

Seven Best Policies and Practices for a Better Pacific¹

There are a number of examples of achievement in economic and social development in the Pacific. On the economic side, examples include the emergence of oil palm and vanilla exports from Papua New Guinea; continued tourism development in the Cook Islands, Fiji Islands, and Palau; bottled water from the Fiji Islands capturing a global niche market; and the operation of commercial fisheries in countries of Micronesia and in Samoa. Some Pacific island countries can also be proud of their achievements in expanding access to basic education and other social services.

Unfortunately, these successes have been the exception rather than the rule for the region. And some happened despite rather than because of the role of government. Overall economic performance of Pacific island countries has been mixed at best, with economies failing to grow at a rate that creates jobs or income sources for the Pacific's young and growing populations. The failure of growth is also increasingly straining the ability of governments to provide the social services expected by Pacific Islanders. Consequently, the Pacific is lagging behind Asia and also some countries in Africa in economic performance.

Earlier efforts at reforming the Pacific economies — many with the support of the development partners of the Pacific — largely failed to be implemented or followed through as intended. In 1996 the Pacific Islands Forum launched annual Economic Ministers Meetings to discuss and agree “best practices” relating to economic management, transparency in governance, private sector development, and land, among other topics. Despite signed agreements and communiqués from these meetings supporting a variety of reforms, a review of actual practice around the Pacific in 2002 found that few of the “best practice” reforms had been implemented.

The need to improve the performance of the economies and Governments of the Pacific clearly remains, but what changes do the leadership and people of the Pacific support? And what are the right policies and practices in the Pacific context? Are international experiences really relevant to the small countries of the Pacific? And how can any change for the better be best brought about?

This article attempts to answer these questions. To do so, use has been made of a process designed by ADB and the World Bank to assess the performance of member countries.

ADB has undertaken annual Country Performance Assessments for several years now, and the World Bank undergoes a very similar process. However, the results of the ADB assessments were not issued to Governments and the public until April 2006 (<http://www.adb.org/ADF/PBA/annualreport.asp>). The purpose of the assessments is to help ADB to focus its loan and technical assistance programs on supporting “best practice” reforms by Pacific members and to measure the results. Pacific member countries that are effectively implementing “best practice” policies and demonstrating results gain a higher share of ADB financial assistance, in order to expand and further promote implementation of “best practices.”

¹ The source of this material is commentary and working papers prepared in the course of ADB RETA 6245, which are not final ADB documents.

ADB's criteria for Country Performance Assessment can be grouped into seven guidelines for a better Pacific:

1. **Promoting people** (developing human resources, equality among men and women, providing social protections — such as pension and savings programs, and effective labor markets).
2. **Caring for the environment** (incorporating environmental issues into government and business development planning and increasing public participation in the decision-making process).
3. **Supporting good governance** (transparency, accountability, elimination of corruption in the public sector, and improving the quality of government administration).
4. **Encouraging economic growth and keeping prices stable** (policies that encourage balanced government budgets, stability in prices, and effective management of debt).
5. **Providing quality services with public money** (sound budget and financial management, efficient tax revenue generation, and government spending that addresses a country's poverty reduction strategy).
6. **Encouraging trade** (stable import tariffs and effective customs operations).
7. **Helping businesses to help people** (establishing property rights and rules-based governance that improves predictability, openness, and impartiality of Government-business relations; improving the environment for doing business; improving the efficiency and stability of the financial sector; and increasing people's access to financial services).

These policy and practice areas are discussed in turn in this article, focusing on how they can be pursued in the context of the Pacific Islands. Better, if not best, practices are still needed yet few have been implemented. These practices need to be better understood, more fully discussed and either accepted, adapted, or rejected by the people of the Pacific if progress is to be made in economic and social development.

What do the Pacific's donors think?

ADB and other funding agencies have worked with Pacific island countries to produce strategies for the region.

ADB, in 2004, produced its Pacific strategy for 2005 to 2009. The goals of this strategy are to:

- Increase people's access to cash income opportunities through efficient markets,
- Improve the delivery of social services (e.g., health, education, sanitation), especially for the poor, and
- Improve the means of delivering assistance.

Strategies for the region have also been produced by Australia, New Zealand, the World Bank, and by the Pacific Forum Secretariat in the form of the Pacific Plan. The degree of consistency among these strategies is worth noting. These agencies are more and more concerned to harmonize their assistance programs around common policies and approaches to development.

A Comparison of Strategic Focus in Pacific Development

ADB	AusAID	NZAID	Forum Secretariat	World Bank
Supporting a conducive environment for the private sector	Stronger broad-based growth	Economic development Fisheries Trade	Enhance and stimulate economic growth	Improving the incentives for private sector-led growth and employment
Enhancing the supply of, and demand for, quality basic social services (health, education, clean water, and sanitation)	Enhanced service delivery, including effective financial management	Education Health	Sustainable development	Strengthening government capabilities in service delivery
Promoting effective development processes	More effective, accountable democratic government Improved law and justice and security	Environment Governance	Good governance Security for Pacific countries through regionalism	

Promoting People in the Pacific

Ensuring equal access of people at all levels of society to good education, quality health services, jobs and other income generating opportunities, and “social protections” such as pension plans, is essential to successful national development in Pacific island countries.

