

# Understanding the role of Capacity in the Pacific




Presentation to Pacific Leadership Group

14 September 2009



# Outline

The presentation covers the following points:

- Background on the Pacific.
    - People, culture and government.
  - Pacific capacity issues.
    - Challenges to change.
  - Case Analysis: 'Energy for Development'.
    - Current experience and opportunities.
  - What is the role of donors?
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# Recent Economic Growth

<b>Country</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
The Pacific	2.6	2.6	3.2
The Caribbean	6.7	8.8	5.5
Sub-Saharan Africa	5.8	5.7	6.1

# Economic Basics 1995-2004

<b>Country</b>	<b>GDP growth</b>	<b>GDP per capita</b>
Fiji	2.6	1.6
Kiribati	4.1	2.3
PNG	0.5	-2.9
Samoa	4.1	3.1
Vanuatu	1.0	-1.6

# State Effectiveness


Country	HDI	Corruption	Govern't
Fiji	0.792 (92 <sup>nd</sup> )	na	52.6
Kiribati	0.515	3.3 (84 <sup>th</sup> )	35.5
Palau	0.861	na	31.8
PNG	0.530 (145 <sup>th</sup> )	2.0 (162 <sup>nd</sup> )	23.2
Samoa	0.785 (77 <sup>th</sup> )	4.5 (57 <sup>th</sup> )	57.8
Vanuatu	0.674 (120 <sup>th</sup> )	3.1 (98 <sup>th</sup> )	40.3

# Costs of Doing Business

Country	Register Business	Enforcing Contracts	Taxes
FSM	16	965	21
Fiji	46	397	33
Kiribati	21	660	7
Samoa	9	455	37
Vanuatu	39	430	31
New Zealand	1	216	8



# Social Measures of Growth

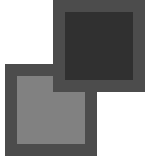
- ADB estimates rising problem of poverty.
  - Poor availability of data makes measuring progress on MDGs difficult.
  - Gender equality progress is weak.
  - Several states will not achieve most MDGs.
  - Funding and aid are not the issue but state implementation.
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# The Approach of economic theory

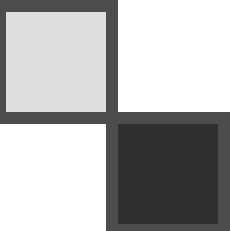
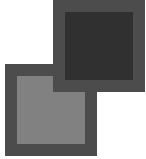
- Previous and current approaches to development thought have not yielded benefits for many states.
- Theory has emphasized that a developing nations is missing key ingredient for growth.

## Conventional factors

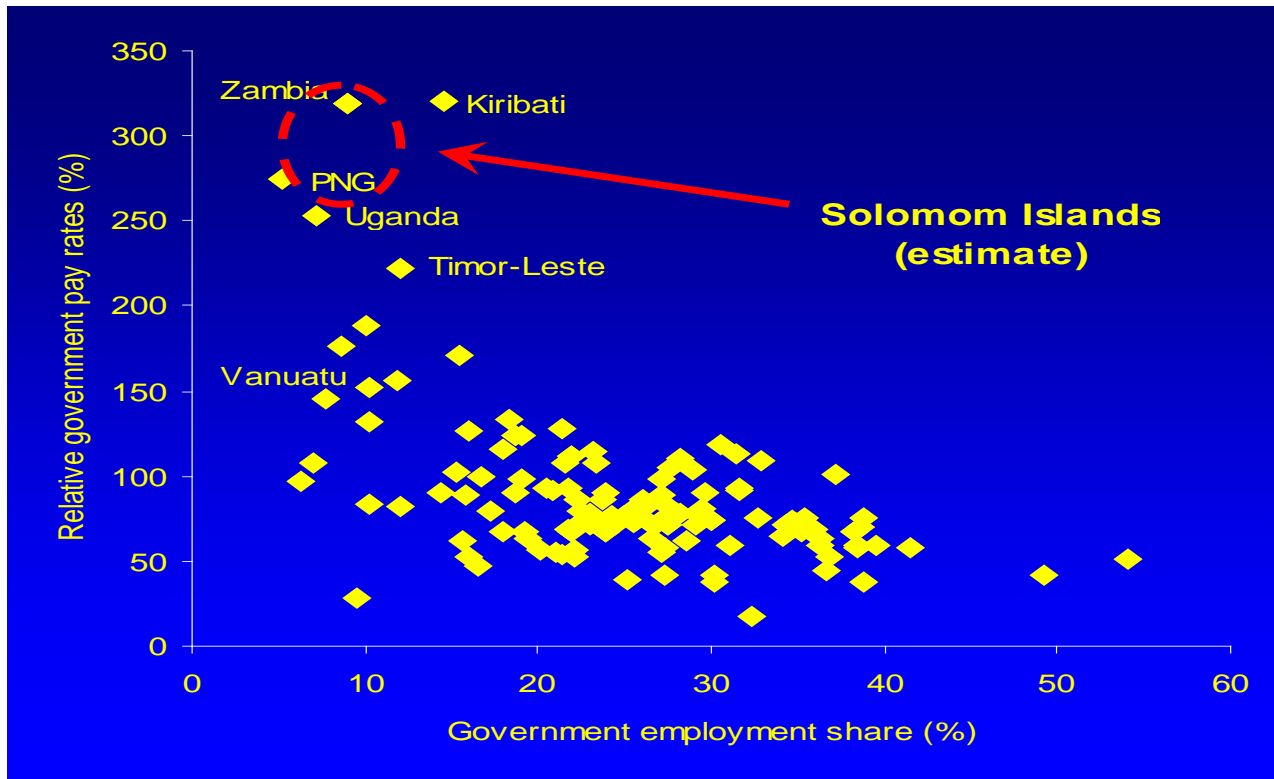
- Population - growth and health;
  - Resource endowment;
  - Technology; and,
  - Human and Physical Capital (quantity and quality).
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# Problems?

