level as possible to promote demand and strengthen supply of democratic governance at grassroots civil society and at sub-national levels of the State" (AusAID 2009b) (Box 10).

**Box 10: Building Demand for Better Governance in Vanuatu**

Australia's aid program in Vanuatu is increasingly directed toward building demand for better governance. This emphasis reflects findings in a range of recent analyses that highlight the crucial role demand plays in strengthening governance and addressing corruption. The following projects reflect this emphasis:

- **The Vois Blong Yumi ("Our Voice") Project.** This project commenced in 2007 and is a partnership between Radio Vanuatu and Radio Australia. Its aim is to improve the quality and range of Vanuatu national radio program content, and to strengthen the Vanuatu Broadcasting and Television Corporation. Early achievements are the reinstatement of morning news services and the development of an editorial policy (particularly important in election years). Currently, the Radio Vanuatu signal reaches only 15% of the country. Australia (with Japan and New Zealand) is consequently supporting the urgent restoration of shortwave transmission throughout Vanuatu, a crucial requirement for effective democracy in national elections.
- **Wan Smolbag Theatre.** Core funding supports its advocacy role on behalf of youth and the residents of informal urban settlements in Port Vila and Luganville.
- **The Kastom Governance Partnership.** National and community governance is to be strengthened through support of the National Council of Chiefs and *kastom* leaders to manage change and participate in conflict resolution and prevention.
- **The Vanuatu Churches Partnership.** Support aims to strengthen the capacity of churches and the Vanuatu Christian Council as advocates for improvement of governance and service delivery by government.

Source: AusAID 2008, 32.

According to Laking's report for the World Bank, a demand-side strategy ...includes using publicity to increase the demand for good governance, through local dissemination and wider use of the media. Bank staff has faith in the power of evidence and reasoned argument to help generate demand, by giving wide dissemination to reports and ideas that support its agenda. A demand side strategy for the Bank would include establishing working relationships with a wider range of stakeholders such as legislatures, NGOs, private or faith-based service providers and even explicitly helping found and support front organisations that (by monitoring and advocacy) put public pressure on the government for reform (Laking 2008, 32).

A range of projects and donor approaches in the Pacific with the objective of improving governance using various demand-side strategies are outlined below.

**Promoting civic education.** The World Bank Justice for the Poor program in Timor-Leste "includes legal education to improve community awareness of the responsibilities of elected officials and bureaucrats and advocate community-based monitoring of the justice mechanisms" (AusAID 2009b). UNDP strategy in the Pacific involves support for participatory democracy and human rights through civic education, and aims to increase the number of civil society

organizations working in the field. In the Fiji Islands, UNDP projects include a school-based civic education program and a comprehensive, broad-based civic education program. In PNG, a recent UNDP project focused on building a “stronger civic education component in the [upper primary and lower secondary schools] curriculum” (UNDP PNG 2006).

**Increasing the flow of public information about development activities.** An ADB report advocates refocusing the Public Expenditure Review and Rationalization process in PNG in a number of ways, including “supply[ing] detailed information on development, recurrent, and windfall budgets and outturns, including district grants, so that the population can be confident about progress in getting funds to reach targets” (ADB 2009f, 57–58).

**Working with and building capacity of NGOs and civil society organizations.** In PNG, ADB expects to be “working more closely with civil society to stimulate public demand for results and transparency. A particular effort will be made to involve nongovernment organization (NGO) partners in monitoring on-the-ground delivery of project outputs” (ADB 2009f, 7). In Tonga, a UNDP project focuses on the

strengthening of the Civil Society Forum of Tonga (CSFT) Secretariat through staffing, equipment; strengthening of individual CSOs [civil society organizations] through training and up-skilling activities; and supporting advocacy efforts through research, advocacy, information sharing/documentation and programmes” (UNDP Fiji Multi-Country Office 2008b, 2–3).

**Forming alliances with church organizations.** The PNG Church Partnership Program funded by AusAID “supports partnerships between seven Australian church-based organisations and their counterparts in PNG, aiming to strengthen church leadership in society” (ADB 2009b).