Developing human resource potential, increasing equality of opportunity for men and women, supporting social protection programs to increase the access to health, education, pension programs and jobs for the poor, as well as improving prevention and treatment of major chronic illnesses — HIV/AIDS, tuberculosis and malaria — are among the areas of focus for donors in collaboration with Pacific island countries.

It is critical that the human resource potential of Pacific island countries be realised by improving delivery of quality health and education services to underserved and vulnerable populations. Equal access of people at all levels to these services and opportunities is a very important step to reducing the levels of poverty that are emerging in many island nations.

What is of greater importance than the dollars and cents of donor funding is the need to establish or improve the systems and institutional “infrastructure” that provide quality, non-discriminatory services to all members of the public, with systems in place to ensure that funding is spent effectively. This involves participation by people at all levels of government, business and the community to achieve ownership of development planning, programs and reforms.

A healthy, educated population is one that has the skills, tools and energy to participate in and lead effective national development.

Critical issues in the health sector include the need for:

- An effectively implemented national health strategy that is developed using “best practices.”
- Health or social insurance programs that are widely available to and easily accessible by the public to promote a healthy population.
- High-quality preventive health and medical treatment services that are easily accessible by the public, with a focus on the reduction of malnutrition and the prevention and treatment of HIV/AIDS, tuberculosis and malaria. The latter three have been identified as major obstacles to national development and progress, particularly in small islands, because of their impact on the working age population and drain on limited government financial resources.

Critical issues in the education sector include the need for:

- Government policies on education, including how both public and private resources are used, that support good quality education and training opportunities that promote economic development.
- Government monitoring of public and private school performance and student learning results, including providing feedback to schools and parents to support ongoing improvements in education. This includes the need for adequate oversight of private and non-government providers of a variety of early childhood development, training, and literacy programs.

- Equal access to education, particularly for communities, areas, or populations that are currently under-served. Funding is needed to support this and should be spent wisely at all levels of learning.

Critical issues relating to the equality of men and women include the need for:

- About the same number of boys and girls finishing primary school or enrolling at secondary school, and government policies, laws, and practices that encourage equality of males and females at all levels of education.
- Government policies that address pregnancy and childbirth care needs, as well as women's reproductive health needs, such as access to contraceptives and counseling services.
- Both government and non-government organizations and programs to promote the same opportunities for men and women in accessing health care and education, increase family planning services and delivery care for newborns, and ensure that adolescent fertility rates remain low.
- Few or no differences between men and women in opportunities to get jobs, receive equal pay for equal work, have ownership of property, and be treated equally in land tenure and inheritance practices.
- Non-government organizations and programs that actively promote equality and work to prevent increases in inequality between men and women.
- Equal protections under the law. These include the law giving men and women the same individual and family rights (e.g., in requesting a divorce, child custody, and obtaining individual identity cards or a passport); a society and government that does not accept violence against women and considers it a crime; women's participation in politics at the local and national levels that is similar to international standards; laws, policies, and regulations that give men and women equal status and protections that are effectively and consistently enforced; and the existence of organizations and programs that prevent domestic violence and promote gender equality.

Critical issues relating to the social protection and labor include the need for:

- Cost-effective and focused social protection programs that provide support to poor and vulnerable groups, and which are monitored and evaluated.
- Social protection programs that increase the incomes of vulnerable groups as well as their access to health, education support and social insurance without undermining or preventing self-help.
- Government to make a commitment to meet international labor standards by ratifying international labor conventions and developing laws, policies and regulations, including policies that help reduce child labor and encourage children to stay in school.
- Government to develop regulations and policies to encourage job creation and employment while providing a safety net for vulnerable groups.
- Support from government for community-based initiatives, including encouragement of people participation in development and provision of funds at the community level.
- Pension and savings programs that allow people to save for retirement without encouraging people to stop working.

ADB has made a commitment to strengthen people's participation in development planning within the region. For example, in Samoa, ADB technical assistance in the mid-1990s supported

broad discussions in the country that led to the initial Samoan Statement of Development Strategy 1996-1998, with participatory processes incorporated into three subsequent “Statements” and managed by the Samoan Government; in the Marshall Islands in 2003-2004, ADB joined with the Government to bring together people from all walks of life to debate and plan ADB’s country strategy, which was subsequently adopted by the Government and ADB; in the Fiji Islands, a process that promoted people’s participation resulted in agreement on an Urban Policy Action Plan and broad government, business, and community support for a Pilot Urban Land Development Program for the Greater Suva Region; in Nauru, the Government of Australia and ADB helped the Government and people of Nauru to prepare their first National Sustainable Development Strategy in a highly participatory manner in 2005.

