



August 2009



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ISBN 978-1-921285-82-0

Published by the Australian Agency for International Development (AusAID), Canberra, August 2009.

This document is online at:
www.ausaid.gov.au/publications

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Printed by Blue Star, Canberra

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These icons symbolise the Millennium Development Goals (MDGs)—eight goals representing an agreement by world leaders to reduce poverty and enhance human development by 2015. More information about the MDGs is available online at www.ausaid.gov.au/keyaid/mdg.cfm

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Executive summary

This report addresses development and governance in the Pacific region. It is the second in a series of annual reports that provide an update on progress towards the Millennium Development Goals (MDGs) and key governance indicators using the latest available information. The information it provides is intended to help governments design policies and programs that hasten progress towards the MDGs.

The report finds that the Pacific as a whole is significantly off track to meet the MDGs by 2015.

Some countries are translating economic growth into reducing poverty and meeting the MDGs. However, overall the Pacific is stalling and falling short of the goals. Despite large investments in service delivery, public spending by Pacific governments is generally not leading to better development outcomes.

Development partners bring significant resources for investment in growth and services in the region. But most Pacific governments are not managing aid as well as they could. While there have been positive changes in the way development partners and governments work together, the report shows resources are neither sufficiently coordinated nor prioritised behind effective country and sectoral development plans and strategies.

This report sets out a compelling case for change—for a combined effort by Pacific island countries and development partners to improve governance and development coordination. Together, Pacific island countries and their development partners have the resources necessary to turn ambition into reality and make faster progress towards the MDGs.

Progress towards the Millennium Development Goals

In 2000, world leaders agreed on 2015 as the timeframe for achieving the MDGs. The world is past the half-way mark. However, achieving all MDGs across the Pacific region by the deadline is unlikely.

While some countries in the Pacific have made good progress against, and even achieved, some MDG targets, the same cannot be said of the entire region. While recent data on poverty and other key development outcomes is often missing, **the Pacific still appears to be seriously off track to achieve the MDGs by 2015.**

Looking at the region overall, progress against common development indicators reveals the scale of the challenge faced by the Pacific in meeting the MDGs. Approximately 2.7 million people in the region are living in poverty and do not have the income to satisfy their basic human needs. Around 400 000 children are not enrolled in primary school and 64 out of every 1000 children die before the age of five. At least 80 000 adults have HIV and the rate of infection is growing by more than 40 per cent a year. The number of people living in poverty increases to 3.2 million and the number of children not in primary school increases to 480 000 if Timor-Leste is included.

The Pacific as a whole is significantly off track to meet the MDGs by 2015.

Progress towards MDG 1—reducing poverty and hunger by half by 2015—has been the slowest and is of most concern in the region. While tracking poverty in the Pacific is challenged by weak data, it appears that the number of people living in poverty is rising. Only Vanuatu has made significant improvements in reducing poverty, due largely to sound policy choices leading to strong economic growth, and it is the only country on track to achieve this MDG.

Some countries are translating economic growth into reducing poverty and meeting the MDGs. Samoa and Tonga are on track to achieve four of the goals. Fiji, Niue, Palau and Vanuatu are on track to achieve three MDGs. But the evidence suggests that for many of these countries, **gains made during the 1990s in health and education have stalled in recent years. In some cases progress has reversed**, as in the case of child and maternal health. Clearing the final hurdles to achieve universal primary education and improve mother and child health will often require more effective interventions in service delivery in remote areas and innovative approaches to reaching vulnerable groups, such as people with disability. Cook Islands, Kiribati, the Marshall Islands, Nauru, Solomon Islands and Tuvalu are positioned to meet very few of the MDGs.

Of greatest concern are Papua New Guinea (PNG) and Timor-Leste, two significant countries which are both off track on almost all MDGs: poverty in these countries has increased; only six out of 10 primary school aged children are enrolled in primary school and of those who are, many do not finish their final years of primary education; child and maternal mortality rates have improved but remain among the highest in the region; and infectious diseases are spreading at alarming rates.

The global recession **is resulting in lower economic growth in the Pacific**. Combined with population increases this is expected to lead to five countries in the region recording negative Gross Domestic Product (GDP) growth per capita in 2009. As this report makes clear, **faster, sustained economic growth is essential to make faster progress towards the MDGs**.

Country governance performance

Achieving effective and accountable governance—also essential to achieving the MDGs—remains a challenge in much of the region.

Pacific island countries continue to make significant investments in human development. Most Pacific governments spend more per person on health services than other countries with similar levels of income. The Pacific is an expensive region in which to deliver services. But in many cases **expenditure is inadequately targeted and services often fail to reach the poor**.

While many Pacific countries have historically had reasonably sound budget processes, **procurement, payroll controls and audit are generally weak. Efforts to improve government effectiveness and the control of corruption have also had mixed results**, with improvements in some areas in some countries offset by deteriorating measures of performance in other countries.

Providing better services requires both better resource management and greater community involvement in decision making around service delivery. Well informed and engaged communities can play a significant role in demanding effective and accountable government.

The relative ease of doing business in 2008 declined in all countries except one. Vanuatu was the only country in the region to improve its global ranking on ease of doing business between 2007 and 2008. **Improvements in the environment for business are necessary to attract investment, increase rates of economic growth and offset the**

natural disadvantages of remoteness and high input costs faced by Pacific island economies. In a competitive global environment, this report highlights that continued attention is needed to reduce the regulatory burden on business and to ensure that transport and communication services are available at competitive rates.

The international evidence clearly shows that **better governance means higher growth and higher growth, in turn, means better development outcomes.** The quality of public services, the capacity of the public service and its independence from political pressures, and the quality of policy formulation have a primary influence on economic growth. And growth is essential for faster progress towards the MDGs in the Pacific as in other parts of the world. For example, across the Pacific as a whole, a 10 per cent improvement in government effectiveness in 2008, by increasing per capita income, would have resulted in around 1800 fewer children dying before their fifth birthday. Further sustained improvements in government effectiveness could see the MDG 4 target achieved by 2015 in the Pacific.

Development coordination

In recent years the Pacific has received more than US\$1 billion annually in Official Development Assistance (ODA) from development partners who reported amounts to the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). While not officially reported, flows from other development partners such as China and Taiwan are also significant. **Relative to the size of their economies and populations, Pacific countries receive some of the largest ODA amounts in the world.**

The evidence in this report shows that **aid fragmentation in much of the Pacific is high by international standards**, judging from the number of aid-funded activities underway in individual countries. **Aid flows are often volatile and unpredictable.** Many Pacific island countries have difficulty keeping track of aid flows and coordinating requests for assistance.

Development coordination is not well advanced in the Pacific compared to other regions, and progress is slow in implementing the 2005 *Paris Declaration on Aid Effectiveness*.

National development plans do not drive expenditure decisions and do not provide clear guidance to development partners. Development partners are reluctant to use national government expenditure systems to deliver aid. This is partly because of weaknesses in government systems, but working around these systems rather than through them risks weakening them further.

A new development framework for the Pacific would enable all development resources to be more effectively directed towards the region's highest priority development challenges. Such a framework would be characterised by more frequent and higher level dialogue within the region on development issues, clear and measurable commitments to improve coordination, better integration of development resources through sound national plans and public financial management and monitoring systems, more effective country leadership, more innovative ways of working among development partners and joint action to improve statistical data in the Pacific.

Key messages

This report highlights that the Pacific is off track to achieve the MDGs by 2015. The world is past the half way mark for reaching the goals. Achieving all MDGs across the region by this deadline is unlikely. Urgent action is required to ensure resources from both Pacific island countries and their development partners are applied more effectively to make faster progress towards the MDGs in the region.

Experience from the region demonstrates that improved government effectiveness is achievable and critical for the MDGs. The quality of service delivery and policy formulation and the capacity of the public service are important elements of government effectiveness. Improvements in each of these areas are associated with higher growth and higher growth is associated with greater progress towards the MDGs.

This report presents a compelling case for a new development framework for the region to ensure the Pacific keeps pace with better international development practice. This will enable all development resources to be more effectively directed towards the Pacific's highest priority development challenges. As a first step, more frequent and higher level dialogue is needed between countries and development partners on key challenges.

Pacific island countries and development partners are mutually accountable for results and will be judged on the impact their collective efforts have on the lives of Pacific Islanders. Transparent and accountable use of all development resources is necessary to achieve the MDGs. Clear and measurable commitments, reinforced by sustained dialogue, are required to improve coordination and accelerate progress towards mutually agreed development outcomes.

Domestic resources from Pacific island countries and resources from development partners need to be better integrated within sound national plans and public expenditure systems and applied to the highest priority programs.

Pacific island countries must lead improvements in development coordination at the national level, to achieve faster progress towards the MDGs. Pacific governments are not managing aid as well as they could and should. Clear national sector plans, in areas such as infrastructure, health and education, will set out how development resources should be prioritised and lay the foundations for more flexible and predictable aid. Pacific island countries can and should ask for aid based on an agreed plan. They should also control the proliferation of aid activities and ask development partners to manage their differences before coming to the table.

Pacific island countries and development partners need to work together better to improve public financial management and monitoring systems. Countries in the region are responsible for leading reform and making service delivery more effective. **Development partners, in turn, are responsible for ensuring that their aid works over time to strengthen, not undermine, national systems.** Development partners should be more willing to use the systems as they improve. These changes are within the control of Pacific island governments and development partners: relatively simple diagnostic tools for national systems are available and can be adapted further for the Pacific context if necessary. These tools provide a basis for practical reform actions that can bring profound changes to the quality of expenditure and ultimately service delivery.

Development partners should speed up the search for new ways of doing business.

Examples already exist of development partners operating in innovative, responsive and collective ways in the region. But Pacific island countries face rapidly changing circumstances without correspondingly fast change in the way they receive external support. There is scope for development partners to further improve matters in a range of ways, including by backing national MDG-based plans with joined-up approaches and prompt and flexible support; developing more innovative collective approaches like the Pacific Regional Infrastructure Facility; and promoting more delegation of responsibility between development partners. Such measures will help to reduce aid fragmentation and ease the administrative burden on Pacific island countries.

Agreed actions to improve development coordination in the Pacific need to be more closely tracked by Leaders. Development coordination in the Pacific needs more sustained attention. A practical first step would be annual monitoring of key indicators based on the *Paris Declaration on Aid Effectiveness*. At the national level, commitment to more effective aid can be built by creating opportunities for high-level collective dialogue on progress towards the MDGs and other national targets. Opportunities should also be taken to promote effective, country-led dialogue with development partners on the policy measures needed to promote national reform efforts and faster, broad-based growth. **At the regional level,** existing mechanisms for consultation between Pacific island countries and development partners (such as the Post Forum Dialogue and the Pacific Island Countries—Development Partners meetings) can be reshaped so they focus more on development outcomes in the region and monitor mutual commitments to better development coordination. Opportunities should also be taken to promote practical discussions aimed at harmonising aid delivery arrangements between development partners, including non-traditional development partners.

Ongoing gaps in data strongly suggests that **Pacific island countries and their development partners need to work together to improve statistics.** Better information on progress towards the MDGs is essential. Judgements about this progress are possible, but difficult owing to the poor quality and coverage of data available in the Pacific. More incisive and informative tracking of MDG progress in the region requires better and more timely data. Regional tracking of the MDGs needs to be backed by country-led efforts to monitor progress at a national and sub-national level.

Introduction

This is the second in a series of annual reports that track development and governance in the Pacific and analyse related key policy issues. It monitors progress towards the MDGs in the region and assesses the performance of countries and development partners in supporting their achievement. The policy issue examined in this report is development coordination. Other issues will be considered in subsequent reports.

This report focuses on the Pacific island countries of Cook Islands, the Federated States of Micronesia (FSM), Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. It includes Timor-Leste—in this case as a reference country—because it shares many characteristics of Pacific countries.

Structure and content

This report is based on the analytical structure and framework summarised in Table 1.

Table 1: Analytical structure and framework for indicators

Poverty reduction and sustainable development	Analysis and performance indicators	
<i>What we want to achieve.</i>	<i>How Pacific governments contribute to poverty reduction and sustainable development.</i>	<i>How Pacific governments and their development partners work together to contribute to poverty reduction and sustainable development.</i>
Analysis of indicators of progress against the development outcomes relevant to the MDGs.	Analysis of indicators for the delivery of better services, governance and the commitment to poverty reduction.	Analysis of aid volume and quality and indicators of good development coordination based on international aid effectiveness principles.

This report discusses progress in poverty reduction and inclusive development in Pacific island countries and Timor-Leste based on selected MDG indicators. It also assesses policy outcomes in Pacific island countries, focusing on their recent achievements against economic management, service delivery and governance indicators. Finally, it considers how Pacific island countries and development partners are working together on a range of development coordination issues.

The report has four more chapters.

Chapter Two tracks progress against MDGs 1 to 7 including reducing poverty, providing better education and health and promoting gender equality and environmental sustainability.

Chapter Three examines government performance in the Pacific and Timor-Leste, focusing on health and education expenditure, the reach and quality of service delivery, public

financial management, government effectiveness, control of corruption, rule of law and ease of doing business.

Chapter Four examines progress against MDG 8 (develop a global partnership for development) in the Pacific. It analyses the state of development coordination in the Pacific compared with better international development practice. To this end the report examines aid volumes and measures of aid quality, how well the Pacific is faring on development coordination compared to other regions, highlights successes to date, describes constraints, and proposes practical steps for joint action by Pacific island countries and their development partners. Such joint action could establish a new development framework for the Pacific.

Chapter Five concludes this report, highlighting key messages for governments.

This report also contains five annexes. Annex 1 acknowledges the individuals who contributed to the preparation of the report, and the agencies consulted. Annex 2 provides detailed data on progress towards MDGs 1 to 7. Annex 3 contains information on indicators of development coordination in the Pacific. Annex 4 defines and discusses the statistical indicators used in the report and assesses data quality issues. Annex 5 addresses the issue of strengthening statistics in the Pacific.

The acronyms and references used in the report are listed at the end.

Progress towards the Millennium Development Goals

This report measures whether individual countries' progress towards the MDGs is on track, of concern, or off track. Countries on track are likely to meet the MDGs. Countries of concern are unlikely to do so because they are progressing too slowly, but with extra effort and resources, attaining the MDGs by 2015 is not completely out of reach. They are also countries for which data is limited and assessing progress is more difficult. Countries off track are highly unlikely to meet the MDGs—they are making very slow progress or are regressing.

MDG 1 Poverty and hunger

MDG 1: Eradicate extreme poverty and hunger¹

- 1a Halve, between 1990 and 2015, the proportion of people whose income is less than \$1, in purchasing power parity (PPP) terms, a day.
- 1b Achieve full and productive employment and decent work for all, including women and young people.
- 1c Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Rising poverty is evident, with one-third of people living below national poverty lines

Poverty is a significant and growing problem for many countries in the Pacific, with approximately 2.7 million people, or around one-third of the region's population, not having the income or access to subsistence production to meet their basic human needs.

