



**PACIFIC ISLANDS FORUM SECRETARIAT**

PIFS(04)FEMR.05

**FORUM ECONOMIC MINISTERS MEETING**

Rotorua, New Zealand

9-10 June 2004

**SESSION 1 PAPER**

***KEY ASPECTS OF PUBLIC SECTOR ECONOMIC GOVERNANCE***

The attached paper, prepared by Mr Peter Aitsi on behalf of the Transparency International Pacific Chapters, highlights issues requiring increased attention in public sector economic governance. For Ministerial discussion.

# **BRIEFING PAPER**

## *KEY ASPECTS OF PUBLIC SECTOR ECONOMIC GOVERNANCE*

[PIFS(04)FEMR.05]

### **Purpose**

The attached paper, for Ministerial discussion, highlights issues requiring increased attention in public sector economic governance.

### **Issues**

2. Transparency International has undertaken National Integrity System (NIS) country studies of the 14 Forum Island Countries (FICs) The NIS concept explains the interactive nature of the laws, institutions and practices in a country which, if working effectively, support accountability and good governance and as a consequence curb corruption. To achieve sound governance conditions institutions must first exist and, second, function with some level of effectiveness.

3. The common issues highlighted by the NIS Pacific country studies were:

- Abuse of ministerial and official travel, and unnecessary travel.
- Suspicion of ministerial nepotism in the awarding of contracts, appointments and other favours.
- Budget process distorted by "favoured" projects for example the "pitch & catch" phenomena in the Federated States of Micronesia (FSM) where legislators benefit from expenditure they authorise.

4. The reports identified particular sectors and activities as being more at risk of corruption than others: Police and Customs; Lands and titles administration; Forestry and fisheries; Ports; Health and Education; Retirement Funds; Tendering; Trade in tokens of sovereignty (passports); and Offshore Banking.

5. The surveys found citizens in Pacific Island Countries most often mentioned government ministers as being people who were at high risk of getting involved in corruption as they had the power to regulate and issue licenses as well as to influence appointments within the public service and the activities of Departments.

6. It is important to recognise that it is not only the outward theft of public funds that can be classified as corruption, but also the mismanagement and incompetence that results in poor judgement or management which leads to waste and loss of public funds and public assets.

7. Apart from the work of Transparency International (TI) there are numerous other efforts being made to improve economic governance and to create a region free of corruption, where all people can freely participate and share in economic prosperity.

8. In February 2003 the Asian Development Bank approved a technical assistance (TA) grant of US\$490,000 to help improve public sector governance in the Pacific by devising a regional strategy. The TA will also support national workshops to discuss the country governance assessments with emphasis on aspects of governance that are specific to the country and a governance improvement action plan. ADB has been carrying out country governance assessments (CGAs) in six Pacific developing countries to identify weaknesses and recommend improvement actions. The CGAs indicate deficiencies in several areas of public sector governance, government machinery, public service and expenditure, the legal system, and civil society participation. The work will culminate in a Pacific governance strategy as an important component in preparing a strategy and program for the Pacific for 2005-2008.

9. The FEMM Biennial Stocktake [PIFS(04)FEMR.06] sets out the status of implementation of the Forum Eight Principles of Accountability, which provide a basis for improved economic governance.

### **Recommendations**

10. It is recommended that Ministers:
- (a) note the work of Transparency International in conducting National Integrity System country reports for the Forum island countries.
  - (b) commit to increase efforts to fight against corruption and to improve public sector economic governance through action at the national level.

Pacific Islands Forum Secretariat, Suva  
24 May 2004



## **"Key Aspects of Public Sector Economic Governance"**

A paper by Peter John Aitsi on behalf of the Transparency International Pacific Chapters  
for the Forum Economic Ministers Meeting

Rotorua, New Zealand 7-9 June 2004

### **Introduction**

This paper is presented on behalf of the Pacific region chapters of Transparency International and chapters in formation. The paper will draw on information contained in the Country studies undertaken by Messieurs Peter Larmour and Manu Barcham from the Australian National University and titled "National Integrity Systems in Pacific Island States".

The 16 member states that make up the Pacific Island Forum Group have an estimated combined population of 35 million people and are stretched over a fifth of the Earth's surface. Apart from Australia and New Zealand all remaining members of the Group can be classified as developing countries. The one thing the smaller island states of the Forum group share is relative poor economic performance experienced over subsequent decades. This general economic malaise is periodically punctured with spouts of good growth, however it is not sustained over a long period to adequately compensate for our growing population numbers.