Two essential elements that run through this policy issue (“promoting people”) are government’s provision of accessible and quality services, and people’s participation in national development. Well-functioning systems that promote equal access to government services, and ensure that, for example, national budgets direct funding to identified development needs such as poverty reduction and services for vulnerable populations, provide a sound basis for national development.

Caring for the Environment

For countless generations in Pacific islands, the natural environment provided everything needed to sustain life — and Pacific islanders developed numerous systems for maintaining the viability of their local environments. Those traditional systems provided for what present day planners mean when they talk about “sustainable use of resources.” Taboos, for example, on fishing during spawning periods or intricate rituals required prior to the capture of turtles maintained an ecological balance on small islands with limited resources.

Although today large numbers of islanders still depend on their environment, modern systems of management have largely supplanted traditional methods of governance. In the process, environmental management has suffered. This has put tremendous pressure on fragile resources, negatively impacted the ability of populations to maintain a subsistence way of life, and caused environmental problems that hurt national development goals in tourism and local fisheries development.

With half to two-thirds of the population in many island nations now living in urban areas, problems of access to clean water and proper disposal of sewage and solid waste have also become critical problems in need of solutions. Outbreaks of disease — including cholera — as a result of poor waste management in some islands underlines the peril of poor or non-existent waste management practices.

Dredging is a classic example of the potential conflict of modern development with the environment. Dredging of sand and coral to produce aggregate is essential for construction work to build schools, offices, homes, hospitals and other needed developments for national progress. But dredging has often been conducted without serious regard for environmental impacts, causing damage to reefs and lagoons that impacts on subsistence livelihoods, fisheries and tourism potential.

In order to improve the quality of life for island populations as well as maintain the foundation for future development, the concept of “environmental sustainability” needs to be brought to the forefront of government policy making. Sustained economic growth — with the emphasis on the word “sustained” — simply cannot be achieved without consideration for the environment.

A recently produced ADB Pacific Region Environmental Strategy identified the critical environment-related problems facing the Pacific developing member countries. These include:

- Dwindling supply and quality of freshwater, and degradation of coastal and marine resources.
- Depletion of forests through logging, destruction of habitats for marine life from over fishing, loss of soil from development work and sediment buildup in lagoons as a result of construction or dredging.
- Pollution associated with rapid urbanization and crowded living conditions in cities and towns.
- The reduction or complete loss of marine species or agriculture/forest resources that means the biodiversity of Pacific environments is declining or under serious pressure.
- Lack of access to sustainable and affordable energy sources, particularly with the increasing pressure of rising costs of imported fuel.

- Climate change and the consequent sea level rise that is expected in this century.
- Weak environmental governance that results in an inability of government monitoring agencies to mitigate potential development impacts on fragile environments.

Critical issues for policies and institutions for environmental sustainability include the need for:

- Putting in place regulations and policies relating to water resource management, solid waste and sewage management, biodiversity conservation (forests and marine resources), and environmental assessment, which will address sustainable use of scarce natural resources and minimize pollution.
- Governments to ensure that they are not providing subsidies to activities that could harm the environment.
- Environmental impact assessments (EIAs) to be conducted according to law prior to implementation of development projects that may significantly affect the environment, with the recommendations presented in the environmental management plan being acted upon by appropriate agencies.
- Government to consult with the public on environmental issues, and to ensure that the public has access to information about important environmental issues and developments.
- Policies in sectors such as agriculture, fisheries, and tourism to address environmental concerns, with a functioning system of effective coordination and communication among ministries and government agencies.

A national water resource management strategy in Kiribati is an example of proactive and successful responses to critical domestic environmental concerns. In a number of countries, including Palau and the Cook Islands, government agencies have worked closely with local communities to establish effective “marine protected areas” where fishing is banned during certain times of the year to maintain the supply of marine life for both subsistence and local commercial fishermen.

In general environmental challenges are increasing in scale and scope throughout the region. A major obstacle in many countries is getting government agencies to integrate environmental concerns into their planning processes.

Countries in the region need to develop and expand systems for incorporating environmental issues into the development planning process so that future development and economic growth become sustainable. The sustainability of fragile environments in the Pacific is under challenge because of the escalating problems of climate variability and climate change. The aim is to develop the systems and processes in Pacific developing member countries that ensure the environment is not treated as an after thought.

Supporting Good Governance

“Good governance” is essential to promoting economic growth and effectively tackling challenges in the Pacific region that include poverty, youth unemployment, life-style diseases and HIV/AIDS.

Recent country governance assessments by the Asian Development Bank (ADB) conducted in the Fiji Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Tonga, and Vanuatu identified key factors in the quality of governance in the Pacific as: the quality of leadership; levels of corruption, accountability, transparency and predictability in each nation; and public ownership of and participation in reform planning and programs.