**Supporting the development of independent media.** The objective of the AusAID Media for Development Initiative in PNG is to “strengthen the capacity and operations of the media, particularly radio in rural areas” (AusAID 2009b). Regionally, AusAID’s Pacific Media and Communications Facility “aims to strengthen governance throughout the region by strengthening links between media, civil society and government through training and workshops” (AusAID 2009b). Projects in Timor-Leste have developed community radio stations and media training programs for journalists (UNDP Timor-Leste 2009).

**Aid in the Pacific is often not closely connected with poverty reduction and services a variety of other interests**

# Conclusions and Recommendations

What can be garnered from this review as to the future direction of governance in Pacific island states? In the face of the disparity of these countries, generalization is not useful. Some themes and principles do emerge, however, of relevance to some of the countries covered in this survey.

Regarding aid, in the Pacific it is often not closely connected with poverty reduction and is not likely to be in the future. The fear of collapse of state authority in some countries and the threat that could pose to the security of the region may motivate some donors. Creation of economic opportunities in order to relieve pressure for migration (where that possibility exists) is another motivation. Pacific countries confront greater threats from climate change than most, and require assistance on this front. Beyond these motives for aid, many of the microstates in the Pacific would not be able to sustain modernity subsisting entirely on trade. Their economies require continuing income transfers from abroad, either from their diaspora or from metropolitan states, or both. For Australia, France, New Zealand, and the US, their relationship with currently or formerly administered states is ongoing—for reasons of international politics or some more basic sense of obligation. For these countries particularly, their policies on trade and migration may be as important as their external aid flows to the Pacific. These policies clearly extend to appropriate preferences for Pacific countries in world trade arrangements. But just as or more importantly, they extend to increasing the opportunities for citizens of Pacific countries to find work in metropolitan countries and thereby increase the flow of remittances and labor earnings back home.

Donor interventions to improve the quality of governance have implications for the sovereignty of Pacific states, and the relationship between donors and recipient countries on this issue can be a tender one. The fact remains, however, that donors cannot offer advice on good governance without implicitly commenting on the state of domestic politics. It is best to simply acknowledge that good governance implies advice to politicians on how to better conduct themselves.

Such messages may well be more palatable coming from regional groupings such as the Pacific Forum, rather than from Australia, New Zealand, or the US. Some encouraging signs are already emerging of regional support for security, such as the Pacific Regional Policing Initiative (AusAID 2004, 21). Development of these initiatives should continue where possible as a more efficient and effective way of supporting capacities in individual states.

Perceptions of priorities when dealing with weakly performing states may well differ in ADB as compared with Australia and New Zealand. The relationship of these two nations with Pacific countries is closer and poses political concerns at home. Accordingly, Australia and New Zealand may want to concentrate their efforts on improving governance in those states that appear to need it most—possibly just the countries where strong governance programs will be least welcome.

Some conclusions and recommendations concerning future strategy in the Pacific drawn from this review are provided in the next page.

## Institutional Development

### *Increasing Security and Mitigating Conflict*

**Conclusion:** Stronger state enforcement, broader access to the formal justice system, and alternative means of dispute resolution and conflict mitigation are required.

**Recommendations:**

- (i) Measures that will build up effective and law-abiding police forces deserve support.
- (ii) Means of harmonizing customary and formal authority, particularly in disputes over land and other resources, should be identified and supported.
- (iii) Local models for dispute resolution that avoid involvement of conflicted leaders should be identified and supported.

### *Building Partnerships for Service Delivery*

**Conclusion:** The state cannot on its own adequately provide the services required for human development.

**Recommendations:**

- (i) Effective partnerships with alternative service providers, such as local communities and churches, should be identified and developed.
- (ii) Measures to build the capacity of local service providers deserve support.
- (iii) Bridging social capital should be strengthened as a means of improving the governance and accountability of local service delivery and its equitability.

## Developing Management Capacities

### *Budget Credibility*

**Conclusion:** Credible and rational budgets are critical to the effectiveness of aid, but these qualities turn on much more than budget processes and technical analysis and advice.