- Advice and reforms have been tried but appear unsuccessful.
  - Resources continue to be poorly allocated.
  - Implementation appears to be the problem.
    - Statements are common – Forum leaders and Finance Ministers.
  - Mismanagement/corruption in the bureaucracy and government is common.
    - In some cases the central state has completely broken down – Solomon Islands.
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# Government pay rates



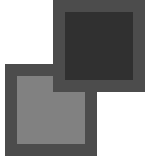


# The Pacific Reform Experience

- Long line of international reports recommending action - main problem is commitment to implementation and support from donor countries during the transition period.
- Internal Demand for Reform?
  - Existing customs and practice, government regulation and inefficient public sectors have reduced initiative and opportunities for private sector investment.
- The alternative?
  - Region wide reform or
  - Building on local development.




# The weak growth and poor reform outcomes in Fiji

- Economic growth has been weak throughout the 1990s despite a skilled population and several phases of structural reform.
  - Political instability over two decades.
  - The State plays a key role in growth and development.
    - Government enterprises, joint ventures and the provision of subsidies and incentives to local producers.
    - Mismanagement/corruption in the bureaucracy is common.
  - Reforms have been tried before but policy development and implementation is not transparent and accountability is low.
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# Is the Pacific different?

Geographical and historical factors at work

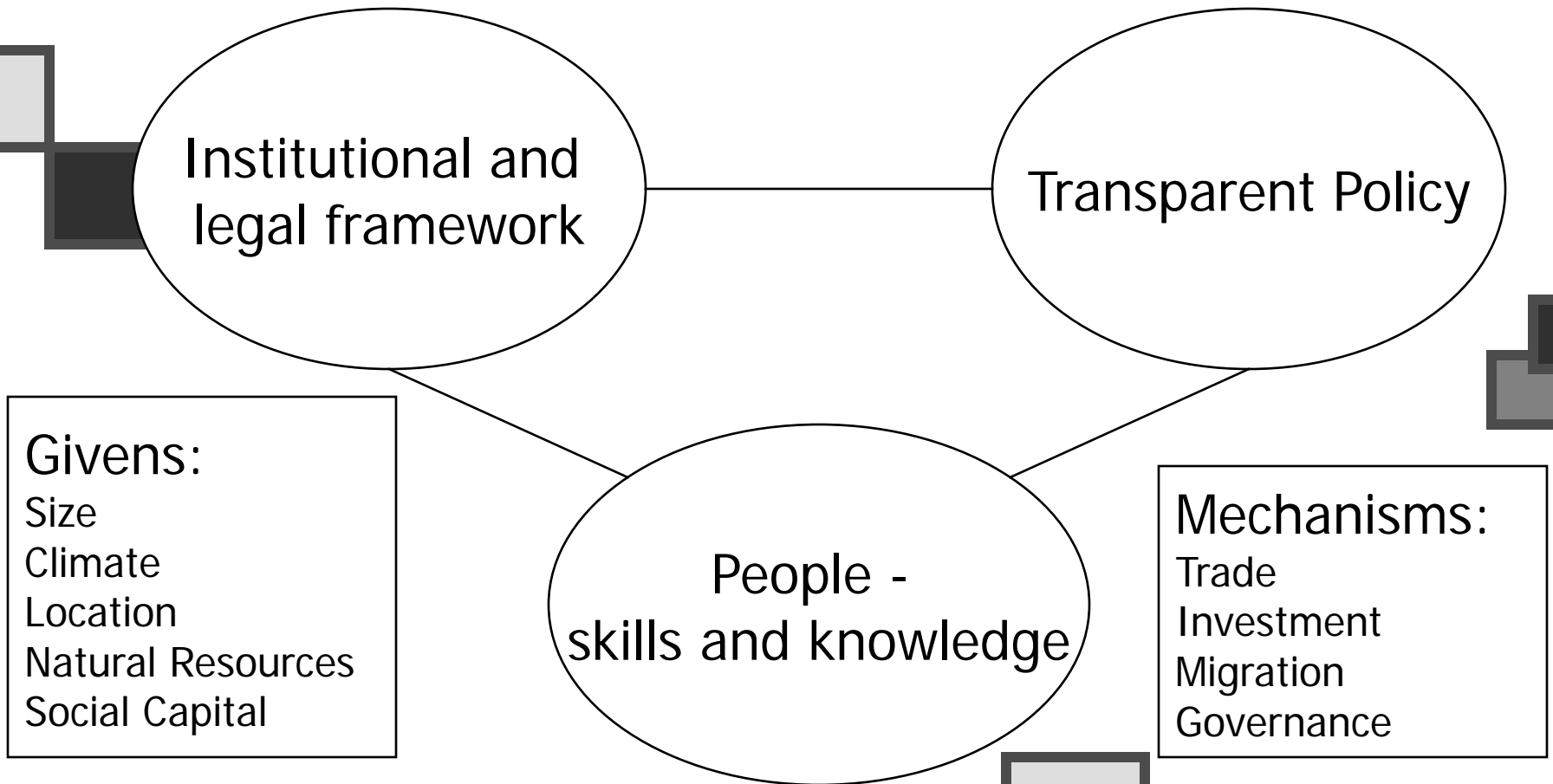
- Remoteness and isolation.
    - Urban and remote solutions.
  - Susceptibility to natural disasters.
    - Durability and reliability of infrastructure important.
  - Small market size.
  - Easily affected by world markets (exports and imports).
  - Limited physical, technological and financial sector infrastructure.
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# Pressure for Reform is Increasing