In the Pacific islands, modern and traditional governance systems tend to coexist uneasily because of differing values. A key challenge is for leaders to pursue the public good and merit-based approaches in small societies where traditional family and clan obligations are very important. Because of financial expectations of constituents and family members, leaders in Pacific islands may be more interested in distributing resources to constituents than in generating long-term national growth. In some Pacific developing member countries, these factors can combine to create governance systems that tolerate corruption and encourage political instability. Corruption and political instability undermine all efforts at development progress and economic growth.

Leaders would have greater incentives for good governance if they were more effectively held accountable for national development. But in many island nations, community-based, non-government organization (NGO) advocacy remains in its infancy; systems to monitor and enforce the accountability of leaders and public servants are not well-developed; ways for citizens to participate in the legislative process are largely lacking; information on proposed legislation is rarely available in advance; and draft bills are not often published prior to their consideration in parliaments.

Two positive developments in most Pacific countries include court systems that are widely viewed as independent, competent and free of corruption; and a growing number of NGOs that are playing a larger role in most islands in service delivery and advocacy on issues ranging from health and environment to women’s needs and good governance.

In measuring success in achieving “good governance”, two key aspects are: 1) transparency, accountability, and measures to tackle corruption in the public sector; and 2) the quality of public administration. Samoa and the Cook Islands have the best results in these areas according to ADB’s Country Performance Assessments.

To bring about a high-degree of transparency and accountability in government, there is a need for a combination of monitoring and enforcement, public access to government documents and information about decisions, an independent media, and ethical standards for leaders and public servants that are followed.

To develop quality public administration requires coordination among government departments, monitoring of public service operations to promote efficiency, hiring and promotion based on qualification and performance, and a sustainable government payroll that does not undermine the capacity to meet other costs of service delivery or the private sector's ability to hire qualified employees.

Critical issues in transparency, accountability and fighting corruption in the public sector include the need for:

- A strong commitment to public service accountability that is reinforced by audits, inspections and negative publicity for performance failures or actions that do not promote responsibility in decision making.
- A judiciary that is impartial and independent of other branches of government.
- Authorities — such as public auditors, independent prosecutors, and attorneys general — to monitor and take action against corruption by enforcing penalties in an open and consistent manner.
- Governments to clearly communicate decisions to the public, and the reasons for and implications of those decisions.
- Government documents to be publicly available at no or minimal cost in order that people outside of the top government circles can gain access to information about their government.
- Media, including both government-owned and private, that are independent of government influence, and able to responsibly report on, monitor and criticize government activities and performance.
- Clearly defined conflict of interest and ethics laws, regulations, and rules for leaders and public servants that are followed and enforced. This includes the requirement that top Government officials disclose their income and assets, and can be penalized for corrupt behavior.

Critical issues in the quality of public administration include the need for:

- Good coordination among ministries and agencies to ensure that policies are applied consistently.
- Public service operations to be monitored and reviewed frequently to promote and improve efficiency.
- Ministries and public enterprises to be structured functionally to reduce duplication, inefficiency and waste of resources.
- Hiring and promotion of government workers that is based on merit (education, skills and experience) and performance.
- A manageable and sustainable government payroll that does not crowd out necessary funding for important public services such as education and health.
- Market-driven pay and benefit levels so that both public and private sectors can attract employees with the necessary skills and experience. This is of particular importance in many of the smaller island nations where the government dominates the employment sector, with salaries and benefits far beyond those in the private sector.
- Flexibility in paying more attractive wages for positions that are harder to fill, such as teachers for rural schools or technical specialists.

Implementing these and other “good governance” measures establishes a foundation for national development that ensures government funding is spent appropriately and effectively, promotes performance and efficiency in government services by hiring skilled and qualified people, and establishes necessary systems for government openness, monitoring and enforcement.

Greater interaction and cooperation among governments, communities, and the private sector will promote better policies and more effective implementation. Because government officials may not always have the incentive to act in the public’s interest, mechanisms (as described above) must be in place to reduce corruption and increase transparency.

While terms such as “good governance” and “transparency” are used frequently in discussions about governments, development programs and projects in the region, they are often not well understood, particularly at the community level. These English language phrases are often used by leaders and government officials when speaking in their own languages without explanation or translation.

In Kiribati, for example, the term “transparency” has been translated as “clean glass or window” — you are transparent if people can see through your window and into your house; if you have pulled the curtains across the window, people cannot see what you are doing and you are not transparent.

Encouraging Economic Growth and Keeping Prices Stable

Taken as a whole, the Pacific is not performing as well as other developing regions of the world both in terms of economic growth and in deepening integration with the global economy. While four of the Asian Development Bank's Pacific developing member countries have achieved per capita economic growth at or near three percent since 1995, six have suffered a decline in per capita income over the same period. Although there have been some notable success stories, in general conditions in many island nations have not allowed the private sector to lead growth. As a result, there are few new jobs to meet the needs of growing populations.