And so within this weak economic climate, greater stress is placed on the Public Sector to meet the growing development needs of its Citizens.

We must be realistic, our Countries are facing difficult times, and you as our leaders are faced with the added burden of trying to steer us through these hard times. All of our Pacific Countries to some extent are facing the same issues that hamper our development. High levels of unemployment leading to law and order problems, poor health service delivery, deterioration of educational infrastructure, loss of human capital to developed countries, poor or no new business investment, natural disasters and the ever present spectre of increasing levels of foreign debt. It is within this context that TI Pacific would like to discuss the findings as recorded in NISPAC report.

It is our intention to establish an understanding of the importance of achieving improved economic governance within our public sector and through the NISPAC report demonstrate the interlocutory relationship it has with other stakeholders within our society. The paper will also re-visit the regional commitments given to previous Forum meetings and represented through documents such as the "Eight Principles of

Accountability", "The Bikitawa Declaration" and the recent "Auckland Consensus". Actions taken at the country level to implement these Government undertakings are also highlighted.

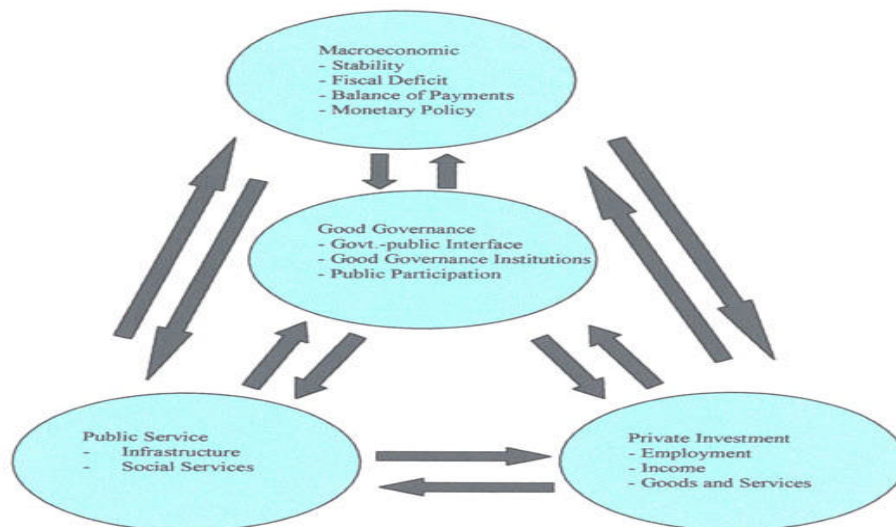
### Definition of Economic Governance

The World Bank broadly defines governance as "the way in which power is exercised in managing economic and social resources for development". The UNDP in 1997, through a discussion paper titled "Reconceptualising Governance", defines governance as the exercise of political, economic and administrative authority to manage a nations' affairs. The document goes further "It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences. Governance embraces all of the methods, good and bad, that societies use to distribute power and manage public funds".

However I believe the definition that is closest to our Pacific experience is that used by the UNDP in its explanation of "Sound Governance" and that is as a subset of governance wherein; "public resources and problems are managed efficiently and in response to the critical needs of society".

The commitments given by our past leaders to the Forum undertakings that have called for "accountability and transparency" give us the foundation to build an effective environment in which our public sector can operate and ultimately fulfill its obligation of delivering development and prosperity to its communities.

**Reform Triggers and Medium-Term Goals**

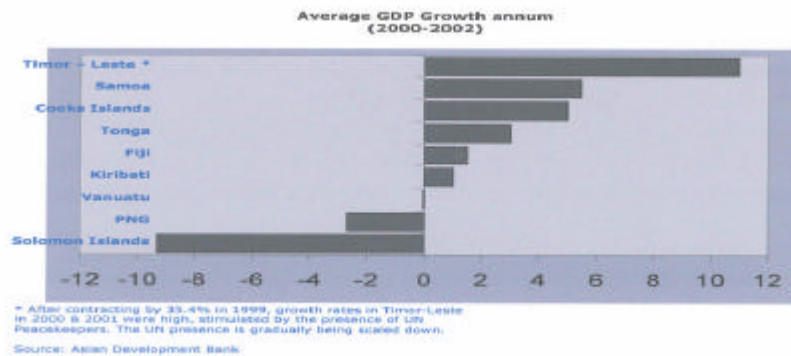


(Source: Asian Development Bank; Reforms in the Pacific 2003)

## The Regional Performance Overview

Although the members of the Pacific Community continue to face development challenges we must also acknowledge the proactive steps taken by the various members to improve the level of "sound governance" and to encourage greater economic activity and in turn growth.