Of the eight MDGs, progress towards MDG 1—eradicating extreme poverty and hunger—has been the slowest and is of most concern in the region. Monitoring and understanding poverty in the Pacific is hampered by poor quality and out-of-date data. Despite this, indications are that the number of people living in poverty has risen, even before the onset of the global recession. Only Vanuatu appears to have made progress in reducing poverty (Table 2, p. 10).²

Internationally comparable measures of poverty, such as on the number of people living on less than \$PPP1 or \$1.25 per day, are not readily available for countries in the Pacific. However, many countries measure poverty according to their national poverty lines which are set using the 'basic needs approach'. This report adopts this measure of poverty. The basic needs poverty line (BNPL) represents the level of income required to meet a minimum standard of living in a country.³ People falling below their national BNPL have insufficient cash income or access to subsistence production to meet minimum dietary

Poverty is a significant and growing problem for many countries in the Pacific, with approximately 2.7 million people, or one-third of the region's population, not having the income or access to subsistence production to meet their basic human needs.

1 Not all targets for each MDG are discussed in this chapter but data is provided in Annex 2.

2 Methodological changes in measuring poverty in Vanuatu means that poverty data for 1998 and 2006 are not directly comparable. Refer to Annex 4, Statistical Notes for further information.

3 Refer to Annex 4 for further information on the BNPL.

needs and cover basic expenses related to housing, health care, education, clothing, transport, and customary and community obligations. Comparing the incidence of basic needs poverty between countries requires careful interpretation because of differing perceptions between countries of what defines 'basic needs'.

Table 2: Progress towards halving poverty

Halve, between 1990 and 2015, the proportion of people whose income is less than US\$1 a day and the proportion of people who suffer from hunger. (Indicator: Proportion of population living below the basic needs poverty line)					
Melanesia	Fiji	PNG	Solomon Islands	Vanuatu	
	Off track (deteriorated) Incidence of basic needs poverty rose from 26% in 1996 to 34% in 2003.	Off track (deteriorated) Incidence of basic needs poverty rose from 24% in 1996 to 40% in 2002.	Of concern (limited data) Incidence of basic needs poverty was 23% in 2006.	On track Incidence of basic needs poverty fell from 26% in 1998 to 16% in 2006.	
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	Of concern (limited data) Incidence of basic needs poverty was 28% in 2006.	Of concern (limited data) Incidence of basic needs poverty was 13% in 2004.	Off track (deteriorated) Incidence of basic needs poverty rose from 15% in 1997 to 20% in 2002.	Of concern (limited data) Incidence of basic needs poverty was 22% in 2002.	Off track Incidence of basic needs poverty fell from 24% in 1994 to 21% in 2006.
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	Off track (deteriorated) Incidence of basic needs poverty rose from 28% in 1998 to 30% in 2005.	Of concern (limited data) Incidence of basic needs poverty was 50% in 1996.	Of concern (limited data) Incidence of basic needs poverty was 20% in 1999.	No data available	Of concern (limited data) Incidence of basic needs poverty was 25% in 2006.
Timor-Leste	Off track (deteriorated) Incidence of basic needs poverty rose from 42% in 1996 to 50% in 2007.				

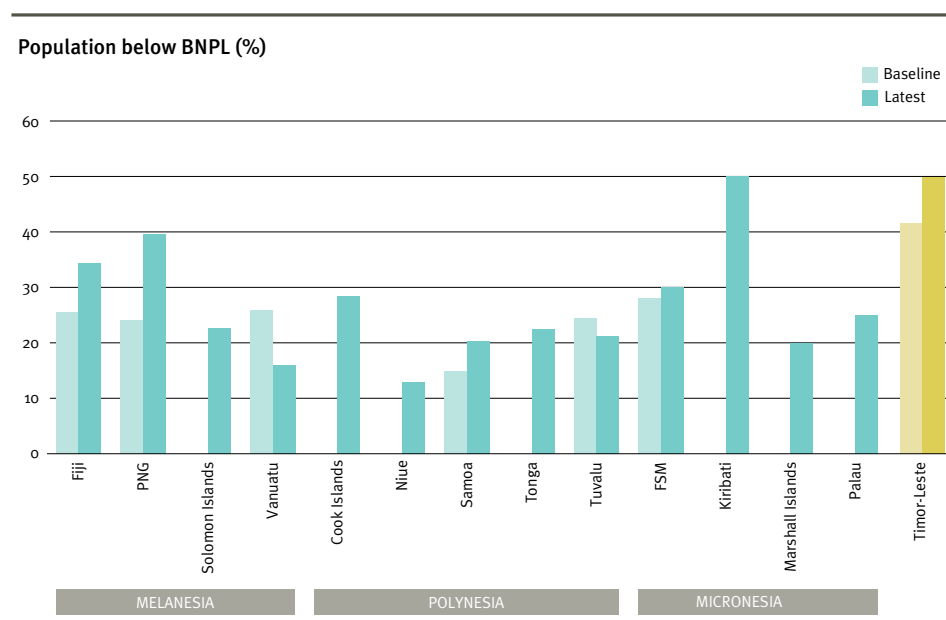
Source: Annex 2, Table 2.

Notes: More recent basic needs poverty assessments are currently being prepared for Fiji, Kiribati, the Marshall Islands and Samoa. Countries that are on track (likely to meet the target) are shaded in green. Countries that are of concern (progressing too slowly but could reach the target with extra effort and resources or with limited data) are shaded in orange. Countries that are off track (highly unlikely to meet the target) are shaded in red.

While poverty data is sparse and not up to date, there is evidence that basic needs poverty has increased in a number of countries (Chart 1). Data showing changes in poverty over time is available for only six countries in the Pacific: FSM, Fiji, PNG, Samoa, Tuvalu and Vanuatu. All of these, except Vanuatu and Tuvalu, report increases in the proportion of people living below national BNPLs since the 1990s. Vanuatu is the only country likely to reduce poverty by half—its incidence fell from 26 per cent in 1998 to 16 per cent in 2006.

Relatively recent poverty data from Solomon Islands (2006), Vanuatu (2006), Cook Islands (2006) and FSM (2005) show that the level of poverty in urban centres is considerably higher than in rural areas where the subsistence economy and food security is still strong. This difference is particularly marked for Vanuatu where the proportion of people living in basic needs poverty in urban centres is three times higher than in rural areas.

Chart 1: Basic needs poverty has increased in some countries



Sources: Secretariat for the Pacific Community (SPC); United Nations Development Programme (UNDP), *The Millennium Development Goals, Timor-Leste 2009*. Refer to Annex 2, Table 2 for more information.

Note: Timor-Leste is included as a comparison country.

Chronic hunger and poor nutrition persists

High population growth, natural disasters, urbanisation, limited sources of cash income and limited public awareness about nutritional requirements increase the risk of hunger and the tendency towards a poor diet. In some countries, poor nutrition caused in part by changes in diets (e.g. less reliance on traditional diets based on locally produced vegetables and fish, and greater consumption of imported foods high in sugar and fats) is contributing to the steep increase in non-communicable diseases (NCDs). This issue is examined under MDG 6.

Timor-Leste, PNG and to a lesser extent Solomon Islands have a high proportion of underweight children. In Timor-Leste in 2007, 49 per cent of children under five were underweight. PNG made slow progress in reducing the proportion of underweight five-year-olds from 29 per cent in 1996 to 25 per cent in 2000 (Annex 2, Table 2). To the extent that undernourishment among children of this age broadly represents the extent of hunger in the population as a whole, Timor-Leste and PNG are severely off track in achieving the MDG target of halving hunger by 2015.

Progress in reducing hunger has more recently been eroded by increases in global food and energy prices. Many governments in the Pacific region responded quickly with policies to

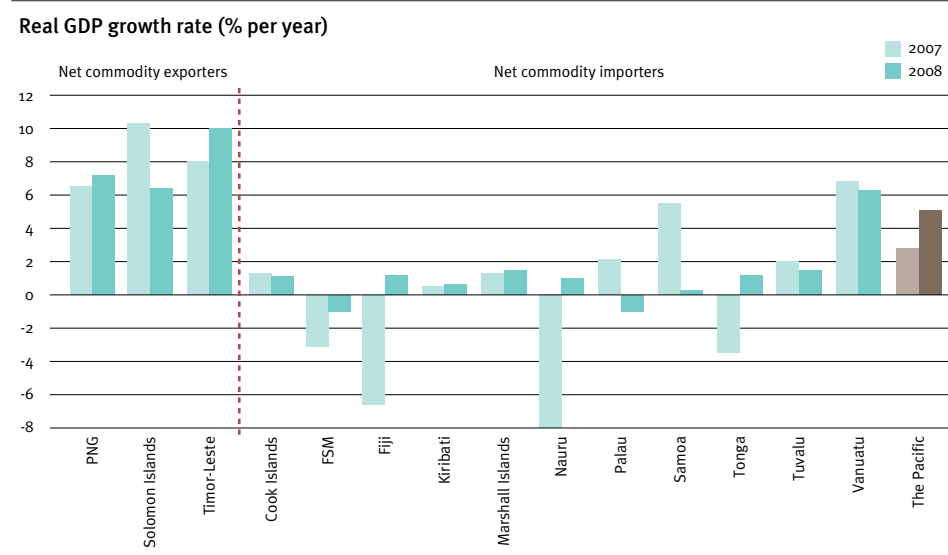
address the resulting price shocks. For example, in Solomon Islands, import duties and sales tax on rice were removed to reduce the retail cost. Timor-Leste and Fiji reduced import duties and sales tax on some food imports and the Marshall Islands exempted selected food staples from import duties and introduced measures to reduce electricity and fuel consumption by government offices. Most of these policies have, however, reduced government revenue and longer-term solutions to improving food security in the Pacific are still needed.

Despite global challenges, economic growth in the Pacific was strong in 2008 – although largely concentrated in a few countries

In 2008, the Pacific experienced its highest level of economic growth this decade (5.1 per cent) and almost double that of 2007 (2.8 per cent) (Chart 2). Economic growth in the region was largely confined to PNG and Solomon Islands, however, which benefited from high prices for their commodity exports. For Solomon Islands, sustainability of economic growth depends on strengthening non-logging sectors.

A series of market-friendly reforms combined with relative political stability is having a positive impact on Vanuatu's economy. Economic growth in the other Pacific island countries in 2008 was below 2 per cent. So while the commodity boom has benefited a few countries, it has imposed high economic and social costs on the many others that rely heavily on food and fuel imports. Tourism continues to be an important driver for growth and employment in Cook Islands, Palau, Samoa, Tonga and Vanuatu. In Fiji, the high cost of food and oil imports, coupled with political instability leading to lower tourism numbers, has seen much reduced economic growth in recent years (–6.6 per cent in 2007 and 1.2 per cent in 2008) compared to previous years (2.7 per cent per year between 2001 and 2006).

Chart 2: Regional economic growth was strong in 2007 and 2008 but varied between countries



Source: Asian Development Bank (ADB), *Asian Development Outlook*, March 2009.

Notes: Data not available for Niue. The Pacific country grouping for the ADB, as used in the above chart, includes Timor-Leste.

But in 2009 the global recession started to bite

In the Pacific, the most immediate impact of the financial crisis that unfolded in the second half of 2008 was felt by FSM, Kiribati, the Marshall Islands, Palau and Tuvalu. These countries supplement their government revenues with income earned from national

trust funds invested overseas and have seen the market value of these funds drop sharply. In Tuvalu, the immediate impact of this has been cushioned by ‘buffer’ funds built up during the previous three years of high returns. Provided the government maintains tight fiscal discipline over the next three years, the impact of the financial crisis on government revenue may not be fully felt for up to four years.

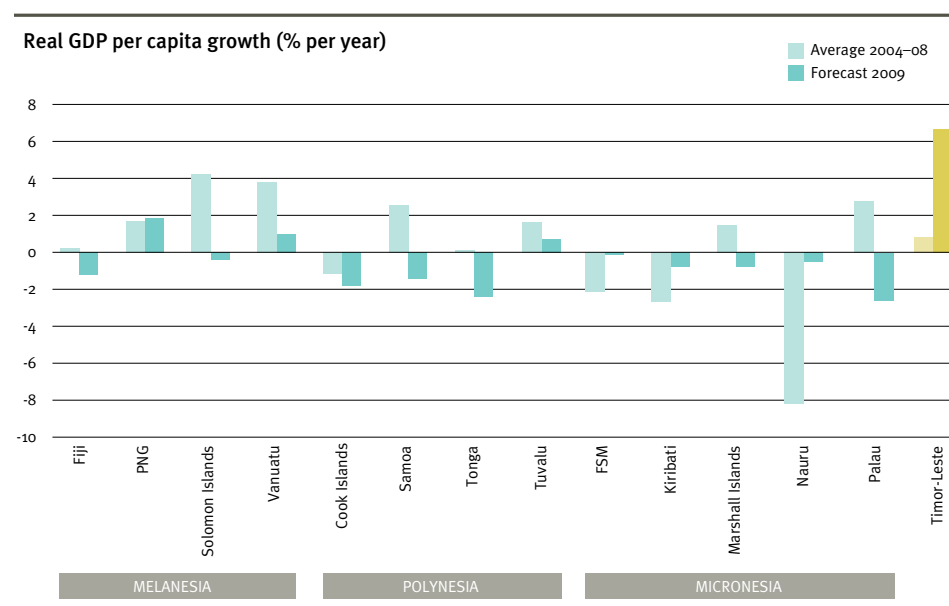
As the financial crisis evolved into the broader global recession, Pacific island countries have been affected to varying degrees through reductions in remittances and lower prices and reduced demand for exports. The signals from the tourism sector, however, have been mixed, with tourism levels falling in Fiji, but holding up—and in some cases increasing—in Samoa, Tonga and Vanuatu.

Many countries have benefited since 2008 from the fall in international fuel and food prices. Prices on the ground, however, have often not mirrored the global fall in prices and have not declined to pre-peak levels. In Tuvalu, for instance, in early 2009 consumers were paying two-thirds more for rice and around one-third more for flour and biscuits than they were in late 2007.

As a result of the global recession, the Pacific region and Timor-Leste are forecast to grow at 3 per cent in 2009 and 2.7 per cent in 2010 (compared to 5.1 per cent in 2008). Five countries are forecast to experience negative GDP growth in 2009: FSM, Fiji, Palau, Samoa and Tonga.⁴

Of major concern is that real GDP per capita is expected to decline in 10 out of these 15 countries in 2009, after taking into account population growth rates (Chart 3). Negative GDP growth per capita limits the extent to which the economy can create jobs at the same rate at which the labour force grows. It also has implications for government incomes and the extent to which government investments in basic services and infrastructure can continue to match the levels required by growing populations.

Chart 3: Gross Domestic Product per capita is forecast to decline in 10 countries in 2009



Source: ADB, *Asian Development Outlook*. Refer to Annex 2, Table 3 for more information.

Notes: Data not available for Niue. Forecasts for Tonga are expected to be revised upwards for 2009. Timor-Leste is included as a comparison country.

⁴ Asian Development Bank (ADB), *Asian Development Outlook*, March 2009. Notes: Pacific regional grouping includes Timor-Leste. GDP forecasts for Tonga are expected to be revised upwards.