Although Pacific island nations face many natural obstacles to economic growth — including isolation from world markets; small, widely-scattered islands and populations; and a limited and fragile natural resource base — Asian Development Bank (ADB) governance and private sector assessments show that these problems are worsened by policies that are not friendly to business and that focus more on distributing resources than on promoting economic growth.

Following a series of crises in the region in the mid- to late-1990s, Pacific developing member country governments are now more aware of the importance of macroeconomic and fiscal soundness, especially as the public sector comprises a large proportion of most of their economies. Many, though not all, have made progress in achieving macroeconomic stability in recent years.

The development strategies in most Pacific countries now emphasize economic growth, equal delivery of services and benefits to all sectors of their populations, and the importance of the private sector. In Samoa, the focus has been on broadening the benefits of reform and economic growth. Strengthening the rule of law, peace, and security are priorities for Papua New Guinea, Solomon Islands and Timor-Leste.

Maintaining a sound fiscal policy has proven to be a difficult challenge in many countries. Pacific island nations have few options for funding their national budgets and development programs, and most do not have significant or growing economies. In many of the smaller island nations, government is the biggest sector of the local economy; for many Governments, foreign aid accounts for a large share of their financial resources, and this can distort incentives and decision making.

Pacific island nations have tended to rely on outside funding sources — including foreign aid, remittances, license fees paid for use of natural resources such as fishing and logging, trust fund revenues, and marketing sovereignty such as sales of passports, ship and corporate registries.

As in other areas of government management, systems and institutional “infrastructure” are critical. This is because consistent and transparent policies and rules — when established from an understanding of specific economic situations in each island, followed, and effectively implemented — will help to improve opportunities for economic growth.

Three areas are key to Governments developing sustainable financial management processes:

1. Macroeconomic management (exchange rate and money supply policies that maintain price stability, and care to avoid crowding out the private sector).

2. Fiscal policy (government policies on taxation, debt, and government spending that are rational, consistent and support sustainable growth).

3. Debt policy (including the ability to pay debts, publication of accurate and complete statistics, regular reporting by the Government to the public on Government debt, and clearly stated policies on Government borrowing).

A clear example of how international events can negatively impact the small and fragile economies of most Pacific island nations is the large and sustained increase in world market prices for fuel beginning in late 2004. The fuel price hikes, and the effect this has had on domestic food, housing, and utility costs, have prompted many Governments to become more engaged in fuel price monitoring, and to look at options to address the economic problems that have resulted, including sub-regional and regional purchasing arrangements to reduce costs, as well as promotion of coconut oil fuel that reduces dependence on foreign imports.

Critical issues in macroeconomic management include the need for:

- Economic policies, supported both by government and business leaders, that encourage balanced budgeting and international trade.
- Policies that soften or reduce economic shocks caused by natural disasters and other domestic or international events.
- Exchange rate and money supply policies that maintain price stability.
- Government to encourage private sector investment by not using public money on projects and infrastructure that can be better financed and/or operated by private companies.

Critical issues in fiscal policy include the need for:

- Government policies on taxation, debt and Government spending that support growth in the national economy.
- Management of Government spending and tax income that maintains a stable level of public debt, which should remain small in comparison with the size of the economy.
- Government to be able to adjust its spending and revenue in response to natural disasters and other economic shocks without sacrificing public goods provision in terms of quality and quantity.
- Public goods provision in support of economic growth in the medium-term (three-to-five) years.

Critical issues in debt policy include the need for:

- Government to be able to meet its debt payments even in the face of all but the worst economic shocks.
- Government to borrow under terms that support long-term debt sustainability.
- Well-run management of debt in coordination with broader economic policies, but implemented separately from policies on money supply and foreign exchange rates.
- Regular publication of accurate statistics and analyses on debt by competent economists.
- Government to publicize (and perhaps incorporate into law) how it intends to manage its debt. This includes an annual strategy on the Government's debt situation, based on the risks

to the country, cost of servicing the debt payments, and specific constraints that the Government faces.

- Clearly stated policies on public borrowing, and sharing information among Government agencies that obtain loans.

When put into action, these “best practice” guidelines and policies provide the foundation for stable government operations that encourage growth. A theme running through these policy guidelines is the need for Government to communicate with the public about financial, debt and development policies so that the public is well-informed on policy decisions and directions, and therefore has the ability to play an active role in helping the Government to shape effective policies that promote economic growth and price stability.

Providing Quality Services with Public Funds

What do budgets, audits, tax policies and administration, and government spending have to do with providing quality services and reducing poverty? The answer is almost everything.

Quality government budgeting and financial management, efficient tax collection and administration, government spending that is fair and targeted to reduce poverty, and audits and evaluations that measure performance in meeting government priorities, are essential elements for Government to provide quality services that address the needs of vulnerable populations.

Budgets linked to poverty reduction strategies, effective financial management systems, timely audits, clear tax policies and efficient tax administration are all important aspects of providing quality services with public money. In many countries in the region, the goal of reducing poverty through job-creation and social programs for at-risk populations has become an ongoing part of the government planning and budgeting process.