The Cook Islands have undertaken major public sector reform brought about because of years of government over spending leading to large and unsustainable public debt. We are also very much aware of the continued growth of the Fijian economy, the legislative work undertaken over the last two years in Papua New Guinea (PNG) and the very good economic performance achieved by Samoa over recent years.



Although we can claim that some of our Pacific countries are starting to cycle out of the danger zone, we must also be mindful our Countries remain vulnerable, as we have seen in the past.

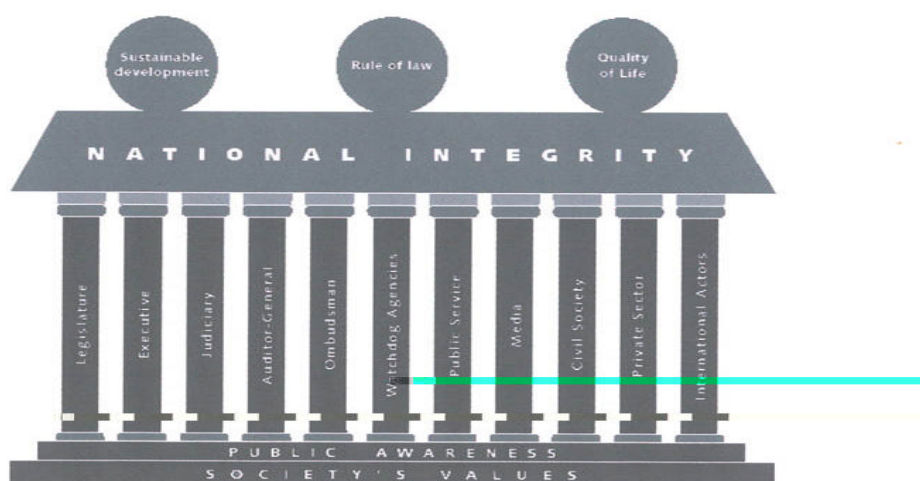
This vulnerability is clearly tested when faced with:

- Natural Disasters
- Political instability
- Civil unrest
- Limited or declining skilled labour force
- Small manufacturing base/weak infrastructure to maximise potential agricultural economic activity
- Open economies reliant on world market movements
- Geographic challenges; a long way from world markets

## What is the National Integrity System (NIS)?

The National Integrity System is the sum total of the laws, institutions and practices within a given country that address maintaining honesty and integrity of government and private sector institutions. It commonly comprises eight inter-dependent pillars (public awareness, public anti-corruption strategies, public participation, "watchdog" agencies, the judiciary, the media, the private sector and citizen organisations such as churches and NGOs). For more information about the National Integrity System see: <http://www.transparency.org/sourcebook/04.html>

## What is the 'National Integrity System'?



The purpose of a Country Study is to assess the National Integrity System (NIS) and its components. For example, which components have been more successful and why, and are they mutually supportive. What factors support or inhibit their effectiveness; where should the emphasis be placed for the future; what factors are further required to support the development of a NIS. What activities or areas could benefit from further in-depth research or donor support? Country Studies are concerned with structures and systems and how they work in practice, they are not a vehicle for investigating or exposing specific cases not already in the public domain.

The Country Studies are to form an international overview; it is essential that each be prepared in the same manner and, as far as possible, carry the same information. At the same time the Pacific Country Studies have also looked at the inter-action between traditional forms of governance and customary law on the one hand and imported laws and institutions on the other.

TI and the country studies are concerned with structures and systems, rather than investigating particular instances of corruption, or exposing and naming individuals. TI defines corruption in terms of 'the use of public office for private gain' and (more recently) 'misuse of entrusted power for private benefit'.

However, the project recognises that what counts as corruption may differ between and within countries, and that there may be differences between the law traditional values and public opinion.

Part of the job of the country studies is to identify such differences, and how particular countries are dealing with them (for example in court decisions, audit policy, or police and public service practice). TI has mainly been concerned with official corruption, but the country studies may additionally cover corruption prevention in the private sector and non-government organisations.

### **National Integrity Systems Pacific Island Countries Study (NISPAC)**

In August 2003, at a workshop held in Brisbane, Peter Rooke, then TI Australia's Director of Projects, described the NIS concept developed and pioneered by TI as a way to explain the interactive nature of the laws, institutions and practices in a country which, if working effectively, supported accountability and good governance and as a consequence curbed corruption.