**Recommendations:**

- (i) Continue support of projects linking strategy to medium-term budget frameworks and the annual budget process. Recognize, however, that this will involve an ongoing role for advisors, particularly to develop credible medium-term budget frameworks and to encourage informed political decisions regarding budgets.
- (ii) Support measures that will maximize the transparency of planning and budget processes and educate civic groups in these processes.
- (iii) Leverage off the development of partnership strategies, such as sector-wide approaches.

### *Decentralization*

**Conclusion:** Decentralization can place accountability for services closer to clients and address aspirations for greater local autonomy. However, local service providers must be supported by adequate resources and accountability mechanisms, and cannot be burdened by complicated and elaborate organizational structures.

**Recommendations:**

- (i) Measures building local government capacity deserve continued support, but citizen participation in the local budget process needs strengthening.
- (ii) The proportion of funds going directly to local projects should be increased, but ensure that such funding goes to groups accountable to communities broader than their immediate kinship group.
- (iii) Strengthen measures for controlling the distribution of funds by local power brokers, such as Parliament members, with emphasis on rules for access and local surveillance of the use of funds.

**Stronger state enforcement, broader access to the formal justice system, and alternative means of dispute resolution and conflict mitigation are required**

**Donor use of national public financial systems should increase, but will require additional strengthening of these systems with the support of donors**

- (iv) Strengthen local surveillance of project funding through models like Indonesia's Kecamatan program.

#### *Public Financial Management*

**Conclusion:** Basic public financial management capacity in the region is at risk due to limited accounting capabilities and temptations to ignore or subvert rules. Donors are conflicted in the use of national public financial management systems.

#### **Recommendations:**

- (i) Measures in support of public financial management systems should stick to basics and devote adequate attention to proper sequencing. It is worth investigating whether common regional accounting systems, centralized information systems, and a pool of expert accounting support can help smaller countries share the costs of these systems.
- (ii) The shortage of accounting capacity has no easy solution apart from training more accounting staff and remunerating them properly. Another option is to outsource more accounting services using distant centers.
- (iii) Donor use of national public financial systems should increase, but will require additional strengthening of these systems with the support of donors.
- (iv) Opportunities need to be found to bring the PRC and Taipei, China fully into the development community supporting the principles of the Paris and Ghana declarations.

#### *Human Resource Management*

**Conclusion:** Capacity limitations, patronage, and nepotism significantly threaten the quality of civil services.

#### **Recommendations:**

- (i) Wage rates for key categories of workers could be raised, and long-term attention devoted to capacity building. Out-of-country rotational assignments for key personnel could be considered.
- (ii) A merit-based elite could be created as a means of strengthening cadre loyalty among senior civil servants.
- (iii) Efforts should continue to make public service commissions effective and obtain agreement from governments to limit interference in appointment processes.
- (iv) Support for counterpart and twinning programs should increase, but such arrangements should be terminated when the local Ministries or other partner organizations do not provide adequately motivated and capable local counterpart staff. Officials from partner jurisdictions must also be properly trained in mentoring their local counterparts.
- (v) It should be recognized that expatriate staff will continue to be required for some key functions in Pacific DMC governments. Budget subventions from donors may be needed for their support.

## Improving Governance

**Conclusion:** Oversight bodies have a role to play in reinforcing government accountability. These bodies require political independence, the power to call corrupt or ineffective politicians and public servants to account, and adequate funding and staffing to pursue effective investigations. Media and citizen education as well as adequate, freely available information and analyses also are important.

### **Recommendations:**

- (i) Support should continue for the strengthening of oversight bodies, such as supreme audit institutions, audit offices, and legislative oversight functions, and for training of legislators in their oversight responsibilities.
- (ii) Public education on the significance of audit findings deserves support.
- (iii) Programs promoting demand for good governance deserve continued support, with emphasis on training of civil society actors, civic education, and development of independent media.
- (iv) The importance of the provision by donors of quality analytical publications and information that promote public debate should be fully recognized.