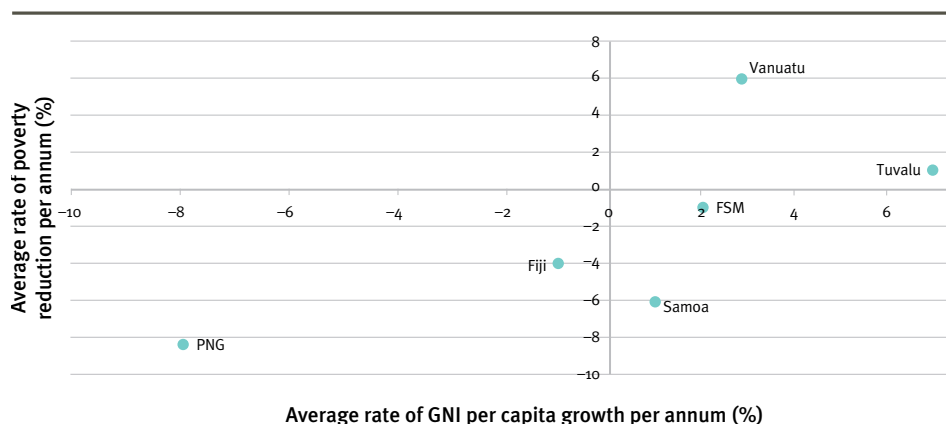
Economic growth in the Pacific has not necessarily led to reductions in poverty

Economic growth is essential for reducing poverty and meeting the MDGs. However, economic growth in the Pacific has historically been less pro-poor when compared with other regions.⁵ Whereas Southeast Asia and Central Asia have had pro-poor growth, the Pacific has been less successful in harnessing growth for poverty reduction. For instance, between 1990 and 2005, for every one percentage point increase in average GDP per capita in Southeast Asia, the number of people living below the \$PPP1.25 day poverty line on average reduced by 1.6 per cent; while for the Pacific, the resulting decline in poverty was much less (0.4 per cent).⁶

The Pacific needs faster growth to reduce poverty, but growth needs to be pro-poor.

Chart 4 demonstrates this relationship in more detail and shows that while Samoa and FSM recorded positive Gross National Income (GNI) per capita growth rates, poverty levels still increased during the corresponding years. Conversely, Vanuatu has recorded strong economic growth and high levels of poverty reduction, indicating that pro-poor growth is possible. This does not imply that growth is not important in reducing poverty. Poverty outcomes would in all probability have been worse if growth had not occurred. However, a message that emerges is that Pacific countries need not only to achieve growth to reduce poverty but, at the same time, ensure that growth contributes to reducing poverty.

Chart 4: Economic growth has often not led to reductions in poverty in the Pacific region



Sources: Basic needs poverty data from SPC. GNI per capita data from World Bank, World Development Indicators database and ADB Statistical Database System (for Tuvalu). Refer to Annex 2, Tables 2 and 3, for more information.

Notes: The countries included in the chart are those for which two data observations on basic needs poverty data is available. GNI per capita (Atlas Method) is derived from GDP plus net income from abroad and as such is a more appropriate measure of national income in the Pacific region. Poverty reduction and GNI per capita growth rates correspond to the same period for each country. For instance, between 1998 and 2006 in Vanuatu, basic needs poverty reduced by an average of 6 per cent per year, while during this period GNI per capita increased by an average of 3 per cent per year.

The above analysis suggests that even as the global recession eases and growth rates increase, fewer people will be pulled out of poverty in the Pacific compared to other regions, if existing growth patterns continue. Maximising economic growth and making it lift more people out of poverty is an important challenge for greater progress towards the MDGs.

5 Growth is 'pro-poor' if it leads to a reduction in the proportion of people living in poverty.

6 ADB, *Poverty Impact of the Economic Slowdown in Developing Asia: Some Scenarios*, Working Paper Series 153, April 2009. The sample of Pacific countries used to calculate the impact of growth on poverty was small, and this relationship should therefore be viewed as indicative.

To help meet this challenge, policies are needed to support the development of sectors which have both market growth potential and high human development potential. Such sectors need to be labour intensive, have strong links with other domestic sectors, and provide an important source of revenue to governments. If managed by effective government institutions, these revenues can indirectly reduce poverty by improving the quality and reach of service delivery and investing in the infrastructure needed to facilitate economic growth.

MDG 2 Universal education

MDG 2: Achieve universal primary education

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

More children are entering the school system, but many children still do not finish primary school

A number of countries in the region have made progress towards improving education development outcomes over the past decade. Based on the latest data available, Fiji, Niue, Samoa, Tonga and Tuvalu are on track to achieving universal primary education (Table 3).

Table 3: Progress towards universal education

MDG 2: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course in primary schooling. (Indicator: Net primary enrolment (NPE) rate and primary school completion rate)					
Melanesia	Fiji	PNG	Solomon Islands	Vanuatu	
	On track NPE rate of 94% in 2006. Primary completion rate increased from 91% in 1996 to 99% in 2003.	Off track NPE rate and primary completion rate were the lowest in the region in 2007, estimated at 53% and 45% respectively.	Of concern NPE increased from 56% in 1999 to 94% in 2005. Primary completion rate declined from 85% in 1991 to 79% in 2005.	Off track NPE rate improved from 75% in 1989 to 85% in 2007. Primary completion rate declined from 90% in 1990 to 59% in 2006.	
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	Of concern NPE rate increased from 92% in 2001 to 100% in 2007. Primary completion rate declined from 98% in 1996 to 85% in 2007.	On track NPE rate increased from 90% in 2002 to 100% in 2006. Primary completion rate increased from 91% in 1998 to 100% in 2005.	On track (limited data) NPE rate was 90% in 2004. Primary completion rate was 94% in 2000.	On track NPE rate increased from 89% in 1996 to 95% in 2005. Primary completion rate increased from 84% in 1990 to 89% in 2004.	On track (limited data) NPE rate increased from 98% in 1991 to 100% in 2002. Primary completion rate was 100% in 2002.
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	Of concern NPE rate increased from 92% in 2000 to 100% in 2006. Primary completion rate was 67% in 2000.	Of concern NPE rate increased from 76% in 1990 to 97% in 2005. Primary completion rate decreased from 98% in 1990 to 82% in 2003.	Of concern No change in NPE rate or primary completion rate between 1999 and 2003. NPE rate was 90% in 2003. Primary completion rate was 89% in 2005.	Off track (limited data) NPE rate declined from 75% in 1992 to 60% in 2002. Primary completion rate was 92% in 2002.	Of concern NPE rate increased from 82% in 1990 to 93% in 2005. Primary completion rate was 80% in 2007.
Timor-Leste	Off track NPE rate declined from 65% in 1999 to 63% in 2008. Primary completion rate was 73% in 2007.				

Source: Annex 2, Table 4.

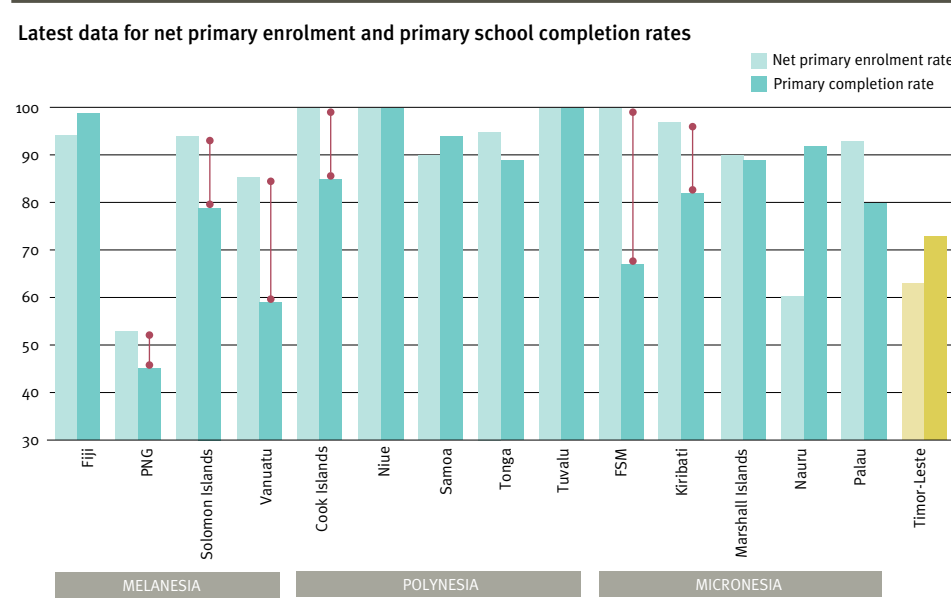
Notes: Countries that are on track (likely to meet the target) are shaded in green. Countries that are of concern (progressing too slowly but could reach the target with extra effort and resources or with limited data) are shaded in orange. Countries that are off track (highly unlikely to meet the target) are shaded in red.

However, the global recession, like previous economic crises, has the potential to reverse the gains made in human resource development in the Pacific. Declining household incomes, for example, may lead to declining school attendance. The global recession could also place pressure on education budgets if government revenues decline. These factors could stall and even reverse progress already made towards MDG 2, unless investments (including development partner investments) in education budgets are safeguarded.

Chart 5 shows the region is characterised by ‘primary enrolment achievers’, with 11 out of 14 Pacific island countries recording NPE rates above 90 per cent, which is above the average for all developing countries (88 per cent in 2006). Countries with low NPE rates are:

- > PNG (53 per cent in 2007)
- > Nauru (60 per cent in 2002)
- > Timor-Leste (63 per cent in 2007)
- > Vanuatu (85 per cent in 2007).

Chart 5: Gaps between enrolment and completion rates exist in some countries



Sources: SPC; UNDP, *The MDGs, Timor-Leste 2009*. Refer to Annex 2, Table 4 for more information.

Notes: The red line highlights the gap that exists between NPE and primary completion rates. Timor-Leste is included as a comparison country.

All countries, except for Nauru and Timor-Leste, have recorded improvements in their enrolment rates since the baseline data. Vanuatu recorded overall improvements in NPE rates between 1989 and 2007, although rates declined from 95 per cent in 2005 to 85 per cent in 2007. Universal primary education is a high priority for the Government of Vanuatu and plans to phase out compulsory parental contributions by 2012 may assist in reversing recent trends. Solomon Islands has recently introduced fee-free primary education.

While in general more children are entering school systems, the quality of education, the relevance of the curriculum, the fees and other costs, and lack of job prospects still form barriers for students and their families. These barriers undermine the achievements made in improving access to basic education. Chart 5 shows the gaps that still exist between NPE and primary school completion rates.

Low primary completion rates are a particular concern in PNG where only 45 per cent of children who start primary school are expected to complete primary education. When viewed in the context of very low enrolment rates (53 per cent), this means that approximately

630 000 children (or 76 per cent of all primary school aged children) are not finishing primary school. FSM, Solomon Islands and Vanuatu also have low primary completion rates of less than 80 per cent. In Nauru the picture is different, with only 60 per cent of school-aged children enrolled in primary school, but those who are enrolled are very likely to finish primary school.

Across the region, children particularly at risk of not completing primary school are those living in geographically remote communities, those with disability, those from poorer families and those who undertake paid or domestic labour. Inequalities are particularly wide for children with a disability: the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) estimates that less than 10 per cent of children and youth with a disability in the Asia-Pacific region have access to primary education, compared to 70 per cent of those who do not have a disability.⁷ In Samoa, it is estimated that 85 per cent of children with a disability live in rural areas and most of these children have either never attended school or have only attended for limited periods.⁸ Better understanding of the different barriers and disincentives children from different backgrounds and their families face in enrolling and then staying in school is required to address these issues.

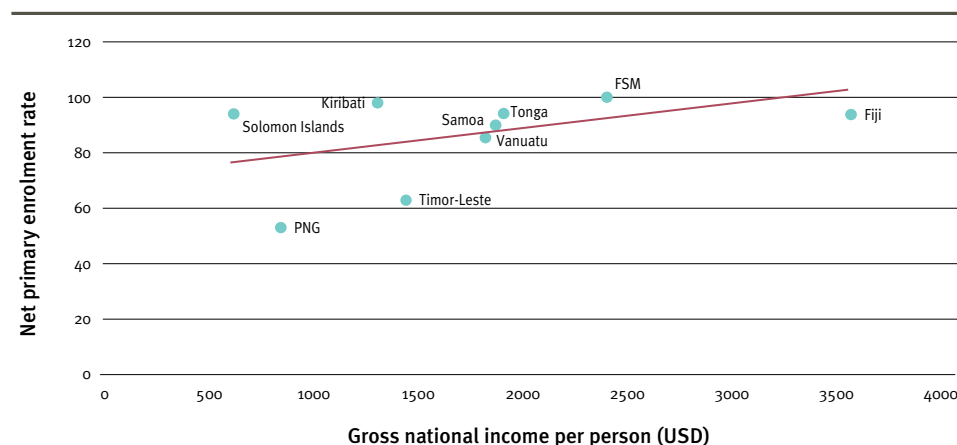
The quality of education and learning achievement is low in the Pacific with many children leaving primary school unable to read, write or solve basic mathematical problems. Official literacy statistics point towards varying adult literacy levels from lows of 64 per cent in PNG to between 95 and 99 per cent in most Polynesian and Micronesian countries (Annex 2, Table 3). Actual literacy levels may be even lower in some countries. A 2007 survey of literacy levels in Vanuatu, for example, found that 27 per cent of children who have completed six years or more of schooling could not write three simple dictated sentences.⁹

Chart 6 shows the overall positive relationship between national incomes and NPE rates, and how some countries are better at translating economic growth into improved human development outcomes. For instance, Solomon Islands have a higher proportion of children enrolled in primary school relative to its income, compared to PNG and Timor-Leste.

Children particularly at risk of not completing primary school are those in living in geographically remote communities, those with disability and those from poorer families.

The quality of education and learning achievement is low in the Pacific with many children leaving primary school unable to read, write or solve basic mathematical problems.

Chart 6: Some countries are better than others at converting growth into education outcomes



Sources: NPE data from SPC. GNI per capita data from World Bank, World Development Indicators database. Refer to Annex 2, Table 4 for more information.

Notes: Countries above the trend line are more efficient at converting incomes into increased primary enrolment rates. Countries below the line are less efficient. NPE rates are for latest available data. GNI per capita (Atlas Method) correspond to same year as NPE data.

7 United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), *Disability at a glance: A profile of 28 countries and areas in Asia and the Pacific*, 2006.

8 D Lene, "Inclusive Education: A Samoan Case study" in P Puamau and F Pene (eds), *Inclusive Education in the Pacific*, University of the South Pacific, Suva, 2009, pp. 135–45.

9 AusAID, *Technical and Vocational Education and Training Sector Strengthening Program: Literacy Survey*, November 2007.

MDG 3 Gender equality

MDG 3: Promote gender equality and empower women

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

Improvements in gender equality are mixed

Improving gender equality is regarded as one of the most effective and lasting ways to make progress in reducing poverty and improving overall development effectiveness. Improving gender equality includes ensuring that women and girls enjoy a set of basic human capabilities—as measured by indicators on education and health—and have equal opportunities to apply their basic capabilities, including in non-agricultural wage employment and political representation.