The 'National Integrity System' is imagined as a series of pillars, holding up integrity in government (Pope 1997). The number of pillars is variable, but the model points to the relationship between them (sometimes expressed in terms of 'checks and balances' or a need for more coordination). Cabinet government divides government work into often-arbitrary portfolios assigned to ministers. Democratic accountability points upwards to ministers, and perhaps downwards to the voters.

The need to keep secrets may make it particularly difficult to get agencies involved in fighting corruption to cooperate. Against these vertical tendencies, the NIS model talks of 'horizontal' accountability between agencies, and broader 'sectors' – public, private and NGO.

Transparency International, which promotes the model, prefers a strategy of coalitions between the public sector, the private sector and NGOs like itself.

As well as this 'external' relationship between the pillars, the model also points to their 'internal' self-policing functions (Doig and McIvor 2003: 321). For example the



legislature may act, in some circumstances, as a check on corruption in the executive, but it also needs to ensure its own integrity (perhaps through a leadership code). One of the oldest questions in politics is 'who guards the guards' and police forces have been particularly vulnerable to corruption themselves.

The reports used a survey already applied to 18 countries by Doig and his colleagues. The results were reported in an earlier issue of *Public Administration and Development* (Doig and McIvor 2003). PNG and Fiji have already been surveyed by TI groups in each country.

We extended the terms of reference for the 12 smaller Pacific Forum states to seek answers to questions about culture tradition and scale that are often asked in discussions of corruption in the region. The average population of these twelve countries is 103,000 - ranging from Solomon Islands with 448,000 to Niue with 1,900 (South Pacific Commission 2000). We also added questions about corruption in the private and non-government sector, including churches and NGOs. In the past the private sector has often been viewed as the perpetrator of corruption, bribing innocent officials. Now it often sees itself as a victim of 'rent seeking' bureaucrats and politicians. Churches and other NGOs sometimes criticise corruption in government, but may be vulnerable to it themselves.

AusAID undertook to fund the Pacific Studies and the NISPAC project was led by TI Australia. Peter Lamour and Manu Barcham of the ANU were the coordinating researchers, however it was an objective of the project as much as possible to use researchers based in the subject countries. This was demonstrated through the use of local researchers both in PNG and Fiji.

In PNG, the chapter commissioned local academics to undertake the study under the management of the Institute of National Affairs. In Fiji, the chapter commissioned a local researcher who was able to work closely with the government perhaps increasing the prospects of their survey being implemented.

The NISPAC project was timely, and perhaps its need made more evident as the issue of corruption was placed higher on the global agenda and on the agenda of our Pacific Countries. On the global stage there were a number of initiatives to combat the spread of corruption, however the Pacific Countries, for various reasons, have not fully engaged in these undertakings:

- The UN Transnational Organised Crime Convention, with protocols dealing with people trafficking, people smuggling and firearms trafficking.
- The UN Convention Against Corruption, recently signed off in Mexico.
- The ADB/OECD led Anti-Corruption Action Plan for Asia and the Pacific. (5 FICs have endorsed)

On a regional level there have also been a number of initiatives, from the Forum Eight Principles of Accountability in 1997, the Biketawa Declaration in 2000, and more recently the regional assistance framework agreed to by Forum members to address a

regional response to law and order issues. This agreement had its manifestation in RAMSI that saw members of the region's defence and police force undertake operations in the Solomon Islands to restore law and order.

Over the last decade there has been an increased awareness of the benefits of greater regional cooperation which has led to FICs agreeing to the establishment of the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relationship (PACER).

The concept of a regional union was mooted by an Australian Senate Foreign Affairs Committee in late 2003 suggesting a shared currency, labour markets, and fiscal regimes. With the growing number of countries joining the European Union it was interesting that such a suggestion was put forward, however as we all appreciate the idea received a mixed reaction and in some countries treated with hostility.

The true test of the regions desire to forge closer relations will be demonstrated through the implementation of the PICTA and PACER agreements. If we are to use the previous initiatives as a guide we still have a long way to go.

### **Findings of the NISPAC Country studies**

The common issues highlighted by the NIS Pacific country studies were:

- Abuse of ministerial and official travel, and unnecessary travel.
- Suspicion of ministerial nepotism in the awarding of contracts, appointments and other favours.
- Budget process distorted by "favoured" projects for example the "pitch & catch" phenomena in the Federated States of Micronesia (FSM) where legislators benefit from expenditure they authorise.