**Improving governance by strengthening oversight functions and civil society is important**

# References

- Anere, R. and K. Wheen. 2009. *Priorities for a Free and Fair Election: An NRI* [National Research Institute] *Issues Analysis*. Boroko, Papua New Guinea (PNG): NRI.
- Asian Development Bank (ADB). 2000. *Samoa 2000: Building on Recent Reforms*. Manila.
- . 2003. *Priorities of the People: Hardship in the Fiji Islands*. Manila.
- . 2005a. *Country Economic Report: The Republic of Palau*. Manila.
- . 2005b. *Juumemmej—Republic of the Marshall Islands: Social and Economic Report 2005*. Manila.
- . 2007a. *Country Economic Report: Nauru*. Manila.
- . 2007b. *Country Operations Business Plan: Federated States of Micronesia, 2007–2009*. Manila.
- . 2008a. *Country Partnership Strategy: Samoa, 2008–2012*. Manila.
- . 2008b. 2008 Country Performance Assessment Summary Ratings, Pacific Developing Member Countries (Spreadsheet). Manila. Unpublished.
- . 2008c. Federated States of Micronesia 2008 Country Partnership Strategy Formulation: Capacity Assessment, 7 to 18 April 2008. Unpublished ADB aide memoire.
- . 2008d. *Kiribati Social and Economic Report 2008: Managing Development Risk*. Manila.
- . 2008e. *Technical Assistance to the Republic of Kiribati for Economic Management and Public Sector Reform*. Manila.
- . 2009a. *ADB's Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Independent Evaluation Department. Manila.
- . 2009b. *ADB's Approach to Assisting the Pacific (2010–2014)*. Manila.
- . 2009c. *Annual Report on the 2008 Country Performance Assessment Exercise*. Manila.
- . 2009d. *Asian Development Outlook 2009: Rebalancing Asia's Growth*. Manila.
- . 2009e. *Country Partnership Strategy: Palau, 2009–2013*. Manila.
- . 2009f. *Country Strategy and Program Midterm Review: Papua New Guinea 2006–2010*. Manila.
- . 2009g. Governance Assessment—Vanuatu: Country Partnership Strategy (2010–2014) (Consultation draft). Unpublished.
- . 2009h. *Kiribati's Political Economy and Capacity Development*. Manila.
- . 2009i. *Pacific Economic Monitor Issue No. 1*. Manila.
- ADB, AusAID, and World Bank. 2007. Health in Papua New Guinea. In World Bank, ed. *Strategic*