Overall improvements in achieving gender equality in primary and secondary education are mixed. Most Polynesian and Micronesian countries have achieved, or are on track to achieve, gender equality in primary and secondary education. PNG and Solomon Islands are off track and there are concerns that Cook Islands, Niue, Tuvalu and Timor-Leste are also unlikely to achieve gender equality in primary and secondary enrolments by 2015.

Table 4: Progress towards gender equality in primary and secondary education

MDG 3: Promote gender equality and empower women: Eliminate gender inequality in primary and secondary education, preferably by 2005, and in all levels of education by no later than 2015 (Indicator: Ratio of girls to boys in primary and secondary education).					
Melanesia	Fiji	PNG		Solomon Islands	Vanuatu
	On track Ratio of girls to boys in primary and secondary school was 0.95 and 1.06, respectively, in 2005.	Off track Ratio of girls to boys in primary education increased from 0.86 in 2000 to 0.95 in 2005, but there are wide inequalities in secondary school (ratio of boys to girls was 0.67 in 2000).		Off track Ratio of boys to girls in primary education increased from 0.80 in 1986 to 0.89 in 2005. Ratio of girls to boys in secondary school increased from 0.57 in 1986 to 0.77 in 2005.	On track Ratio of girls to boys in primary and secondary school was 0.99 and 1.05, respectively, in 2007.
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	Of concern Ratio of girls to boys in primary and secondary school was 0.88 and 1.01, respectively, in 2007.	Of concern Ratio of girls to boys in primary and secondary school was 1.06 and 0.87, respectively, in 2007.	On track Ratio of girls to boys in primary and secondary school was 0.93 and 1.06, respectively, in 2005.	On track Ratio of girls to boys in primary and secondary school was 0.90 and 0.98, respectively, in 2005.	Of concern Low representation of girls in primary school (ratio of girls to boys was 0.88 in 2006) and boys in secondary school (ratio of girls to boys was 1.21 in 2006).
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	On track Ratio of girls to boys in primary and secondary school was 0.96 and 0.99, respectively, in 2006.	On track Ratio of girls to boys in primary and secondary school was 0.98 and 1.01, respectively, in 2005.	On track Ratio of girls to boys in primary and secondary school was 0.91 and 0.98, respectively, in 2005.	On track Ratio of girls to boys in primary and secondary school was 0.94 and 1.06, respectively, in 2007.	On track Ratio of girls to boys in primary and secondary school was 0.92 and 1.05, respectively, in 2005.
Timor-Leste	Of concern (limited data) Ratio of girls to boys in primary school was 0.92 in 2005.				

Source: Annex 2, Table 6.

Notes: Countries that are on track (likely to meet the target) are shaded in green. Countries that are of concern (progressing too slowly but could reach the target with extra effort and resources or with limited data) are shaded in orange. Countries that are off track (highly unlikely to meet the target) are shaded in red.

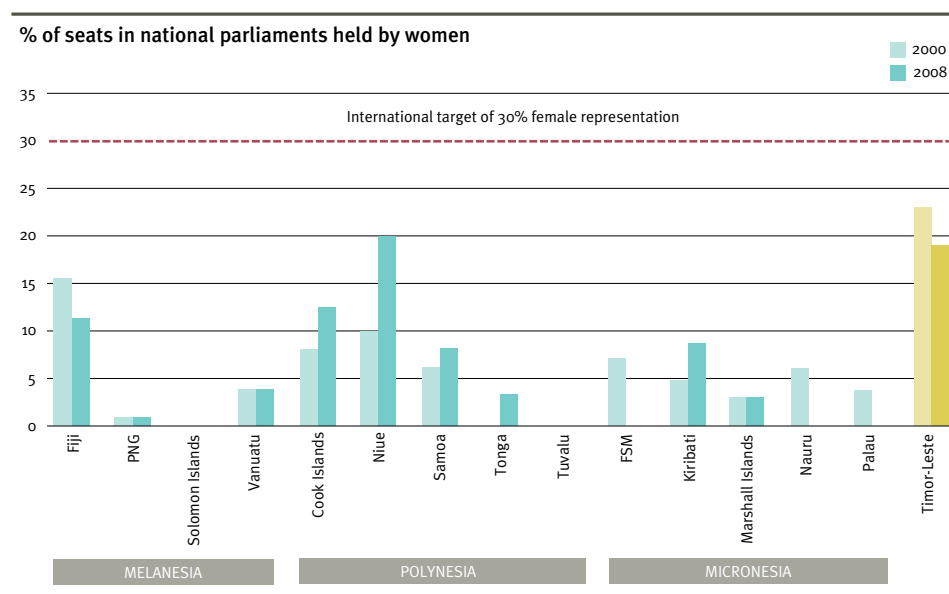
Where gender gaps in primary education have closed (FSM, Fiji, Nauru, Niue and Kiribati) girls generally continue on to secondary school, whereas some boys join the labour force. Boys' under-achievement in secondary school is of particular concern in Tuvalu where there are 80 boys to every 100 girls in secondary school. In contrast, where girls' primary education enrolment lags behind boys' (PNG and Solomon Islands), the gender gap widens in secondary and tertiary education.

Low educational levels of girls adversely affect their prospects of earning higher incomes in non-agricultural sectors. In Niue, Tonga and Tuvalu—countries which have made relatively good progress towards gender equality at school—women account for approximately 42 to 45 per cent of all paid jobs outside of agriculture, while in PNG and Solomon Islands the level is much lower at only 15 and 30 per cent respectively (Annex 2, Table 7).

As shown in Chart 7, in almost every country in the region, national politics are dominated by men and no country has achieved the target of 30 per cent female representation in key decision-making positions committed to under the *Beijing Platform of Action* formulated at the Fourth World Conference of Women in 1995. A number of countries, however, are making positive steps towards increasing the representation of women in national parliaments through adopting temporary special measures for reserved seats for women. In PNG, for instance, the Parliament will soon vote on whether three nominated women should be appointed to Parliament in an effort to foster better gender representation.

Reserving seats for women is a temporary measure towards increasing women's representation in parliaments.

Chart 7: Women's participation in national parliaments remains low



Sources: SPC; UNDP, *The MDGs, Timor-Leste 2009*. Refer to Annex 2, Table 7 for more information.

Notes: Solomon Islands and Tuvalu had no women in their national parliaments in 2000 and 2008. FSM, Nauru and Palau had no female representation in their national parliaments in 2008. The 2008 figure for Fiji refers to parliamentary representation before the December 2006 coup. Timor-Leste is included as a comparison country.

MDG 4 Child health

MDG 4: Reduce child mortality

4a Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Urgent action is required on newborn and child survival

Under-five mortality rates in all Pacific island countries and Timor-Leste are currently below the average for developing countries of 80 deaths per 1000 live births. The health status of children in the Pacific has improved from the 1960s as a consequence of general improvements in primary health care coverage and quality, improvements in water and sanitation, and specific programs focusing on child and maternal health. However, only three out of these 15 countries are on track to meeting the MDG target of reducing by two-thirds the child mortality rate (Table 5). For all Pacific island countries and Timor-Leste, most deaths of children aged under-five occur when children are aged less than one. In Nauru, Samoa, Tonga, Tuvalu and Vanuatu, infant deaths account for more than 80 per cent of total child deaths. Progress towards this MDG will depend on improving the quality and reach of maternal health care and prevention of communicable diseases.

Table 5: Progress on reducing child mortality

MDG 4: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate (U5MR) (per 1000 live births).					
Melanesia	Fiji	PNG	Solomon Islands	Vanuatu	
	Off track U5MR declined from 28 to 22 between 1990 and 2000 but no improvement since.	Off track U5MR declined from 93 to 75 between 1996 and 2006.	On track U5MR declined from 73 to 35 in 1996 and 2007.	On track U5MR declined from 79 in 1989 to 34 in 2007.	
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	Off track U5MR declined from 31 in 1990 to 26 in 2001.	Of concern (limited data) U5MR was 19 in 2006.	Of concern U5MR declined from 42 in 1990 to 25 in 2006.	Of concern U5MR declined from 27 to 22 between 1990 and 2006.	Off track U5MR declined from 59 in 1991 to 36 in 2007.
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	Of concern U5MR declined from 58 in 1994 to 47 in 2001.	Off track U5MR declined from 88 in 1990 to 69 in 2005.	Of concern U5MR declined from 93 in 1988 to 46 in 2007, but progress from 2000 was slow.	Of concern (limited data) U5MR was 38 in 2007.	Off track (deteriorated) U5MR increased from 29 in 2002 to 39 in 2005.
Timor-Leste	Off track U5MR declined from 144 in 2001 to 130 in 2004.				

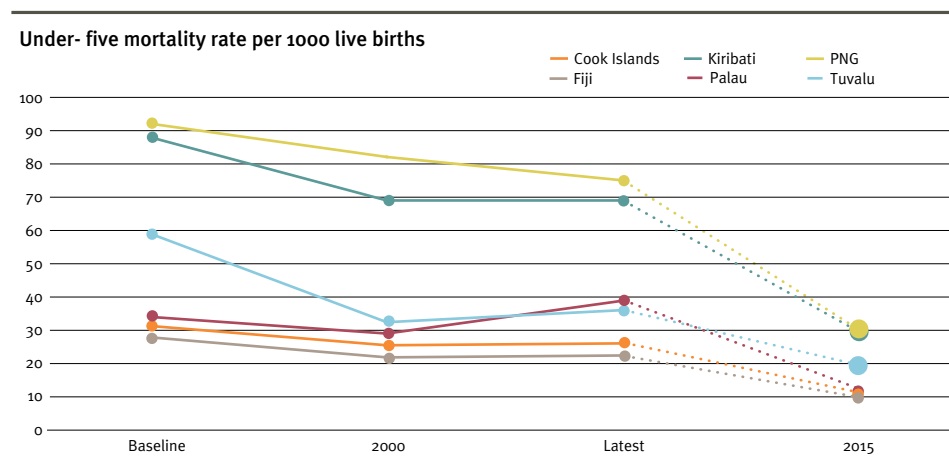
Source: Annex 2, Table 8.

Notes: Countries that are on track (likely to meet the target) are shaded in green. Countries that are of concern (progressing too slowly but could reach the target with extra effort and resources or with limited data) are shaded in orange. Countries that are off track (highly unlikely to meet the target) are shaded in red.

Countries that started from very poor levels of child health (Solomon Islands, Vanuatu and Timor-Leste), have made good progress in reducing the under-five mortality rate, and if these trends continue they are likely to achieve this MDG target (Chart 8, p. 21).

Relatively good progress was made during the 1990s in improving child health in Cook Islands, Fiji, Kiribati, the Marshall Islands, Palau, Samoa, Tonga and Tuvalu. But since 2000, the child mortality rates in these countries have not changed or, in some cases, have deteriorated (Fiji, Palau, Tonga and Tuvalu). This indicates that further reductions become progressively more difficult to achieve as the mortality rate declines. Many of these countries are also facing steep increases in NCDs, which require expensive health care treatments and absorb large shares of the public health budget at the expense of basic and preventative health care.

Chart 8: Six Pacific countries are off track to reduce child mortality rates by two-thirds by 2015

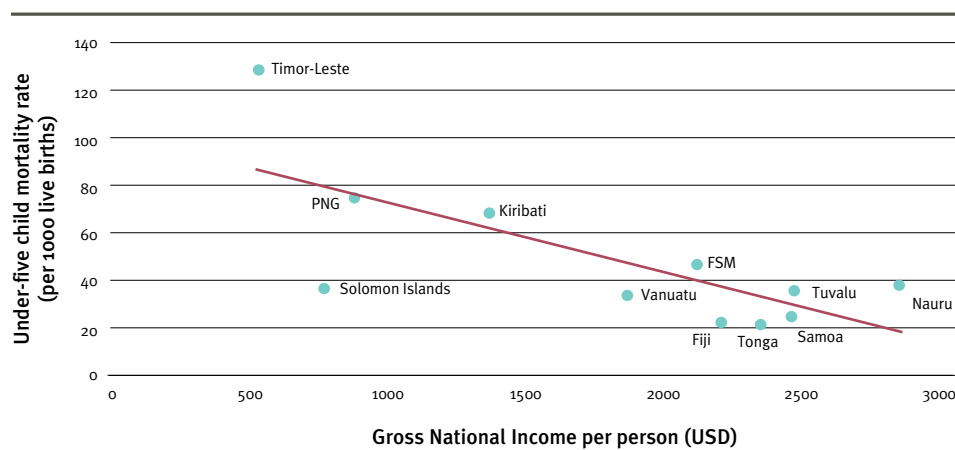


Sources: SPC and various other sources. Refer to Annex 2, Table 8 for more information.

Notes: Baseline and latest years vary according to available data. Dashed line corresponds to future progress required to meet the target by 2015.

As with education, Pacific countries have had variable success at converting economic growth into reductions in child mortality (Chart 9). It remains the case, however, that countries with stronger economic growth also have improved child health.

Chart 9: Some countries are better than others at converting growth into child health outcomes



Sources: Under-five mortality data from SPC and other sources; GNI per capita data from World Bank, World Development Indicators database and ADB, Statistical Database System (for Nauru and Tuvalu). Refer to Annex 2, Tables 3 and 8, for more information.

Note: Countries above the trend line are less efficient at converting incomes into reduced child mortality. Countries below the line are more efficient. Under-five mortality data is for the latest year available. GNI per capita data (Atlas Method) corresponds to this latest year.

MDG 5 Maternal health

MDG 5: Improve maternal health

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

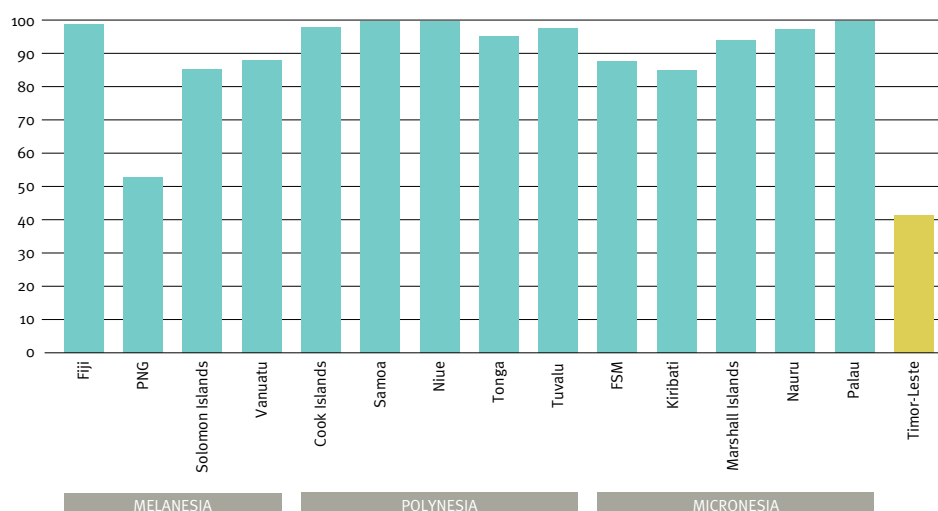
Only three countries are on track to reduce maternal mortality by three-quarters by 2015

Reducing maternal and infant mortality requires that emergency care be accessible and used by pregnant women experiencing life-threatening complications. Life-threatening complications can occur in all pregnancies, and in the Pacific there is a high correlation between mortality rates and delays in receiving required care.¹⁰ This underscores the importance of having births delivered by skilled health personnel and the need for birth attendants to be competent in emergency interventions and equipped with the necessary supplies and equipment (for instance, blood for transfusions). It also highlights the importance of regular antenatal care coverage, which appears not to be the case in countries for which recent demographic and health survey (DHS) information is available (the Marshall Islands, Nauru, PNG, Solomon Islands and Tuvalu).