In the Cook Islands, which has the highest rating in “efficiency of revenue mobilization” among 10 Pacific nations reviewed by ADB, major reforms have put in place a broadly-based, modern tax system. The resulting system of improved revenue management has made an important contribution to strengthening the country’s financial position. Tax collection has significantly improved since fiscal reforms were implemented that simplified and increased the efficiency of tax laws.

In Samoa, which ranks at the top in “quality of budgetary and financial management” in the ADB assessment, the annual budget is explicitly linked to policy priorities identified in the Strategies for the Development of Samoa and associated sector plans. The use of performance- (or “output”) based budgeting is also a reason that Samoa’s financial management system is generally regarded as effective. There is clear accountability for budget appropriations to individual government departments.

Samoa and the Cook Islands also ranked the highest in “equity of public resource use,” a criteria that looks at how government revenue is spent. In the Cook Islands, for example, government action supports disadvantaged populations. Health and education funding provides broad coverage of basic services, and the outer islands receive considerable attention in annual budgets and public policy. In 2005-2006, the Government spent 40 percent more per capita on the outer islands than on the main island of Rarotonga. In addition, another pro-poor policy is supported by the Welfare Act, which provides an old age pension, destitute persons allowance, a lifeline power subsidy, and a welfare system that covers children and senior citizens.

Critical issues in the quality of budgetary and financial management include the need for:

- Government policy priorities that are aimed at reducing poverty to be linked to the national budget.
- Consultations between ministries and parliaments that are a central part of budget preparation.

- All expenditures to be classified in the budget in accordance with international standards, with ongoing monitoring of spending throughout the year using reliable computer-based systems.
- The budget to be closely followed, with less than a 10 percent change from budget in broad categories (i.e., health and education).
- Government spending reports and supporting documents to be professionally and comprehensively audited and submitted to parliament on a timely basis, and audit findings and recommendations to be acted on.
- Budget preparation to adhere to a fixed calendar.
- Budget to include multi-year expenditure projections to encourage predictability of available funds.
- Adjustments to the budget, off-budget expenditures, and payment arrears to be minimal if not absent.

Critical issues in the efficiency of revenue mobilization include the need for:

- Government revenues to be generated from taxes that, as far as possible, do not get in the way of economic activity.
- Import taxes that do not discourage the availability of foreign products, and are relatively uniform to achieve administrative simplicity and prevent problems in the interpretation of rates.
- Export rebates for local companies that encourage the export of local products without causing market distortions.
- A law that sets one tax rate for corporations that is equal or close to the maximum rate collected against personal income.
- A tax base that is broad, easily understood, and does not have arbitrary tax exemptions.
- Taxes that are administered effectively, based on well-established rules, and collected at low cost.
- A program that helps tax payers to know more about tax issues, and an effective tax appeal mechanism to be in operation.

Critical issues in the equity of public resource use include the need for:

- Government expenditures to be consistent with the country's poverty reduction strategy.
- People who are experiencing hardship and poverty to be clearly identified, and a poverty reduction strategy that helps at-risk groups to be applied.
- A system for tracking government spending by program, category and region, and evaluation of major government programs, with progress on poverty alleviation specifically assessed.
- Assessment of poverty reduction effects of past government programs and policies to determine the focus of future spending allocations in national budgets.
- Taxes that do not harm poor and other vulnerable groups.
- Government revenue generation that ensures national poverty reduction priorities are adequately funded.

Linking accountability measures, poverty reduction policies and tax system reform with the national budgeting process makes it possible to ensure that the needs of vulnerable populations are adequately addressed. This combination of actions can assist Governments to deliver quality services with public funds.

Encouraging International Trade

International trade — both imports of foreign goods and exports of locally-made products — is driven by the private sector but needs the facilitation and support of the Government. This is particularly so in today's global economy where even the smallest, most isolated Pacific islands are seeing their economies increasingly integrated into the world system of trade. Developing trade can lead to expansion of the private sector, which increases investment and job opportunities, and leads to more public revenues. This is why trade and private sector development are an essential part of reducing poverty in the region.

As Pacific markets are small, expansion to other markets through exports can foster economic growth. Openness to trade with other countries also brings more choices of goods that Pacific islanders can obtain at lower cost, benefiting consumers. Similarly, local businesses benefit in sourcing their inputs.

But much needs to be done by Governments in the region to increase opportunities for trade and to improve laws, policies, and administration that impact on trade.

Governments play a key role in fostering both domestic and foreign business development. Laws and policies that reduce restrictions on trade (both imports and exports), keep import duties low, allow local and foreign products to compete freely, and maintain consistency in tariffs, play an important role in improving the environment for trade in the Pacific. The other extremely important area for encouraging trade is customs operations, which in some countries remain a significant bottleneck to private sector trade and development.