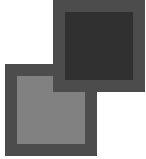
- Growth is not high enough to support increasing populations in rural/urban areas.
    - Growing number of poor and unemployed have the potential to create social and security problems. For example, rising crime and lawlessness in PNG, Fiji and Solomon Islands.
  - Prepared or not - increased integration of national economies to global development is happening.
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# Building the capacity for growth






# Is energy important?

- Energy not included as an MDG.
    - But poor are heavily affected by oil price changes.
  - Pacific is powered by biomass and oil.
    - Electricity access is variable.
  - Region is a net oil importer – only PNG and Timor-Leste export oil.
    - Vulnerable to high oil prices.
  - Oil prices rise with distance and reliability is less.
  - Reliable energy is important for improved living standards and education.
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# Lesson: Problems of Renewable Energy

- Expect renewable energy to be successful in remote pacific and high fuel prices.
    - Less than 1% of electricity in Kiribati.
  - RE shows the weakness of policy.
  - Poor choices in technology.
  - Low levels of training and support.
  - Limited understanding of best delivery to communities.
    - Government, community, or private sector?
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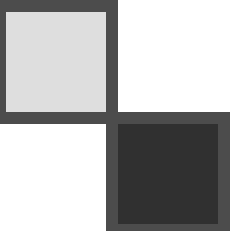
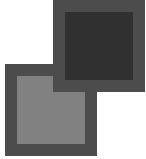


# Why is energy policy difficult?

- Capacity.
- Commitment.
- Institutional and organisational support.
  - Lack of policy strength in energy agencies.
- Donor directions different from national preferences.
- 'Star Trek' solutions popular and not the practical.
  - Energy efficiency can provide great gains at a small price.
  - Regional procurement of oil.
- Need to get past the pilot stage.




# Are Pacific Governments less able?

- Economic challenges of reform have been faced in Caribbean nations and Mauritius
    - industry reform for sugar (Trinidad and Tobago) and labour market reform for industry development (Mauritius).
  - Maybe analysis of the World Bank and others has been focused on successful lessons and less on the more difficult issues.
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# Donors in the Pacific today

- US\$75 billion in aid given to the region since the 1970s.
  - Perception of Melanesia as an 'arc of instability.'
  - Aid increasingly related to our security concerns.
  - Developed states and Pacific Forum Secretariat views strongly reflects World Bank and Asian Development Bank consensus view of development.
    - Emphasis on the state and the importance of top-down approaches.
  - Long-term view of Pacific dependency on aid.
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# Factors shaping donor views of the Pacific

- Policy reform focus on reform, deregulation and privatisation.
    - Market reform and privatisation have served the region poorly – Tonga power.
  - Aid focused on providing technical solutions to policy and institutional problems.
    - Preference for 'packaged' programs and 'off the shelf' technology.
  - Aid is too short-term.
    - Three to five years are too short.
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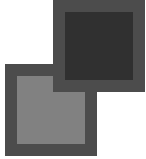
# Building Capacity (for who?)

Challenges for development:

- It appears that it is not enough to build government capacity but to develop people.
  - It appears that we can get better results when working directly with those that have the most interest in development.
  - Foreigners need to understand more about local people, institutions, and practices.
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# Conclusion

- Donors and PICs are part of the solution.
  - Policy responsibility is needed – who is in charge!
  - Better policy development and commitment to implementation is required.
    - National planning and local development need to be linked.
  - Improved institutions can improve policy development and analysis and support other reforms.
    - These are built on better data.
  - A better trained workforce are key inputs to growth.
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# Local Stability Equation

Benefits of living within a government system

are greater than

Costs of living within a government system