Currently only Samoa, Solomon Islands and Tuvalu are on track to achieving this MDG. Maternal mortality ratios are very high in PNG and Timor-Leste, at 733 and 660 maternal deaths per 100 000 live births respectively (Annex 2, Table 9). Measuring maternal mortality trends is difficult in the Pacific region: only a few countries have the registration systems needed to monitor maternal deaths and where maternal mortality ratios are estimated through household surveys, large sample sizes are needed because maternal deaths are a relatively uncommon event. For these reasons, the proportion of births attended by skilled

Chart 10: Majority of births in Polynesia and Micronesia are delivered by trained health personnel

Proportion of births attended by skilled health personnel (%), latest available data



Sources: SPC and various other sources. Refer to Annex 2, Table 9 for more information.

Note: Timor-Leste is included as a comparison country.

10 SPC and UNDP, Pacific Islands Regional Millennium Development Report 2004.

health personnel is used as an additional measure of progress towards reducing maternal mortality. As Chart 10 shows, in PNG and Timor-Leste, where maternal mortality is highest, access to skilled care at delivery is very low at 53 and 41 per cent respectively. In Solomon Islands, the likelihood of a medically assisted delivery increases substantially with the mother's education level, from 69 per cent among mothers with no education to 92 per cent among mothers with some secondary education. This difference is larger than the rural-urban divide. It also highlights more generally how improving girls' education (MDGs 2 and 3) is important for progressing the other MDGs (including improved maternal health).

In Polynesian and Micronesian countries, the majority of maternal deaths take place in hospitals or health clinics, which indicates that patient monitoring and emergency services need strengthening. In some of these countries the incidence of maternal mortality rates has increased (for instance in Fiji, Kiribati and Tonga), raising concerns over the quality of service delivery (Annex 2, Table 9).

In the case of Fiji, the public health system has a severe shortage of senior medical officers and specialists due to budget cuts and migration of doctors. Waiting times for surgery are increasingly longer and the shortage of obstetricians and paediatricians is reportedly impacting on the care of mothers and babies. Furthermore, because of this shortage, some smaller hospitals can no longer provide the specialist medical services they could previously (for instance caesarean sections). The continued shortage of senior doctors and specialists will over time lead to further deterioration in service levels and may lead to worsening outcomes for health-related MDGs.

Improving girls' education will help improve maternal health.

MDG 6 Combat diseases

MDG 6: Combat HIV/AIDS, malaria and other diseases

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

Infectious and life-style diseases pose significant health threats but rapid progress is being made in combating malaria

The prevalence of infectious diseases varies across the region. HIV/AIDS imposes significant health burdens on PNG, while malaria is common in PNG, Solomon Islands, Vanuatu and Timor-Leste. In other parts of the Pacific, vigorous immunisation programs and improved living conditions have reduced the previously large number of deaths due to infectious diseases. However, deaths and morbidity due to NCDs are increasing.

According to the PNG Department of Health, the number of people living with HIV at the end of 2008 is estimated at 76 600. This represents more than 98 per cent of the total estimate of people infected with HIV throughout the Pacific. With a prevalence rate estimated at 2 per cent of the population, PNG's epidemic has increased exponentially since 2000 when the lowest estimate of infection was 5500. In PNG, HIV is largely transmitted heterosexually and more infections have been detected in women than men: between June and December 2008 more than five times as many young women aged between 15 and 24 were diagnosed with HIV than young men. The higher numbers of female diagnoses in PNG is influenced by women's preparedness to access testing services. It is also linked to the high level of other sexually transmitted infections (STIs) and sexual violence against women.

Despite the currently low levels of HIV infection in many Pacific island countries, they are at significant risk of a worsening epidemic. These countries have multiple risk factors in common with PNG. These include: the lack of empowerment of women; young populations with limited knowledge of HIV; sex among young people from early ages; high labour mobility; and cultural influences that discourage open discussion of sex. The numbers of teenage pregnancies in the region indicate high levels of unprotected sex among young people. Countries such as Fiji, Samoa and Tuvalu continue to show alarming rates of other STIs. This signals high-risk behaviour that can eventually lead to the transmission of HIV.¹¹

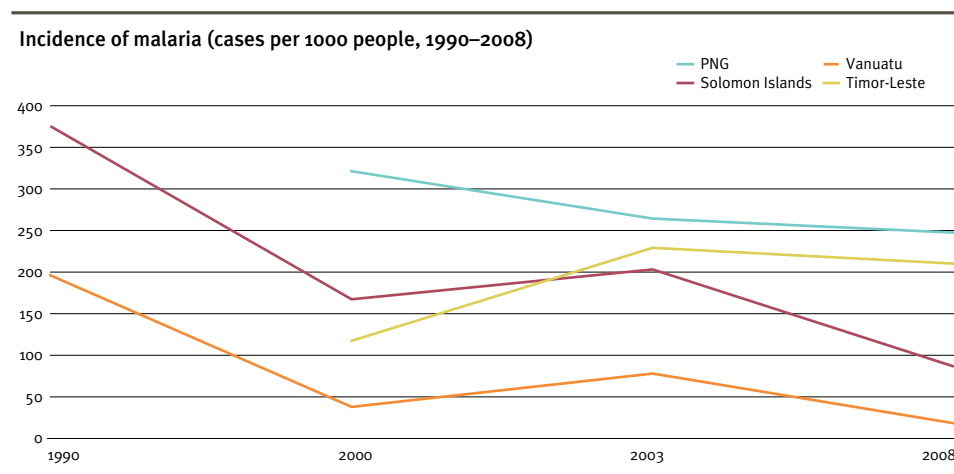
Malaria remains a significant problem in PNG, Timor-Leste, Solomon Islands and Vanuatu. PNG is included in the World Health Organization's (WHO) 30 high-burden malaria countries, with malaria among the leading causes of hospital admissions and among the most common causes of death in children.¹² But strong and renewed political commitment in Solomon Islands and Vanuatu, backed by support from international organisations, has seen remarkable progress in rebuilding the reach and effectiveness of their malaria control efforts over the last five years. In Solomon Islands, malaria incidence decreased from 199 cases per thousand people in 2003, to 82 cases per thousand in 2008. In Vanuatu, malaria incidence decreased from 74 cases per thousand people in 2003, to 14 cases per thousand in 2008 (Chart 11, p. 25). The two countries are scaling up their malaria programs with the aim to control and progressively eliminate malaria, island by island.

Solomon Islands and Vanuatu are scaling up their malaria programs with the aim to control and progressively eliminate malaria, island by island.

11 SPC, Second Generation Surveillance Surveys, Public Health Programme HIV and STI, various years.

12 WHO, *World Malaria Report*, 2008.

Chart 11: Solomon Islands and Vanuatu are successfully reducing the spread of malaria



Sources: WHO, *World Malaria Report 2008*; Vector Borne Disease Control (VBDC) Program in Vanuatu and Solomon Islands. Refer to Annex 2, Table 11 for more information.

Note: Data not available for PNG and Timor-Leste prior to 2000.

Tuberculosis (TB) is a health problem in some countries. Rates range from around 20 cases per 100 000 population in Cook Islands, Samoa, Tonga and Fiji to in excess of 400 in Timor-Leste, PNG, Kiribati and Tuvalu (Annex 2, Table 11). On top of these high rates, multi-drug resistant TB (MDR TB), TB and diabetes, and TB–HIV co-infections are emerging with potentially huge public health implications. The burden of MDR TB is extremely high in FSM, accounting for more than 10 per cent of all newly diagnosed cases in 2008. Treating MDR TB is a long and expensive process and therefore its prevention is a priority for national TB programs throughout the Pacific.

Non-communicable diseases (NCDs) are now considered the leading cause of death in at least eight Pacific island countries. When coupled with existing high levels of infectious diseases, the rise in NCDs imposes a ‘double burden’ on the health of individuals and places additional pressure on fragile health systems. In Nauru, WHO data shows that 22 per cent of the population have diabetes (2006) and in Samoa the prevalence of diabetes increased from 10 per cent in 1987 to 23 per cent in 2001. Many NCDs are considered to be preventable and are linked to changing diets, increased consumption of alcohol and tobacco, low levels of exercise, and limited public understanding of associated health risks. Treating NCDs is expensive and resource intensive, and therefore prevention is a high priority for regional governments and organisations throughout the Pacific. Fiji and Tonga have both prepared national strategic plans to address NCDs, and Tonga has recently established a Health Promotion Foundation.

Non-communicable diseases are now considered the leading cause of death in at least eight Pacific island countries.

MDG 7 Environmental sustainability

MDG 7: Ensure environmental sustainability

- 7a Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.
- 7b Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss.
- 7c Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
- 7d Have achieved by 2020, a significant improvement in the lives of at least 100 million slum dwellers.

Environmental threats are also intensifying

All MDGs are linked, in the sense that achievements in any one area leads to achievements in others. This reality, however, is often overlooked with MDG 7, yet progress on environmental sustainability is essential for the attainment of all other MDGs in the Pacific. Box 1 illustrates how achievement of this target influences the achievement of the others.

One of the most pressing environmental issues facing Pacific island countries is climate change. While these countries are negligible contributors to climate change, they are vulnerable to its impacts. Rising temperatures, changes in rainfall, rises in sea level and more frequent, intense tropical cyclones and storm surges are expected to lead to increased flooding of coastal areas, reduced fishery and reef resources, and local water scarcities. Many island nations face high costs but have limited options or resources to adapt to the impacts of climate change. In the Pacific, applying better knowledge of trends and local vulnerabilities to building adaptive responses and resilience (for example, by predicting and preparing for sea-level rises and cyclones) are key climate-change challenges.

Deforestation remains a significant issue in PNG and Solomon Islands. Commercially accessible forestry resources in Solomon Islands are expected to be exhausted in a few years. In PNG, despite increases in recent years in the number of logging concessions, deforestation is occurring primarily as a result of land clearing for agricultural uses.

Oceanic fishing is one of the Pacific's largest resources and is vitally important as a source of government revenue, employment and export earnings. Over-fishing and illegal, unregulated and unreported fishing are threatening this resource. The 2006 Scientific Committee of the Western Central Pacific Fisheries Commission (WCPFC) has assessed, for example, that recent levels of tuna fishing are unsustainable—particularly for yellowfin and bigeye species. In recognition of this issue a number of regional- and country-level initiatives are underway. In 2008, for example, the WCPFC agreed to a range of management measures designed to restore tuna stocks to safe biological levels. At country level, Kiribati and Palau are pursuing proactive solutions to protect their large marine resources. In 2006, Kiribati established the world's largest marine protected area (known as the Phoenix Islands Protected Area) and is considering banning commercial inshore reef fishing within it, although some residents will be allowed to continue subsistence fishing. As part of the 'Micronesia Challenge' Palau has committed to protecting 30 per cent of its nearshore waters by 2020.

Unsustainable oceanic fishing is threatening a vital source of government revenue, employment and export earnings in the Pacific.

Box 1: The Millennium Development Goals and the environment

MDG 1 Eradicate extreme poverty and hunger	Millions of people in the Pacific depend on natural resources and ecosystems for food, shelter and income. Widespread depletion of these resources has led to a cycle of poverty and falling productivity, which must be reversed to secure food supplies and to reduce poverty.
MDG 2 Achieve universal primary education	Access to education for both girls and boys is generally good in Polynesia and Micronesia. However, opportunities for girls can be very limited in poorer areas. Poverty, illnesses, heavy workloads and poor nutrition stemming from resource depletion and environmental degradation can limit school attendance.
MDG 3 Promote gender equality	The different roles of men and women, their relative access to resources and their exposure to harmful pollution can affect the lives of women and girls who may not have equal rights to participate in decision making. Inclusive decision making about how resources are managed and shared, and better access to safe water and secure energy, can reduce the workloads of women and girls and help to sustain the livelihoods of their families.
MDG 4 Reduce child mortality	Diarrhoea and respiratory infections remain major killers of children under five. These diseases are closely linked to contaminated water and poor sanitation.
MDG 5 Improve maternal health	Maternal mortality remains very high in poorer countries. Improving access to safe water, reducing the contamination of air, water and food, and improving the sharing of resources can dramatically improve the health of women during pregnancy and childbirth.
MDG 6 Combat HIV/AIDS, malaria and other diseases	The incidence of some major diseases is linked to the environment. Controlling pollution, reducing the use of toxic chemicals and controlling climate-linked diseases, including vector-borne diseases, can significantly reduce the incidence of, and vulnerabilities to, disease.
MDG 7 Ensure environmental sustainability	Healthy ecosystems and natural resources provide livelihoods for millions of people. Sustaining their productivity and functioning will provide ongoing income, clean water and air, and secure food supplies, leading to long-term sustainable development outcomes.
MDG 8 Develop a global partnership for development	Many environmental issues have regional and global dimensions. Joining international efforts that combine the resources of many nations will enhance the impact of activities and enable knowledge and best practice approaches to be shared.

Table 6: Progress on access to safe drinking water and sanitation

Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation					
Melanesia	Fiji	PNG	Solomon Islands	Vanuatu	
	On track (limited data) Household access to improved water supply and sanitation was 93% and 99%, respectively, in 1996.	Off track (deteriorated) Household access to improved water supply declined from 88% in 1990 to 40% in 2006. During same period, household access to basic sanitation was unchanged at 45%.	Off track (limited data) Household access to improved water supply and sanitation was 30% and 22%, respectively, in 1999.	Of concern (limited data) Household access to improved water supply and sanitation was 75% and 95%, respectively, in 1999.	
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	On track (limited data) Household access to improved water supply and sanitation was 95% and 99%, respectively, in 2001.	On track Household access to improved water supply and sanitation was 100% in 2001 and 2006.	On track Household access to improved water supply and sanitation was 98% and 100%, respectively, in 2006.	On track Households access to improved water supply and sanitation was 98% and 99%, respectively, in 2006.	Off track Between 1991 and 2002 household access to improved water supply and sanitation increased from 90% to 93% and from 77% to 87%, respectively.
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	Of concern Household access to improved water supply increased from 79% in 1994 to 94% in 2006. Access to basic sanitation increased from 34% in 1994 to 44% in 2000.	Off track Household access to improved water supply increased from 35% in 1990 to 53% in 2005. Access to basic sanitation increased from 24% in 1990 to 37% in 2005.	Of concern Household access to improved water supply increased from 93% in 1988 to 98% in 2007. Access to basic sanitation declined from 74% in 1988 to 71% in 2007.	Of concern (limited data) Household access to improved water supply increased from 72% in 1992 to 82% in 2002. Access to basic sanitation was 97% in 2002.	On track Household access to improved water supply increased from 89% in 1995 to 100% in 2005. Access to basic sanitation increased from 98% in 1995 to 100% in 2005.
Timor-Leste	Off track Household access to improved water supply was unchanged between 2000 and 2007 (62%). Access to basic sanitation increased from 40% in 2000 to 47% in 2007.				