With Pacific countries moving to join regional and international agreements on trade, the pressure to reform government laws, policies, and administrative systems relating to trade will increase. Eleven countries have to date ratified the Pacific Agreement on Closer Economic Relations (PACER). This agreement provides a framework for closer economic cooperation among Pacific Islands Forum member nations, and sets the stage for free trade in the region through agreements such as the Pacific Island Countries Trade Agreement (PICTA), which to date ten countries have ratified. Pacific island nations are also negotiating an Economic Partnership Agreement with the European Union, which aims at reducing barriers to trade and promoting development. Several Forum nations — the Fiji Islands, Papua New Guinea, and Solomon Islands — are also members of the World Trade Organization, which similarly requires elimination of trade barriers.

Countries in the region that rank high on trade policy in ADB's Country Performance Assessment are countries where a) import tax rates are relatively low, the import tax system is clear, and there are no significant restrictions on imports or exports; b) there are no export taxes; c) local producers or state-owned enterprises (SOEs) are not protected by special taxes or exemptions; and d) customs operations are professionally run with minimal corruption, and use up-to-date technology that speeds the processing of imports.

The Federated States of Micronesia (FSM) received the top ranking in trade out of 10 Pacific countries reviewed by ADB. In the FSM, the average import tariff is low at five percent. In

addition, imports and exports are not restricted, and there are no other major barriers to trade in goods or services. The FSM customs department has dramatically reduced the time to clear imports by modernizing its operations and using electronic customs declarations. However, as restrictions on foreign investment exist which shrink the group of potential traders and limit growth and innovation that competition generates, the benefits of such a trade-friendly environment will be limited.

In the Cook Islands, which together with Samoa was ranked second by ADB in trade policy, changes to the tax system were introduced so that the Cook Islands is less dependent on import taxes, relying now on a system that emphasizes collection from a value added tax (or VAT) and an income tax that is progressive (i.e., the higher the income, the higher the marginal rate of tax). In addition, the customs department has a well-designed tax administration system that relies heavily on current technology. In Samoa, tax reform and improvements in the operation of customs and tax departments through training of staff and introduction of computer-based systems has reduced the opportunity for corruption and improved customs administration. A policy change now allows approved importers to input data on imports directly into the computerized information system at the customs department, cutting time to clear imports and minimizing irregularities.

A familiar complaint of local importers in many island countries is the requirement of submitting hand-written customs declarations (when the larger companies have, for years, been using computer-generated lists of imported goods) and the long time it usually takes to clear imported goods through the Government's customs, tax, and quarantine bureaucracy.

Critical issues in trade restrictiveness include the need for:

- Average import taxes (tariffs) to be below seven percent, with the maximum set at 15 percent, and non-tax barriers to be either minimal or absent.
- Elimination of taxes on imported goods that favor locally-made products to the detriment of local consumers.
- Import taxes that are set and do not change except through negotiated trade agreements.

Critical issues in customs and trade facilitation include the need for:

- A customs department that is known for its honesty and professionalism.
- Extensive use of risk management techniques.
- Computerized systems to replace the role of paper in clearing exports and paying taxes, and physical examination of imports to be rare.
- Rules that are simple, reasonable, and publicly known and understood.
- Appeals against decisions of the custom department to be resolved quickly, with duties, taxes, and refunds settled promptly.

A trade-friendly environment is not enough, however. Governments must change the way they support both local and foreign entrepreneurship. They should reconsider their roles in their economies, increase their efficiency, and avoid subsidies to 'priority sectors' and other actions that distort markets. More importantly, they should encourage competition and support an environment that is conducive to private sector development. This requires a long-term change in

attitudes and expectations of Governments, the development of new skills, and periods of trial and error.

Use of these “best practice” guidelines will assist Governments to encourage private sector trade and growth, which are essential to developing island economies and reducing poverty in the Pacific.

Helping Business to Help People

The fact that business is good for people, that business creates jobs, products, and services is taken for granted in most of the world, but not it seems in the Pacific. So who gains from business? The answer lies in the environment for business. Make this environment competitive and all can gain. Place undue restrictions on the environment for business and it is likely that only the controllers stand to benefit.

Pacific island nations face significant natural barriers to developing their private sectors. Domestic markets are small and far from major world markets. Also, transportation is costly and often unreliable. Yet as Asian Development Bank's private sector assessments show, these problems are made worse by government policies and institutions that thwart business dynamism.

Government policies that lower the cost of doing business and encourage business activity must be in place to unleash the private sector. Just as important for encouraging competition and allowing markets to run smoothly is the enforcement of a legal and regulatory framework that protects property rights and ensures the smooth functioning of contracts and similar agreements.

In the Pacific, employment in government or public enterprises is a major factor in the economy. Unfortunately, as Governments are usually ill-suited to run businesses, public enterprises more often than not provide poor services. Likewise, they often require substantial government subsidies that, in effect, are a burden to tax payers and prevent scarce resources from being invested elsewhere, such as in education and health.