- Directions for Human Development in Papua New Guinea*. Washington DC: World Bank.
- Australian Agency for International Development (AusAID). 2004. *Pacific Regional Strategy 2004–2009*. Canberra: Government of Australia.
- . 2007. *Papua New Guinea–Australia Development Cooperation Strategy 2006–2010*. Canberra: Government of Australia.
- . 2008. *Annual Program Performance Report for Vanuatu 2007–08*. Canberra: Government of Australia.
- . 2009a. *Tracking Development and Governance in the Pacific*. Canberra: Government of Australia.
- . 2009b. AusAID website, country pages. [www.ausaid.gov.au/country/](http://www.ausaid.gov.au/country/)
- Bird, C. 2007. *Blowing the Conch Shell: A Baseline Survey of Churches Engagement in Service Provision and Governance in the Solomon Islands*. Canberra: AusAID, Government of Australia.
- Bolger, J., A. Mandie-Filer, and V. Hauck. 2005. *Papua New Guinea's Health Sector: A Review of Capacity, Change and Performance Issues*. Maastricht: European Centre for Development Policy Management.
- Brown, T. 2007. *A Reflection on Solomon Island Politics*. Brisbane: Australian Centre for Peace and Conflict Studies, University of Queensland.
- Cain, T. N. and A. Jowitt. 2004. *National Integrity Systems: Country Study Report, Vanuatu 2004*. Canberra: Transparency International.
- Deakin University. 2006. *PNG Curriculum Reform Implementation Project: Final Report*. Canberra: Faculty of Education, Deakin University, Australia; and National Research Institute, PNG, for AusAID.
- European Commission. 2008. *Solomon Islands: Public Financial Management—Performance Report*. Brussels: European Commission.
- European Commission Delegation Vanuatu. 2006. *Vanuatu Public Expenditure and Financial Accountability*. Port Vila, Vanuatu: European Commission.
- European Union. 2006. *Samoa: Public Financial Management Performance Report*. Brussels: European Union.
- Fiji Government Online. 2007. *Retirement Policy Review*. [www.fiji.gov.fj/publish/printer\\_8608.shtml](http://www.fiji.gov.fj/publish/printer_8608.shtml)
- Freedom House. 2009. *Country Report—East Timor*. [www.freedomhouse.org/template.cfm?page=140&edition=7&ccrpage=31&ccrcountry+113](http://www.freedomhouse.org/template.cfm?page=140&edition=7&ccrpage=31&ccrcountry+113)
- Fukuyama, F. 1996. *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press.
- . 1999. *Social Capital and Civil Society*. [www.imf.org/external/pubs/ft/seminar/1999/reforms/fukuyama.htm](http://www.imf.org/external/pubs/ft/seminar/1999/reforms/fukuyama.htm)
- . 2007. *Governance Reform in Papua New Guinea*. Washington DC: World Bank.
- . 2008. *State Building in the Solomon Islands*. [www.sais-jhu.edu/bin/y/f/PEB23\\_3\\_.pdf](http://www.sais-jhu.edu/bin/y/f/PEB23_3_.pdf)
- Global Integrity. 2008. *Global Integrity Report: Fiji*. <http://report.globalintegrity.org/Fiji/2008/scorecard>
- . 2009. *Global Integrity Report: Tonga 2008*. <http://report.globalintegrity.org/Tonga/2008/>
- Government of Samoa. 2005. *Strategy for the Development of Samoa 2005–2007*. Apia: Government of Samoa.

## References

- Grindle, Merilee. 1996. *Challenging the State: Crisis and Innovation in Latin America and Africa*. Cambridge: Cambridge University Press.
- Haley, N. and R. Anere. 2009. *The 2007 Papua New Guinea National General Elections: Domestic Observation Report*. Boroko, PNG: National Research Institute.
- Harris, B. M. 2007. *Papua New Guinea: A Nation in Waiting. The Dance of Traditional and Introduced Structures in a Putative State*. East Asia Environment and Social Division. Washington DC: World Bank.
- Hauck, V., A. Mandie-Filer, and J. Bolger. 2005. *Ringing the Church Bell: The Role of Churches in Governance and Public Performance in Papua New Guinea*. Maastricht: European Centre for Development Policy Management.
- Hill, E. R. 2004. *National Integrity Systems: Transparency International Country Study Report: Federated States of Micronesia 2004*. Canberra: Transparency International.
- Hooper, A. 1998. *Pacific Islands Stakeholder Participation in Development: Samoa*. East Asia and Pacific Region. Washington DC: World Bank.
- Integrated Regional Information Networks (IRIN). 2008. *Timor-Leste: Settling Age-old Land Disputes*. [www.unhcr.org/refworld/docid/4917f25cc.html](http://www.unhcr.org/refworld/docid/4917f25cc.html)
- James, K. and T. Tuful. 2004. *National Integrity Systems: Transparency International Country Study Report: Tonga 2004*. Canberra: Transparency International.
- Kernot, S. and L. Sakita. 2008. *The Role of Chiefs in Peacebuilding in Port Vila. State, Society and Governance in Melanesia Project*. Canberra: Research School of Pacific and Asian Studies, The Australian National University.
- Laking, R. 2008. *Accountability Institutions and Oversight Bodies in East Asia and the Pacific: A Report for the World Bank*. Wellington: School of Government, Victoria University of Wellington.
- Linpico. 2007. *Timor-Leste: Public Financial Management Performance Report*. European Commission. [http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/timor\\_lesste\\_en.pdf](http://ec.europa.eu/europeaid/what/economic-support/public-finance/documents/timor_lesste_en.pdf)
- MacFarlane, P. 2006. Some Challenges Facing Legal Strengthening Projects in Small Pacific Island States. *Journal of Commonwealth Law and Legal Education*. 4. pp. 103–112.
- Mackenzie, U. N. 2004. *National Integrity Systems: Transparency International Country Study Report: Kiribati 2004*. Canberra: Transparency International.
- Marshall, M. G. 2009. *Major Episodes of Political Violence, 1946–2009*. Center for Systemic Peace. [www.systemicpeace.org/warlist.htm](http://www.systemicpeace.org/warlist.htm)
- Matangi Tonga Online. 2009. *Anti-Corruption and Good Governance Mechanisms in Tonga*. [www.matangitonga.to/article/20090917\\_1511\\_tonga.shtml](http://www.matangitonga.to/article/20090917_1511_tonga.shtml)
- McLeod, A. and M. Morgan. 2007. An Incomplete Arc: Analyzing the Potential for Violent Conflict in the Republic of Vanuatu. *Pacific Affairs*, 80 (1). <http://pacificaffairs.ubc.ca/recent/ab80-1.html>
- Mellam, A., D. Alo, and M. Manning. 2003. *National Integrity Systems: Transparency International Country Study Report—Papua New Guinea 2003*. Berlin: Transparency International.
- Mellor, T. and J. Jabes. 2004. *Governance in the Pacific: Focus for Action 2005–2009*. Manila: ADB.
- Morgan, M. 2005. Cultures of Dominance: Institutional and Cultural Influences on Parliamentary Politics in Melanesia. State, Society and Governance in Melanesia Project. *Discussion Paper 2005/2*. Canberra: Research School of Pacific and Asian Studies, The Australian National