The reports identified particular sectors and activities more at risk of corruption than others:

- Police and Customs
- Lands and titles administration
- Forestry and fisheries
- Ports
- Health and Education
- Retirement Funds
- Tendering
- Trade in tokens of sovereignty (passports)

- Offshore Banking

The surveys found citizens in Pacific Island Countries most often mentioned government ministers as being people who were at high risk of getting involved in corruption as they had the power to regulate and issue licenses. They also had the authority to "hire & fire" within the public service and to be able to influence or direct activities within government departments.

### **NISPAC Priority Areas for improved economic governance**

The various country reports identified key areas that should be protected or implemented to ensure continued improvement in the economic governance environment in Forum Island Countries.

#### ***Government: Executive and Government***

Our parliamentary systems remain a key area that must be improved and strengthened ensuring the Executive and the Legislature remain independent and further supported with effective "check and balance" through the use of parliamentary committees such as the Public Accounts Committee. The surveys also pointed to the need to encourage independent or opposition MPs to provide a check on corrupt activities undertaken by members within the government and public servants in charge of government departments and agencies.

It was also highlighted that the existence of a strong leadership code does not automatically lead to improved governance by our members of parliament, as we have seen in the example of the Solomon Islands.

#### ***The Judiciary***

As found in the Country surveys *with minor exception* the Judiciary remains effectively independent of the Government and free of corruption. Although in some FICs the access to the formal legal system has become expensive and cumbersome, through high fees for lawyers and the backlog of cases in magisterial and national courts.

#### ***The Watchdog Agencies***

The report identified the key role these organisations have within the governance environment. In most FIC's there does exist an Auditor General, an Ombudsman Commission and Public Prosecutor, it was found however that the independence of these bodies needs to be enshrined and protected. In some cases the effectiveness of these agencies have hampered through lack of budgetary support, manipulation of appointments and a break down of supporting systems to enforce or implement their findings and recommendations.

### ***The Public Service***

The majority of reports did not find favourable comment on the performance of the public service. In Kiribati and Nauru, the public service was regarded as a kind of welfare system.

I believe in most our Pacific countries this sentiment would find support in most sections of the Community. The weakness of our public service also creates greater opportunity for corrupt activities as the independence of our institutions of state are eroded and demoralised through political manipulation through staff appointments and in some cases "intimidation and threats". All of our Countries are going through some form of public sector reform, some have already started to rationalise the size of their public service, but along with cutting the size of the public sector we must also reinforce their independence. In the reform process the process of appointment and the security of tenure for office holders and key line managers must be included.

### ***The Police***

The police faced the same problems that plague the wider public service, and have been affected by "politics" this is further compounded by ever increased pressure on a limited or stretched operational budget. The police in our region are targeted for further support through the regional undertakings signed off by our Governments through the Forum. It is hoped this support will translate in to action on ground and not into constructing bigger headquarters and the buying of more non-operational 4WD vehicles.

### ***Civil Society***

The NISPAC survey found a disparity in the number and levels of activity for civil society groups operating in the various Pacific Countries. In countries such as Kiribati and Tonga, civil society movements were described as "poorly developed" and if they did exist, it was to pursue family and individual needs. In countries such as the Cook Islands, Solomon Islands, Vanuatu, Fiji and PNG there was a greater number of active civil society groups some who focused on corruption issues.

The work of civil society in the governance process is greatly under utilised in our Pacific States. In some FICs we have seen the benefit of well organised and informed NGO groups in exposing corrupt activities and in placing greater public pressure on the agencies of state tasked with upholding the law to fulfill their duty. The area of civil society is also receiving greater recognition and funding support from donor agencies and international bodies, however caution must be used to ensure governments do not see the promotion of civil society groups as undermining sovereignty and the encouragement of "anti-government" organisations.

### ***The Private Sector***

The survey highlighted the dependent nature of the private sector and the need for stable and sustained economic policies from Government. Many of the businesses in the smaller states were greatly dependent on government activity and expenditure. In the Solomon Islands the country report pointed to the private sector as being a source of political and public sector corruption.

### ***The Media***

All country reports pointed to the importance of the media in maintaining sound governance through publishing, broadcasting and televising issues related to corruption. The reports generally highlighted the difficult environment media people operate within, with personal threats and intimidation used to prevent the coverage of issues that may involve government leaders and their influential contacts. The issue of media regulation has been debated in many states, and hangs over the head of media organisations as a threat by government should they carry "anti-government" news items.