Source: Annex 2, Table 13.

Notes: Refer to Annex 4 for the definition of 'improved' water supply and sanitation. Countries that are on track (likely to meet the target) are shaded in green. Countries that are of concern (progressing too slowly but could reach the target with extra effort and resources or with limited data) are shaded in orange. Countries that are off track (highly unlikely to meet the target) are shaded in red.

Access to clean water and effective sanitation is essential for a healthy population and environmental sustainability. Globally, WHO estimates that 88 per cent of diarrhoeal disease is attributed to unsafe water supply, inadequate sanitation and hygiene. Countries on track to halve the proportion of households without access to safe water supply and improved sanitation include Cook Islands, Fiji, Niue, Palau, Samoa and Tonga (Table 6). PNG, Kiribati and Timor-Leste are off track to meet this target by 2015. Large disparities between urban and rural populations exist in most countries. For example in Kiribati, 70 per cent of urban households in 2005 had access to a safe water supply compared to only 37 per cent of rural households.

High population growth and rapid rates of urbanisation in many Pacific island countries means increasing attention will need to be paid to urban planning, in particular to housing settlements. In some countries, such as PNG, squatter settlement populations are increasing and conditions becoming more crowded.

Government performance in the Pacific

Pacific countries continue to make significant investments in their own development

Most Pacific island countries continue to invest significant resources into human development. Governments, churches, civil-society organisations and communities all make important contributions to service delivery. Table 7 shows the amounts governments spent on health per person in 2000 and 2006. Across much of the region, per capita health expenditure increased over this period. PNG and Solomon Islands both spent more in 2006 on health per person than other countries classified as 'low income', although spending was almost static in real terms for PNG between 2000 and 2006. FSM, Kiribati, the Marshall Islands, Samoa, Tonga and Vanuatu all spent more per person on health than other countries

Table 7: Government spending on health has increased in most countries

Per capita government expenditure on health (\$PPP)			
Country	Year		Real % change (2000–06)
	2000	2006	
Melanesia			
Fiji	110	114	4
PNG	52	51	−2
Solomon Islands	73	91	25
Vanuatu	85	81	−5
Polynesia			
Cook Islands	395	741	88
Niue	487	1 243	155
Samoa	110	161	46
Tonga	118	135	14
Tuvalu	299	402	34
Micronesia			
FSM	202	360	78
Kiribati	135	200	48
Marshall Islands	568	506	−11
Nauru	684	816	19
Palau	932	1 133	22
Comparison countries			
Timor-Leste	48	94	96
Low income	13	21	62
Lower middle income	42	78	86
Upper middle income	254	389	53
World average	314	455	45

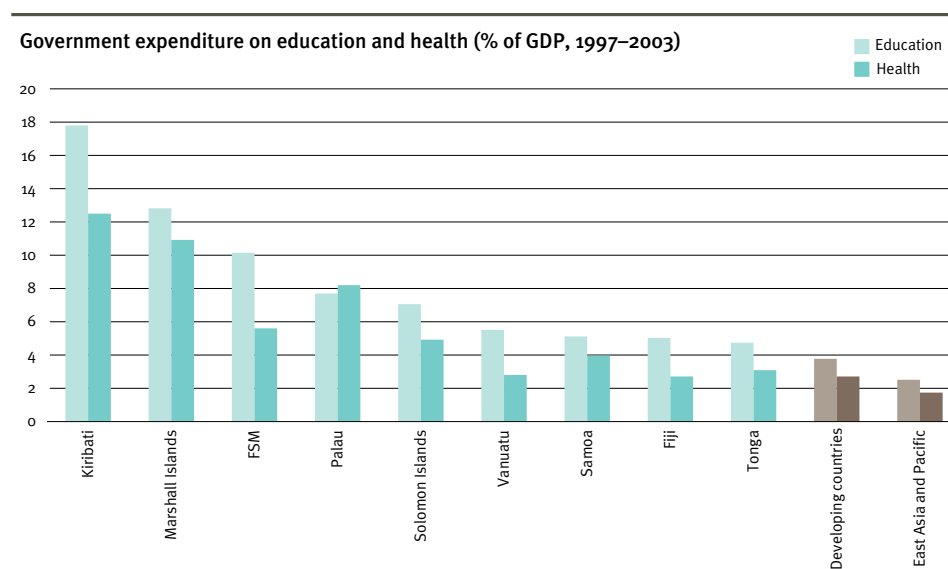
Source: WHO, *World Health Statistics 2009*.

Note: Data varies from that presented in the 2008 *Tracking development and governance in the Pacific* report due to the WHO using a new PPP series resulting from the World Bank's 2005 International Comparison Project.

classified as ‘lower middle income’, although real per capita spending in the Marshall Islands and Vanuatu fell between 2000 and 2006. Palau spent more per person than the average for ‘upper middle income’ countries while Fiji spent less than the average for this income group and increased its real per capita spending only slightly between 2000 and 2006.¹³

Chart 12 shows the average government education and health expenditure in most Pacific island countries as a percentage of GDP for 1997 to 2003.¹⁴ The chart shows that between 1997 and 2003 the nine countries for which data is available spent more on education and health as a share of GDP than the average levels for developing countries and for East Asia and the Pacific—except for Fiji and Vanuatu which spent less on health as a share of GDP than the developing country average.

Chart 12: Governments invest large shares of Gross Domestic Product in service delivery



Source: World Bank, *Opportunities to Improve Social Services: Human Development in the Pacific Islands*, 2007.

Notes: PNG was not included in the World Bank study. Expenditure excludes: United States Compact capital funds for FSM, the Marshall Islands and Palau; government capital expenditure and development partner funds for Kiribati, Solomon Islands and Vanuatu; and development partner funds for Fiji, Samoa and Tonga. Averages for developing countries and East Asia and the Pacific are included for comparative purposes.

The reach and quality of services remain poor in many countries

While many countries are making significant investments in service delivery, spending is not always effective.

While many countries are making significant investments in service delivery, spending is not always effective. Improving services not only requires more resources, it requires that these resources be well targeted and used efficiently. Small and dispersed populations and poor transport links mean it is expensive to deliver public services in the Pacific. Higher levels of spending will often be required to achieve the same level of services as in countries with lower cost structures. Population growth continues to add to the demand for public services in much of the region. Future population pressures on the capacity of public services are likely to be strongest in Melanesia and Kiribati. The latest population projections prepared by the SPC suggest that PNG’s population will grow by around 16 per cent between 2008 and 2015. Over the same period projected growth is 20 per cent for Solomon Islands, 19 per cent for Vanuatu and 13 per cent for Kiribati. Fiji, Polynesia

¹³ WHO uses the World Bank classification of economies (July 2008). Cook Islands, Nauru, Niue and Tuvalu are not categorised into income groups and are therefore excluded by the WHO from the calculation of averages by income group. Revised classifications published in July 2009 classify PNG and Solomon Islands as ‘lower middle income’.

¹⁴ This is the most recent data on education expenditure as a share of GDP. More recent data is available on health expenditure as a share of GDP.

and most of Micronesia, on the other hand, are expected to experience relatively limited population growth over the same period, as low as 2 per cent for Samoa and Tonga.¹⁵

Table 8 shows that access to services is generally better in the higher income countries in most of Polynesia and Micronesia and worse in poorer countries, especially PNG.

Table 8: Service delivery is mixed

	Net primary school enrolment rate (%)	Births attended by skilled health staff (% of total)	Measles immunisation (% of one-year old children)
Melanesia			
Fiji	94	99	76
PNG	53	53	53
Solomon Islands	94	86	81
Vanuatu	85	88	37
Polynesia			
Cook Islands	100	98	98
Niue	100	100	99
Samoa	90	100	99
Tonga	95	95	96
Tuvalu	100	98	74
Micronesia			
FSM	100	88	84
Kiribati	97	85	76
Marshall Islands	90	94	54
Nauru	60	97	80
Palau	93	100	99
Timor-Leste	63	41	59

Sources: Refer to Annex 2, Tables 4, 8 and 9.

Note: Data is for different years.

Even where overall access to services is relatively good, equity of access is a challenge, particularly for people with disability. Expenditure is often poorly targeted with a significant share devoted to services used by those who are better off. For example, the World Bank estimates that in most Pacific island countries around 70 per cent of recurrent health budgets are devoted to curative care and treatment overseas, leaving little for preventative services. The balance of resources within some services is also an issue. It is estimated, for example, that most Pacific island countries spend more than 90 per cent of recurrent education expenditure on teacher salaries and very little on teaching materials and other operating expenses. The quality of services is also a serious concern throughout the region. As outlined in Chapter 2, learning outcomes from education are often poor. One reason for this may be low levels of teacher training. For example, a significant proportion of primary school teachers have no professional training, with estimates from 2002 ranging from 20 per cent in the Marshall Islands to 54 per cent in Vanuatu.¹⁶

Improving service quality and access requires both better management of human and financial resources and better relationships between governments, service providers and local communities. Involving communities in service delivery can help service providers be more responsive and accountable to local needs and provide additional resources for service delivery. For example, community involvement in health services at a local level in some countries, including the Marshall Islands, Samoa and Vanuatu, has helped control the spread of infectious diseases and ensure that local facilities are maintained.¹⁷ Schools

Expenditure is often poorly targeted with a significant share devoted to services used by those who are better off.

¹⁵ SPC, Population 2008–15 by one- and five-year age groups, Statistics and Demography Program, 2009.

¹⁶ World Bank, *Opportunities to Improve Social Services*.

¹⁷ World Bank, *Opportunities to Improve Social Services*.

Better quality information is required to track whether services are reaching women, low-income households and people with disability.

with active and resourced community-based management committees can improve teaching quality. Churches play a significant role in delivering services in the Pacific, alongside other civil society organisations. The private sector can also play an important role in delivering some services and in helping to improve services provided by government. For example, consultation with the private sector on curriculum content can help make technical and vocational education more relevant to the job market.

More effective service delivery also requires better quality information to identify community and household needs and to track the provision of services, including whether services are reaching women, low-income households and people with disability. Several Pacific island governments, often supported by development partners, have moved to establish information management systems within service-delivery agencies—for example, Solomon Islands is implementing a system in the education sector to track service delivery at school level, with assistance from New Zealand.

Public access to information is important in allowing communities to check whether resources are reaching the local level and compare service access and quality. In particular, the media helps to inform public opinion and provides a channel for citizens, active Non-Government Organisations and governments to engage on issues of public importance. Well-informed communities, their civil society representatives, and the media, can play a significant role in demanding higher standards of governance and accountability from public officials.

Public financial management is improving, but weaknesses remain

Several Pacific island countries have reviewed their public expenditure management systems using the internationally agreed Public Expenditure and Financial Accountability (PEFA) framework. Results for five countries were presented in the 2008 *Tracking development and governance in the Pacific* report. Since then an assessment has been completed for Solomon Islands. These assessments (Table 9) are not intended to be used for direct cross-country comparisons but they can help identify the parts of systems that are relatively strong or weak in most countries.

Assessments show that Pacific island countries generally have reasonably accurate budgeted expenditure, satisfactory annual budget processes and some level of fiscal transparency, but procurement and payroll controls and both internal and external audit are generally weak. There is significant scope to improve the quality and timeliness of the information provided by development partners for inclusion in country budgets and financial reports.

Table 9: Selected public expenditure and financial accountability indicators

	Credibility of budgeted expenditure	Budget process	Public assess to fiscal information	Multi-year budget	Procurement	Payroll controls	Internal audit	External audit	Information provided by development partners
PNG	C	A	B	C	C+	D+	D+	D+	C
Samoa	A	A	C	C	B+	B	D	D	D+
Solomon Islands	C	D+	C	C	D+	D+	D	C+	D+
Tonga	B	B	C	D+	B	D+	D	D+	D
Tuvalu	B	B	C	D+	n.a.	D	D	D+	n.a.
Vanuatu	A	B+	C	D+	D+	C+	D+	D+	D
Timor-Leste	D	B	C	B+	B+	D+	D+	D+	D

Sources: PEFA assessments for Pacific island countries.

Notes: Some ratings are yet to be endorsed officially. Systems are graded A (strongest) to D (weakest) on a comprehensive range of 31 public financial management indicators. Comparisons only identify indicators that are relatively weak or strong within a country, not between countries. Refer to Annex 4 for further notes.

The challenge of strengthening public financial management systems and increasing the use of these systems by development partners is discussed further in Chapter 4. To date, Samoa is the only Pacific country that has used its PEFA assessment to help develop a plan to reform its public financial management. However, as outlined in Chapter 4, these assessments are still a useful starting point for dialogue on reforming public financial management.

Improving government effectiveness, reducing corruption and maintaining the rule of law are central to making progress towards the MDGs.

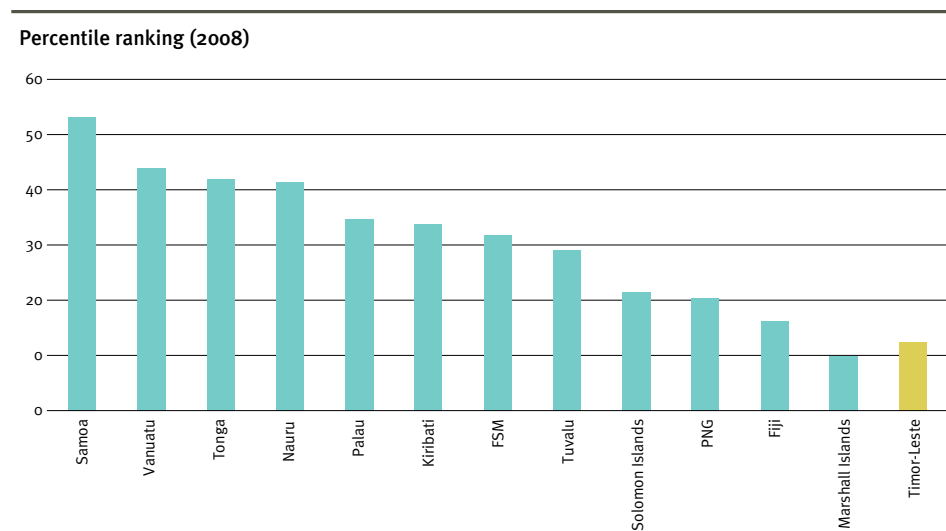
Despite some improvements, achieving effective government remains challenging

Improving government effectiveness, reducing corruption and maintaining the rule of law are central to making progress towards the MDGs in the Pacific. However, measuring governance is a difficult and subjective process. The World Bank Group's Governance Indicators provide the most comprehensive information on perceptions of governance across six categories—voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. The indicators are based on a range of sources including expert opinions and public and business surveys.