- University. [http://rspas.anu.edu.au/papers/melanesia/discussion\\_papers/05\\_02\\_dp\\_morgan.pdf](http://rspas.anu.edu.au/papers/melanesia/discussion_papers/05_02_dp_morgan.pdf)
- Nelson, H. 2006. *Governments, States and Labels. State, Society and Governance in Melanesia Project*. Canberra: Research School of Pacific and Asian Studies, The Australian National University.
- Nixon, R. 2006. The Crisis of Governance in New Subsistence States. *Journal of Contemporary Asia*. 36. pp. 75–101.
- Organisation for Economic Co-operation and Development (OECD). 2005. The Paris Declaration on Aid Effectiveness. In OECD eds. *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*. Paris: OECD.
- OECD, Development Assistance Committee (DAC). 2009a. *2008 Survey on Monitoring the Paris Declaration*. Paris: OECD. [www.oecd.org/dac/effectiveness/monitoring/survey](http://www.oecd.org/dac/effectiveness/monitoring/survey)
- . 2009b. *Australia (2008) DAC Peer Review of Australia—Main Findings and Recommendations*. Paris: OECD. [www.oecd.org](http://www.oecd.org).
- Parison, N. 2005. *World Bank Public Sector Strategy Implementation Update: Case Studies of Bangladesh, Brazil, Cambodia, Guatemala, India Karnataka, Indonesia (Main Report)*. Washington DC: World Bank.
- Polity IV Project. 2009. *Country Report 2007: East Timor*. [www.systemicpeace.org/polity/polity4.htm](http://www.systemicpeace.org/polity/polity4.htm)
- Pollock, N. J. 2004. *National Integrity Systems: Transparency International Country Study Report: Republic of the Marshall Islands 2004*. Berlin: Transparency International.
- Public Service Commission, Samoa. 2006. *A Public Administration Sector Plan for Samoa 2007–2011*. Apia: Public Service Commission.
- Reilly, B. and E. Wainwright. 2005. The South Pacific. In S. Chesterman, M. Ignatieff, and R. Thakur, eds. *Making States Work: State Failure and the Crisis of Governance*. Tokyo: United Nations University Press.
- Rice, S. E. and S. Patrick. 2008. *Index of State Weakness in the Developing World*. Washington DC: The Brookings Institution.
- Roughan, P. 2004. *National Integrity Systems: Transparency International Country Study Report: Solomon Islands 2004*. Berlin: Transparency International.
- Saldanha, C. 2008. *The Provincial Performance Improvement Initiative. Papua New Guinea: A Case Study on Subnational Capacity Development*. Manila: ADB.
- Scaglione, R. 2008. *Reconciling Customary Law and Received Law in Melanesia: The Post-Independence Experience in Solomon Islands and Vanuatu*. Review of book of same name by K. Brown. Oceania. 78. p. 128.
- Seta, T. 2008. *Bridging the State–Society Gap: The Community Justice Liaison Unit of Papua Guinea*. Manila: ADB.
- Shuster, D. R. 2004. *National Integrity Systems: Transparency International Country Study Report: Republic of Palau 2004*. Berlin: Transparency International.
- Siop, P. 2008. *From Dependency to Sustainability: A Case Study on the Economic Capacity Development of the Ok Tedi Mine-area Community*. Manila: ADB.
- So'o, A. and R. Laking. 2008. Samoan Public Sector Reform: The View from Apia and the Villages. *Policy Quarterly*. (4) pp. 30–36.