At the most recent meeting of the region's Speakers of Parliament, the following statement was included in the closing communiqué:

*"The Speakers recognised the importance of the media and the dissemination of information to the public and therefore expressed some urgency in the delivery of the project at the earliest opportunity. Speakers also recognised the importance of educating the public on the function of legislative institutions and therefore urge the Secretariat to secure funding for the Parliamentary Democracy Studies' project as soon as possible." (referring to the regional Pacific Media project funded through AusAID)*

### ***Positive action taken by FIC to improve economic governance***

Generally Governments within our region have become more attuned to the need to outwardly demonstrate their support for greater levels of transparency and accountability, and in establishing improved governance systems within the government operations. This "awakening" I believe has come about due to a number of reasons, some of them externally initiated and others from internal country pressures.

At the regional level we have witnessed the signing of Forum declarations promoting transparency and accountability, as mentioned earlier we have seen the establishment of the instrument to undertake regional law and order interventions. The regional undertakings now also cover the trade and economic relationships between Pacific Countries.

There are some "good news" stories, such as the return to some form of normalcy in Solomon Islands, however there is still a long way to go before we can safely say that they are on the path to recovery. The Fiji economy is clearly showing what can be achieved with the return of lawful rule and stability in Government in the GDP growth

figures they are achieving, which in 2000 was recorded at negative -3.2, as contrasted to 2002 figure of + 3.8. In PNG we have seen action taken to re-establishing governance mechanisms, for example the activation of the Public Accounts Committee. To encourage the democratic process we have also seen the introduction of the limited preferential voting system and the integrity of political party's act.

Recently the Prime Minister of Samoa removed himself from the boards of state owned businesses, a number which he chaired, because he considered there should be a separation of powers between those who ran government businesses and those to whom they report.

This regional concern for improving economic governance has also been reflected in the activities assigned to the Forum Secretariat, such as the stocktake of the implementation of FEMM decisions, including the Forum Eight Principles of Accountability, asked for by the Forum Economic Ministers in 2001.

Two of the key findings to come from the "stocktake" are contained in paragraphs 64 and 66.

*64. There are common difficulties that FIC's face in the implementation of the principles. These difficulties include ambiguous/inadequate legislation and in some FIC's a total absence of appropriate legislation. Legislation, in the case of some countries, is just too complex to be implemented.*

*66. Furthermore, it was noted at the FEMM Stocktake workshop in November 2001 that ownership of the regional decisions needed to be strengthened. Ownership is generated, and decisions are more easily implemented when they meet a clearly recognised need in member countries, thus reflecting national objectives and priorities. Sensible selection of priorities also helps to promote ownership. Ownership of economic reform is necessary by Ministers, officials, stakeholders and the public more broadly.*

## **Conclusion**

It is clear when we look at the information gathered in the NISPAC studies that each "pillar" as represented in the National Integrity System diagram has a relationship to the other. For us to achieve sound governance conditions these institutions must first exist and, second, function with some level of effectiveness.

Corruption has become a nemesis for the citizens of our Countries and continues to dog the possible economic growth that our region has promised for so long. The corrupt actions of a number of "elite" whether they are Politicians, the educated or the influential have hampered the ability of our Nations to realise our true potential.

The issue of corruption is a major concern to all sectors of the community. We continue to see a significant decline in the ability of some of our Forum member states to deliver

"real" services to the majority of their population. As the country reports from groups such as UNICEF, UNDP and the ABD have shown we continue to see a decline in the areas of health, and education.

The NISPAC surveys highlight that it is not only the outward theft of public funds that we classify as corruption, but also the mismanagement and incompetence that results in poor judgement or management which leads to waste and loss of public funds and public assets. The "mire" of mismanagement and incompetence creates a governance environment that allows unscrupulous operators in both the public and private sector to avoid lawful conduct.

As the population in our respective countries continues to grow the demand on Government to provide services will increase greatly. To meet this increase demand greater revenue in the form of taxes needs to be collected and this can only come through increased and sustained economic activity, whilst minimising wasteful non productive expenditure and eradicating corruption.

It is within this environment that we the members of the Pacific Chapters of Transparency International along with other concerned groups both regionally and internationally pledge our commitment to the continued fight against corruption. It is our hope through the use of tools such as the TI National Integrity Systems Pacific Island Countries survey (NISPAC) that we can swing the pendulum back in favour of the majority of the People within our region, who want a region free of corruption. A region where all people can freely participate and share in economic prosperity.

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21 May 2004