Chart 13 shows rankings for government effectiveness in 2008. Government effectiveness includes: the quality of public services; the capacity of the public service and its independence from political pressures; and the quality of policy formulation. Care should be taken in interpreting the rankings, however, particularly for the region's smaller countries. Measures of government effectiveness in the Pacific vary widely, but even the best performing country, Samoa is only just above the global average. Solomon Islands, PNG, Fiji, the Marshall Islands and Timor-Leste perform relatively poorly on government effectiveness. However, between 2003 and 2008 Solomon Islands made a significant improvement. Between 2002 and 2008 Fiji's performance on government effectiveness declined significantly, as did Tuvalu's between 2000 and 2008.¹⁸

Research by the World Bank has found that, at a global level, additional government expenditure on public services has a larger positive impact on outcomes (such as school enrolments) in countries rated as having higher levels of government effectiveness. In countries with very low government effectiveness, additional expenditure can actually have a negative effect on outcomes.¹⁹

Chart 13: Measures of government effectiveness in the Pacific vary widely



Source: World Bank, *Governance Matters: World Wide Governance Indicators 1996–2008*, 2009.

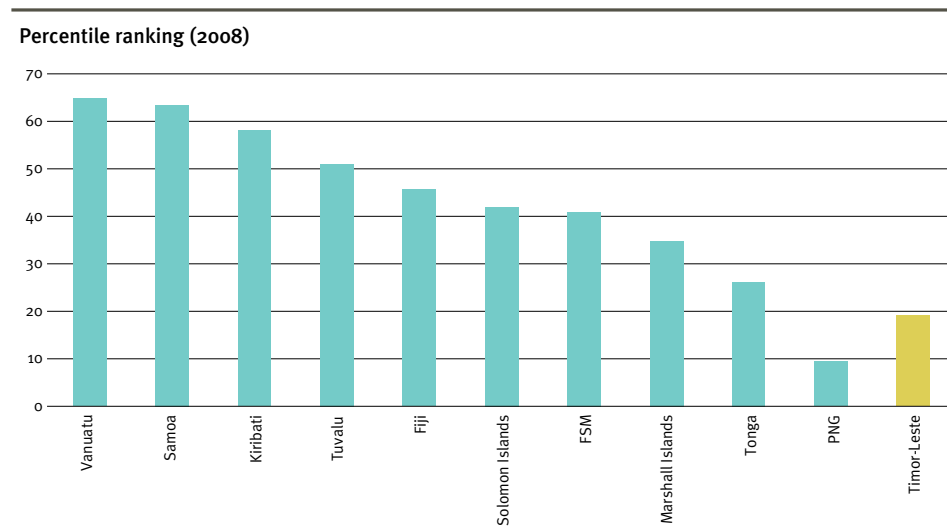
Notes: Cook Islands and Niue are not included because their rankings are based on highly imprecise estimates of their government effectiveness. Timor-Leste is included as a comparison country.

¹⁸ World Bank, *Governance Matters: World Wide Governance Indicators 1996–2008*, 2009.

¹⁹ World Bank, *Opportunities to Improve Social Services*.

In 2008, Vanuatu, Samoa and Kiribati performed relatively well in controlling corruption (Chart 14) while Tonga, PNG and Timor-Leste performed relatively poorly. Between 2002 and 2008, Solomon Islands and Vanuatu significantly improved their performance in controlling corruption.²⁰

Chart 14: Control of corruption is mixed



Source: World Bank, *World Wide Governance Indicators*.

Notes: Rankings for Cook Islands and Niue are not available. Nauru and Palau are not included because their rankings are based on highly imprecise estimates of their control of corruption. Timor-Leste is included as a comparison country.

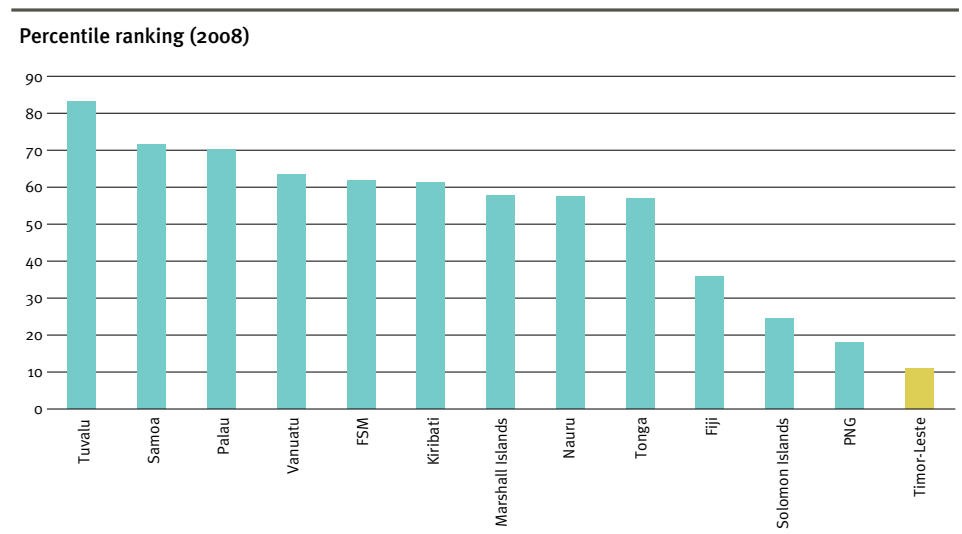
Other indicators of corruption include Transparency International's Corruption Perceptions Index, which uses some of the same sources as the World Bank. This index ranks 180 countries from those with the lowest perceived corruption to the highest. The Transparency International rankings for Pacific island countries in 2008 were Samoa (62), Kiribati (96), Solomon Islands (109), Vanuatu (109), Tonga (138) and PNG (151). Timor-Leste was ranked at 145.²¹ These rankings are broadly consistent with those produced by the World Bank, although Vanuatu's ranking relative to other Pacific island countries was better in the World Bank's indicators. Transparency International has also undertaken detailed studies on the efforts of national integrity systems in most Pacific island countries in addressing corruption. Instead of measuring perceptions of corruption itself, the annual Global Integrity Index assesses the existence and effectiveness of, and citizen access to, anti-corruption mechanisms. Of the 51 countries surveyed in 2007, Vanuatu ranked at 20, PNG at 25, and Timor-Leste at 41. Fiji was the only Pacific island country included in the index in 2008 and it was ranked at 29 out of 48 countries.²²

²⁰ World Bank, *World Wide Governance Indicators*.

²¹ Transparency International, *Corruption Perceptions Index*, 2008.

²² Global Integrity, *Global Integrity Index* 2008.

Chart 15: Some countries perform well on the rule of law



Source: World Bank *World Wide Governance Indicators*.

Notes: Ranking for Niue is not available. Timor-Leste is included as a comparison country.

The rule of law indicator covers the quality of contract enforcement and property rights, the police, the courts, and the likelihood of crime and violence. Chart 15 shows that several countries, including Tuvalu, Samoa and Palau, all ranked relatively well in 2008 while Fiji, Solomon Islands and PNG ranked relatively poorly. Timor-Leste ranked lower than all Pacific island countries on this indicator.

The overall ease of doing business is not improving in most Pacific countries

Countries are more likely to generate broad-based economic growth when their regulatory environment is conducive to doing business.

Countries are more likely to generate broad-based economic growth when their regulatory environment is conducive to doing business. The World Bank produces global ease of doing business rankings for 181 countries on 10 topics such as ease of starting a business, access to credit and registering property. Countries are ranked from best (1) to worst (181) based on their combined rankings across these topics.

The 2008 rankings for the region remain mixed (Table 10). Most Pacific island countries slipped slightly from 2007. Overall, Fiji at 39 and Tonga at 43 provided the best environments for doing business in the Pacific although they both slipped in 2008. FSM and PNG ranked the lowest at 126 and 95 respectively. Vanuatu was the only Pacific island country to improve its ranking in 2008 from 67 to 60, moving ahead of Samoa.

The business environment in Timor-Leste ranked more poorly (170) than any Pacific island country. The average ranking (78) for Pacific island countries in 2008 was better than the averages for two comparator groups of countries—the small island developing states in the Caribbean (82) and in Africa and the Indian Ocean (121). However, these comparator groups include several countries that ranked very poorly, such as Haiti (154) and Guinea-Bissau (179), and others that performed much better. The highest ranked countries in these two groups—St Lucia (34) and Mauritius (24)—both ranked higher than any Pacific island country in 2008.

Table 10: Ease of doing business world rankings

	2007 rank	2008 rank
Fiji	34	39
Tonga	40	43
Vanuatu	67	60
Samoa	56	64
Kiribati	75	79
Solomon Islands	85	89
Palau	88	91
Marshall Islands	86	93
PNG	89	95
FSM	121	126
Pacific average	74	78
Comparator countries		
Timor-Leste	170	170
Caribbean average	75	82
St Lucia	33	34
Antigua and Barbuda	39	42
Africa and Indian Ocean small island states average	119	121
Mauritius	29	24
Maldives	68	69

Source: World Bank, *Doing Business 2009*, Economy Rankings tables.

Notes: Rankings are for June of each year. 2008 rankings are those first published in 2009. Refer to Annex 4 for further notes.

In a competitive global environment and given the natural disadvantages they face, Pacific island countries need to improve their business environments in order to attract investment. Continued attention is needed to reduce the regulatory burden on business and to ensure that transport and communication services are available at competitive rates.

Governance matters for progress towards the Millennium Development Goals in the Pacific

There is an international consensus that governance is a key driver of growth and that, in turn, growth is a key driver of progress towards the MDGs. The cross-country evidence of the link between governance and growth in the Pacific and Timor-Leste is presented in Chart 16 (p. 38).

Chart 16 uses scaled World Bank scores for government effectiveness for 2007.²³ A simple analysis of this data suggests that a 10 per cent overall improvement in government effectiveness is associated, on average, with a 14 per cent increase in GNI per person.²⁴ The analysis indicates that if Tonga, for example, had been able to achieve a 10 per cent overall improvement in the quality of its public services, the capacity of the public service and the quality of its policy formulation, its GNI per capita in 2007 would have been US\$2760 instead of its actual level of US\$2480.

Combining this analysis with the equivalent analysis of the cross-country links between child mortality and economic growth (Chart 9, p.21) provides further evidence of the importance of governance in the Pacific. Again consider the case of Tonga. A 10 per cent improvement in Tonga's government effectiveness, by increasing per capita income, would

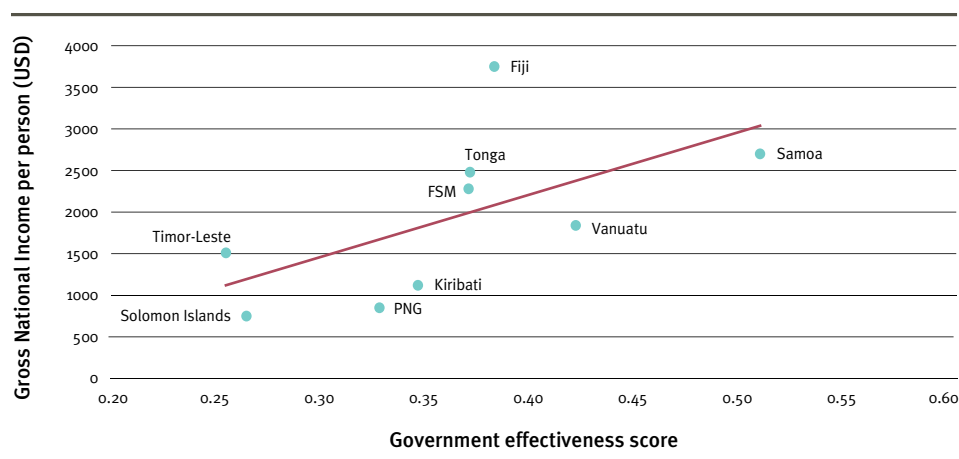
23 The World Bank's original scores are scaled so that the global average is zero. To simplify the analysis, scores have been re-scaled such that the highest score out of 212 countries (Singapore) is one and the lowest score (Somalia) is zero. The rankings of countries based on the 2007 scores differ from the 2008 rankings in Chart 13.

24 This is the effect for the unweighted average of GNI per capita for the nine countries in Chart 16. A 10 per cent improvement in governance in each of these countries is associated with a 19 per cent increase in the population-weighted average GNI per capita.

In a competitive global environment Pacific island countries need to improve their business environments in order to attract investment.

have decreased the child mortality rate to 14 deaths per 1000 live births (from 22 in 2006). Across the Pacific region as a whole a 10 per cent increase in government effectiveness would in 2008 alone have resulted in around 1800 fewer children dying before their fifth birthdays.²⁵ Achieving an improvement of government effectiveness of this magnitude is not an unreasonable goal.

Chart 16: Income increases with government effectiveness



Sources: Data for 2007 from World Bank, *World Wide Governance Indicators* and World Bank, World Development Indicators database.

Notes: The countries included in the chart are those for which both governance and GNI data are available. The Marshall Islands and Palau are excluded as outliers. GNI values for some countries differ from those in Charts 6 and 9 as some values in those charts are for earlier years.

Improving governance in the Pacific is critically important for faster progress towards the MDGs.

Achieving MDG4 requires a two-thirds reduction in the child (under five) mortality rate between 1990 and 2015. The 1990 child mortality rate for the Pacific region was around 81 deaths per 1000 live births.²⁶ A two-thirds reduction would see this rate fall to 27 deaths per 1000 live births. This equates to a total of approximately 7000 deaths of children projected to be born in 2015. The actual number in 2008 is estimated to be 16 400 deaths.²⁷ Achieving such a reduction is a huge challenge as experience shows that continued reductions in child mortality are increasingly difficult to sustain over time. This points not only to the importance of improving governance, but further stimulating economic growth in other ways, increasing support for basic service delivery and improved development coordination.

The evidence on the importance of governance for development outcomes in the Pacific is only indicative and based on a relatively simple analysis of often patchy data. It is, however, fully consistent with the findings of more sophisticated international research, which has firmly established that better governance means higher growth and that higher growth, in turn, means better human development outcomes.²⁸

25 The reduction in child deaths is estimated using the projected Pacific region population aged zero in 2008 from SPC, Population 2008–15 by one- and five-year age groups, which is just over 250 000 children.

26 Estimated using under-5 mortality rates for 1990 or nearest available year, weighted by country shares of regional population. Nauru, Niue and Solomon Islands are not included in this average as their earliest data is for 1999 or later.

27 This is the estimated number of children born in 2008 expected to die before their fifth birthday.

28 See, for example, S Knack and P Keefer, 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures', *Economics and Politics*, 7(3), November 1995, pp. 207–27 and B Newman and R Randall, 'Economic Growth and Social Development: A Longitudinal Analysis of Causal Priority', *World Development*, vol. 17, no. 4, 1989, pp. 461–471.