## References

- Soux, S., D. Gairdner, S. Marstein, and R. Engels. 2007. *Review of Development Cooperation in Timor Leste: Final Report*. Oslo: Scanteam (for the Embassy of Norway in Jakarta).
- Storey, D. 2006. *Urbanisation in the Pacific*. Palmerston North, Massey University for State, Society and Governance in Melanesia Project. Canberra: Research School of Pacific and Asian Studies, The Australian National University.
- Taafaki, T. 2004. *National Integrity Systems: Transparency International Country Study Report: Tuvalu 2004*. Berlin: Transparency International.
- Temby, S. 2007. *Good Governance in Papua New Guinea: An Australian Agenda. School of Social and Environmental Enquiry Research Paper*. Melbourne: University of Melbourne.
- The Australian Online. 2009. Frank Bainimarama tries to stop Methodists. [www.theaustralian.com.au/news/frank-bainimarama-tries-to-stop-methodists/story-0-1225722085145](http://www.theaustralian.com.au/news/frank-bainimarama-tries-to-stop-methodists/story-0-1225722085145)
- United Kingdom Department for International Development (DFID). 2009. *Sectorwide Approaches (SWAps)*. [www.dfid.gov.uk/About-DFID/Financeand-performance/Making-DFIDs-Aid-more-effective/How-we-giveaid/Sector-wide-approaches-SWAps/](http://www.dfid.gov.uk/About-DFID/Financeand-performance/Making-DFIDs-Aid-more-effective/How-we-giveaid/Sector-wide-approaches-SWAps/)
- United Nations Department of Economic and Social Affairs. *World Urbanization Prospects: The 2007 Revision Population Database*. <http://esa.un.org/unup/>
- United Nations Department of Economic and Social Affairs, Population Division. [www.un.org/esa/population/](http://www.un.org/esa/population/)
- United Nations Development Programme (UNDP). 2009. *Federated States of Micronesia Country Program Action Plan: Annual Work Plan 2009*. Palikir: UNDP.
- UNDP Fiji Multi-Country Office. 2008a. *Annual Report 2008*. Suva: UNDP Fiji Multi-Country Office.
- . 2008b. *Tonga Country Report 2008*. Suva: UNDP Fiji Multi-Country Office.
- . 2008c. *UNDP Multi-Country Programme Document: Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, Tonga, Tuvalu and Vanuatu (2008–2012)*. Suva: UNDP Fiji Multi-Country Office.
- UNDP Fiji Multi-Country Office. [www.undp.org.fj/](http://www.undp.org.fj/)
- UNDP Papua New Guinea (PNG). 2006. *Workplan: Good Governance and Anti-Corruption Education Project*. Port Moresby: UNDP PNG.
- . 2008. *Papua New Guinea: Provincial Planning and Management Annual Work Plan 2008*. Port Moresby: UNDP PNG.
- . 2009. *Nation Building through Crisis Prevention Programme: Papua New Guinea*. Port Moresby: UNDP PNG.
- UNDP Timor-Leste. 2009. *Country Programme Action Plan (CPAP) for Timor-Leste (2009–2013)*. Dili, Timor-Leste: UNDP Timor-Leste.
- Van Trease, H. 2009. *Vanuatu's 2008 Election—Difficulties of Government Formation in a Fractionalized Setting. State, Society and Governance in Melanesia Project*. Canberra: Research School of Pacific and Asian Studies, The Australian National University.
- White, G. 2007. *Indigenous Governance in Melanesia. State, Society and Governance in Melanesia Project*. Canberra: Research School of Pacific and Asian Studies, The Australian National University.
- Windybank, S. and M. Manning. 2003. *Papua New Guinea on the Brink. Centre for Independent Studies (CIS) Issue Analysis*. St. Leonards, New South Wales: CIS.