Broad-based, private sector-led growth is the only sustainable path to economic growth and poverty reduction. Despite many current obstacles to private sector development in Pacific countries, the private sector can respond to new opportunities for growth in a more favorable environment.

Among the causes of the unfavorable business environment in the Pacific are the far-reaching role of Governments in the economy, legal and administrative barriers that are costly or cause delay in business operations, weak property rights for land and moveable property, poorly functioning financial markets, and costly, poor quality utility services.

These are big challenges that will not be overcome quickly. The complex issues of land tenure, culture, control of resources, and quality of governance need to be addressed head on in an honest and open manner through discussions among stakeholders (i.e., government, business, and the wider community). The private sector in particular must be closely engaged in policy discussions and decisions. It is a two-way street. Governments must understand what is needed and eliminate barriers to business development. The private sector, on the other hand, must not expect special preference.

Critical issues in property rights and rule-based governance include the need for:

- Ownership and use rights for all forms of government, private, and common property to be clear, easily understood and protected by laws and practices.

- Property registries that are current and non-corrupt, as well as systems that allow contracts to be routinely enforced.
- Current and updated rules affecting businesses and individuals to be public knowledge and determined through transparent political or administrative processes.
- Application of laws and regulations to be impartial and predictable.
- Businesses and individuals to be able to pursue small claims at low cost, and bring claims against the Government for such things as nonpayment of goods and services without fear of retaliation.
- A police force that protects people and their property from crime and violence along with the reporting and investigation of serious crimes.

Critical issues surrounding the business regulatory environment include the need for:

- Administrative requirements of investment licensing to be minimal if needed at all.
- Rules that allow businesses to start up or shut down with ease.
- Rules that ensure competition among businesses, and allow government departments and agencies freedom to purchase goods and services from any source.
- Rules that govern industry licensing, permits and inspections in existing businesses to be simple and not to impose a heavy burden on these firms.
- Laws and regulations affecting the private sector to support free and competitive markets.
- Properly enforced laws and incentive structures within corporations that support disclosure and the protection of shareholder rights.
- Employment laws that allow businesses to hire and fire workers at low cost.
- Ensuring that common labor issues such as wage bargaining, unemployment benefits, employment protection, and labor taxes do not undermine business activity.
- Laws and regulations to produce labor and land markets that are free and competitive.
- Quick, simple and affordable registration of property.

Critical issues relating to the financial sector include the need for:

- Banks that are easily able to recover from shocks, which experience a low percentage of non-performing loans, and have low levels of capital at risk.
- A financial sector that follows “best practice” as defined by the Basel Core Principles.
- Banks and other financial organizations that are well-supervised and practice sound risk management.
- A financial sector that is the right size for the market in the islands.
- Robust capital markets, a high proportion of private sector credit in relation to gross domestic product (GDP), and very efficient micro-financing.
- Low interest rate spreads (i.e., a small difference between loan and deposit rates), to demonstrate the efficiency of the financial market.
- Payment, clearance and credit reporting systems in financial services to follow international “best practice.”
- Citizens to access financial services without having to resort to informal networks, rules affecting the financial sector to encourage access to financial services, and small and medium businesses to have sufficient access to financial services.

An effective institutional, legal and regulatory environment is an essential part of supporting an environment that will help the private sector to grow.

Glossary of terms

Accountability in government: Government officials and leaders who are answerable to others, as well as willing and able to explain their actions and decisions to the parliament and the public.

Best Practice: Methods and systems that Governments, private sectors, communities, and donors have agreed as producing the best results in a particular area. For example, “best practice” in governance involves eliminating corruption in the public sector and ensuring that information about government budgets and decision-making processes is open and available to the public — because corruption and a lack of openness in government undermines efforts to improve the delivery of essential health and social services to populations that are under-served and at risk, and also hurts private sector development, which is critical to economic growth and improving economic opportunities for people, particularly the poor.

Corruption: Dishonest use of power for personal gain.

Effective systems: A set of procedures or methods, including the necessary trained employees, for achieving identified goals and objectives within an organization.

Governance: The actions and functions of government.

Institutions: Rules and norms that guide human interaction (e.g., laws, regulations, customs, and traditions).

Institutional infrastructure: The rules and policies, coupled with training of employees, that guide the work of organizations.

Macroeconomic: The economy viewed as a whole and in terms of all the factors that effect its overall performance — i.e., the “big picture” of the economy.

Process: A series of actions directed toward accomplishing a particular aim or goal.

Public participation: When members of the public — individual citizens or organizations such as churches and NGO advocacy groups — take part in an activity, such as providing feedback on the implications of proposed government policy, projects or legislation.

Stakeholders: People (government, business, community, church, non-government organizations, etc.) who have an interest in a particular problem or policy. For example, stakeholders in a village-level fishing project could include the village council, fishermen and women, the Ministry of Fisheries, businesses involved in marketing fish, and non-government organizations active in fisheries or sustainable development.

Transparency in government: Government that openly provides and shares information with the public about its actions and decisions.