- Winter, J., K. Schofield, and E. Duituturaga. 2008. *Performance Report 2007–08: A Report on the Performance of the Regional Assistance Mission to Solomon Islands [RAMSI]*. Honiara. Solomon Islands: RAMSI.
- Woolcock, M. and D. Narayan. 2000. Social Capital: Implications for Development Theory, Research, and Policy. *World Bank Research Observer*. 15. pp. 225–249.
- World Bank. 1995. *Bureaucrats in Business: The Economics and Politics of Government Ownership*. Washington DC: World Bank.
- . 1996. *From Plan to Market: World Development Report 1996*. Washington DC: Oxford University Press.
- . 1997. *World Development Report 1997: The State in a Changing World*. Washington DC: Oxford University Press.
- . 2003. *Papua New Guinea: Public Expenditure Review and Rationalization Overview of Discussion Papers*. Washington DC: World Bank.
- . 2005a. *Economic Growth in the 1990s: Learning from a Decade of Reform*. Washington DC: World Bank.
- . 2005b. *Opportunities to Improve Social Services in Vanuatu: Summary Report*. Washington DC: World Bank.
- . 2006a. *Global Monitoring Report 2006: Millennium Development Goals: Strengthening Mutual Accountability, Aid, Trade, and Governance*. Washington DC: World Bank.
- . 2006b. *Strengthening the Institutions of Governance in Timor-Leste*. Washington DC: World Bank.
- . 2007a. *Opportunities to Improve Social Services: Human Development in the Pacific Islands*. Human Development Sector Unit, East Asia and Pacific Region. Washington DC: World Bank.
- . 2007b. *Strategic Directions for Human Development in Papua New Guinea, Asian Development Bank, Australian Agency for International Development, World Bank*. Washington DC: World Bank.
- . 2008a. *2008 IDA Resource Allocation Index (IRAI)*. Washington DC: World Bank.
- . 2008b. *Status of Projects in Execution—FY08: Timor-Leste*. Operations Policy and Country Services. Washington DC: World Bank.
- . 2009a. Fiji: The Challenges of Restoring Economic Growth and Social Progress. Unpublished draft.
- . 2009b. *Governance Matters 2009: Worldwide Governance Indicators, 1996–2008*. Washington DC: World Bank. <http://info.worldbank.org/governance/wgi/index.asp>.
- World Bank Independent Evaluation Group (IEG). 2008. *Public Sector Reform: What Works and Why? An IEG Evaluation of World Bank Support*. Washington DC: World Bank.
- World Bank Operations Evaluation Department. 1999. *Civil Service Reform: A Review of World Bank Assistance*. Washington DC: World Bank.

## **State Performance and Capacity in the Pacific**

The Pacific Approach of the Asian Development Bank (ADB) places good governance at the heart of the development agenda and identifies public sector management as an important driver of change. This study, prepared as a background for the Pacific Approach, reviews recent literature and analysis on the state's role in the development of Pacific developing member countries, and suggests priorities for future support by ADB and its development partners of improved state performance and capacity of these Pacific states.

## **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
[www.adb.org](http://www.adb.org)  
ISBN 978-92-9092-174-5  
Publication Stock No. RPT101704

ISBN 978-92-9092-174-5



Printed in the Philippines