Getting more out of development efforts in the Pacific

Pacific island countries need to make domestic resources and aid work better together

Previous chapters of this report show that in the Pacific poverty is rising, growth is insufficient, too many children are out of school and threats to health remain significant. Despite progress in some countries, the region overall is off track to meeting the MDGs. This has been compounded by the global recession. The joint Australia – New Zealand report *Surviving the global recession: Strengthening economic growth and resilience in the Pacific* describes the severe actual and potential impacts of the global recession on national and household incomes and underlines the need to protect funding for core services and implement macroeconomic and structural reforms to improve resilience.

Under MDG 8, countries have committed to develop a global partnership for development. Such a global partnership is necessary to meeting the other seven MDGs and includes addressing the special needs of small island developing states and increasing the volume and effectiveness of aid. Internationally, developing countries and their development partners have sought to inject a sense of urgency into the need to get better outcomes from the total resources available to meet the MDGs and other national goals. The *Paris Declaration* and the *Accra Agenda for Action* embody principles for mutual accountability and greater effectiveness and integration in the use of domestic and aid funds.²⁹ These principles include the responsibility of developing countries to link strategies to operational programs and budgets and take the lead in negotiating and coordinating how aid will contribute to these strategies. The overhaul of national systems and institutions for managing overall resources are also identified as an essential task for developing countries. Development partners are responsible for respecting partner country leadership, aligning their activities with country and policy objectives, using partner country systems, working better together, and reducing the number of separate aid activities. Developing country governments and development partners need to commit to achieving shared goals and form partnerships based on trust and mutual respect.

Aid is only part of the solution for the chronic difficulties experienced in the region in achieving the MDGs and other national goals, and for the immediate challenges of the global recession. However, it is a key component of expenditure on health, education and infrastructure programs, all of which are directly related to helping Pacific island countries move towards the MDGs. Aid finances around one-third of non-salary health expenditure in PNG and two-thirds in Vanuatu—it also finances all development costs and half of recurrent costs for health in Solomon Islands.³⁰ It is well established in studies of previous economic crises that keeping up expenditure on health, education and infrastructure is essential to underpin the resilience of poor people. Aid—provided it is available quickly and maintained during the crisis—may become a larger proportion of resources for development

Developing countries and their development partners are mutually responsible and accountable for achieving better development outcomes.

²⁹ *Paris Declaration on Aid Effectiveness*, 2005 and *Accra Agenda for Action*, 2008.

³⁰ AusAID, *Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu*, evaluation report and working papers, June 2009. PNG figure is for 2005.

Most Pacific island governments are moving to engage development partners in sector planning to bring together domestic and aid finance.

if other sources of income dry up. For these reasons, a more determined effort is needed now to get the best value out of aid as part of the overall resource package available to Pacific island countries.

Most Pacific island governments have moved in some way to take a proactive approach to managing aid flows and to engage development partners in sector planning to bring together domestic and aid finance. The *Pacific Aid Effectiveness Principles*, adopted in 2007, draw on the *Paris Declaration* principles. Aid effectiveness is also identified as central to implementing the *Pacific Plan*. Local versions of international commitments, such as the *PNG Commitment on Aid Effectiveness*, and declarations by development partners in Tonga and Tuvalu, signal a growing wish by Pacific island countries to better manage the aid they are receiving, and strong support for moves in this direction by development partners. Lessons are being learned from elsewhere in the world about more flexible and integrated forms of aid, and legitimate questions have been raised about the appropriate mix of instruments used by aid programs in the region. But faster progress is needed.

The Pacific receives a lot of aid, but it is difficult to manage

Volumes

In 2007, total net ODA to the region from development partners who reported flows to the OECD's DAC was US\$1.2 billion.³¹ Table 11 shows three measures of the net aid flows from these development partners in 2007. Timor-Leste is included in this and in subsequent tables for comparison as an aid-dependent country with similar challenges to Pacific island countries, and Tanzania and Uganda as major aid recipients in Africa where significant steps have been taken to improve development coordination.³²

Between 2001 and 2007, total aid to the region in real terms remained relatively stable, in the range of just under US\$1 billion to just over US\$1.2 billion.

Table 11: Net aid to the Pacific island countries (2007)

	Net ODA (USD millions)	ODA per capita (USD)	ODA (% of GDP)
Melanesia			
Fiji	57.5	69	2
PNG	320.9	51	5
Solomon Islands	246.1	497	63
Vanuatu	56.7	251	13
Polynesia			
Cook Islands	9.3	461	4
Niue	14.8	5 514	88
Samoa	37.5	207	7
Tonga	30.9	302	12
Tuvalu	11.7	1 197	44
Micronesia			
FSM	114.9	1 035	49
Kiribati	27.1	285	35
Marshall Islands	52.1	894	35
Nauru	25.6	2 912	113
Palau	22.3	1 108	14
Regional aid	138.7	n.a.	n.a.
Pacific total	1 165.9	136	9
Comparison countries			
Timor-Leste	278.3	262	70
Tanzania	2 810.8	70	17
Uganda	1 727.2	56	15
Small island states	3 339.8	65	3
Developing countries	105 284.0	19	1

Sources: AusAID calculations using data from OECD, Stat Extracts database; World Bank, World Development Indicators database; ADB, *Key Indicators 2008*; Statistics Niue.

Notes: 'Regional aid' refers to disbursements for regional programs recorded by the DAC as 'Oceania Regional'; n.a. denotes not applicable; Refer to Annex 4 for further notes.

31 This figure includes bilateral disbursements to the 14 Forum Island Countries plus Oceania Regional disbursements. DAC data is also available for the French territory of Wallis and Futuna and the New Zealand territory of Tokelau but these are not included in the total.

32 The high aid-to-GDP ratio for Solomon Islands reflects the presence of the Regional Assistance Mission to Solomon Islands (RAMSI), which provided more than half of total ODA flows to Solomon Islands in 2008 (of which approximately three-quarters related to the work of the RAMSI Participating Police Force). Aid-to-GDP ratios for small states may vary significantly from other sources that include aid not reported to the DAC or that use different GDP estimates. For example, the International Monetary Fund (IMF) estimates that external grant income for Kiribati (including from Taiwan) was 63 per cent of GDP in 2007 (IMF, *Kiribati: Staff Report for the 2009 Article IV Consultation*, June 2009). The ADB estimates that aid to GDP for Nauru (including from Taiwan) in 2005-06 was 89 per cent (ADB, *Nauru Country Economic Report*, November 2007).

Table 12 shows net aid disbursements to the Pacific by major development partners. Of the development partners whose aid is reported to the DAC, Australia provided the largest share of net aid flows to the Pacific. The United States was the second largest development partner, with more than 90 per cent of its total amount directed to FSM, the Marshall Islands and Palau. New Zealand was the third largest bilateral development partner, followed by Japan. Canada, France the United Kingdom and at least 14 other countries also provided small amounts of aid to the Pacific in 2007.³³ The European Union (EU) was the largest multilateral development partner, with the Global Fund to Fight AIDS, Tuberculosis and Malaria, the International Financial Institutions (IFIs) (ADB and World Bank) and United Nations (UN) agencies also making substantial contributions.

Table 12: Sources of aid to Pacific island countries (2007)

Development partner	Net ODA (USD millions)	% of total
Australia	649.3	55.7
Canada	8.2	0.7
France	16.7	1.4
Japan	70.3	6.0
New Zealand	120.9	10.4
United Kingdom	5.4	0.5
United States	171.7	14.7
Other bilateral	2.8	0.2
European Union	71.2	6.1
Global Fund	10.8	0.9
International Financial Institutions	9.9	0.8
United Nations and other multilateral organisations	28.8	2.5
Total	1 165.9	100.0

Source: OECD, Stat Extracts database.

Note: Data is net disbursements to the 14 Forum Island Countries and Oceania Regional. Refer to Annex 4 for further notes.

Not all development partners providing aid to the Pacific report their disbursements to the DAC. The two largest who do not are China and Taiwan.³⁴ China's aid to the region, including the grant component of its loans, is estimated at between US\$100 million and US\$150 million per year.³⁵ No reliable estimate exists for the total amount of aid Taiwan gives to the Pacific. Solomon Islands' budget, however, estimates that Taiwanese aid in 2007 was SBD113.8 million (US\$14.9 million) or around 6 per cent of total aid. The Kiribati budget estimates that Taiwanese aid in 2007 was A\$31.6 million (US\$26.6 million), or 49 per cent of the estimated grant assistance that year. The Kiribati budget estimate for 2008 was lower at A\$24.1 million (US\$20.6 million) or 46 per cent of grant assistance. Nauru is estimated to have received A\$5.5 million (US\$4.6 million) from Taiwan in 2006-07 and budgeted for A\$4.6 million (US\$3.9 million) in 2007-08.³⁶

33 With the exception of Korea and Turkey, other bilateral development partners reporting to the DAC provided net individual disbursements of less than US\$1 million. Finland, Germany, the Netherlands and Arab countries had zero or negative net disbursements in 2007, but provided positive net disbursements in previous years.

34 India, Indonesia, Israel, Malaysia and Thailand attended the Pacific Island Countries—Development Partners Meeting in April 2009. Cuba and Venezuela have also provided or offered assistance to the region.

35 F Hanson, *The Dragon in the Pacific: More Opportunity than Threat*, Lowy Institute for International Policy, Policy Brief, June 2008.

36 ADB, *Nauru Country Economic Report*.

Fragmentation

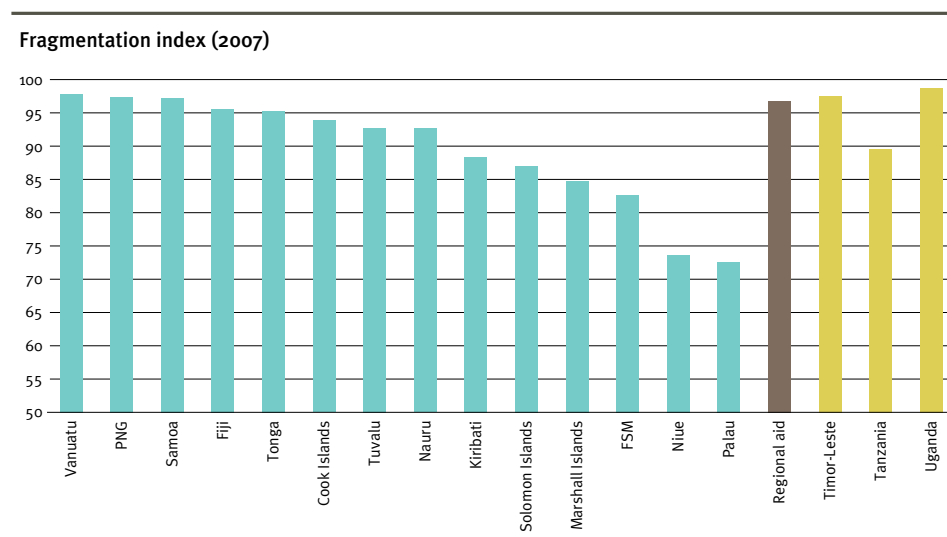
Having large numbers of aid activities accounting for relatively small amounts of aid money leads to high levels of aid fragmentation, adds to management costs and reduces the potential for coordination. According to the DAC database, PNG had 1063 separate aid activities in 2007 financed by 23 DAC development partners. Vanuatu had 371 activities financed by 11 DAC development partners.³⁷ Chart 17 shows an index of aid fragmentation by activity for 14 Pacific island countries and Pacific regional aid, based on DAC data. The index combines the number of aid activities in a country and their relative size. Countries with lower fragmentation indices receive a relatively large share of their aid through a smaller number of activities.

Levels of aid fragmentation in the Pacific are relatively high in Vanuatu, PNG and Samoa and relatively low in FSM, Niue and Palau. Countries with lower fragmentation indices tend to be those with one main development partner providing a large share of aid through a small number of activities. Aid delivered through regional programs is highly fragmented with a large number of small activities managed by multiple development partners. Reducing fragmentation requires joint efforts by Pacific island countries and their development partners to reduce the number of small aid activities—through country leadership and improved coordination.

Chart 17 shows that despite the relatively smaller number of development partners in the region, many Pacific island countries deal with fragmentation at levels similar to major recipients in Africa. Aid fragmentation does not in itself lead to poor aid management, as the experience of Tanzania and Uganda shows. What matters is the capacity of partner countries to manage a diverse aid portfolio; but on those grounds the data suggests that the Pacific experiences real difficulties.

Reducing the number of small aid activities—through country leadership and improved coordination—will reduce the costs of aid management.

Chart 17: Aid is highly fragmented in most of the Pacific



Source: AusAID calculations using data from OECD, Stat Extracts database.

Notes: The aid fragmentation index is a number between zero and 100 that measures the extent to which total aid flows to a country are fragmented between different activities. An index of zero would mean that all aid is provided through a single activity. The index increases towards 100 as aid flows are fragmented across an increasing number of activities. 'Regional aid' refers to disbursements for regional programs recorded by the DAC as 'Oceania Regional'. The Pacific total is total disbursements to the 14 Forum Island Countries plus Oceania Regional. Timor-Leste, Tanzania and Uganda are included as comparison countries. Refer to Annex 4 for further notes.

37 OECD, Stat Extracts database.

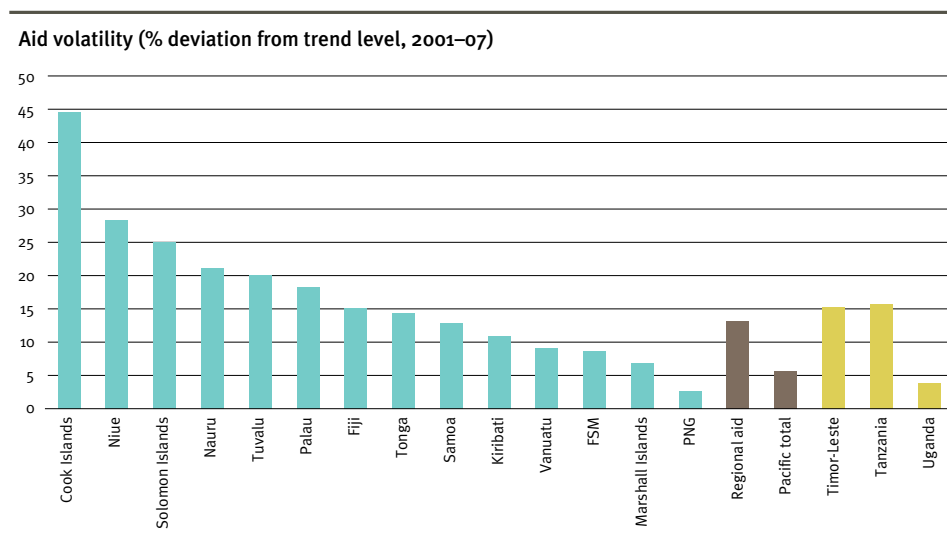
More predictable aid flows will allow Pacific island countries to plan better how aid can complement national resources in meeting development goals.

Predictability

More predictable aid allows recipient governments to plan better how aid resources can complement national resources in meeting development goals. On the other hand, unpredictable aid is more difficult to factor in to national planning and budgeting processes and it encourages a short-term outlook by development partners and partner governments. One measure of the predictability of aid in the Pacific is the volatility of aid over time. More volatile aid is likely to be less predictable aid.

Chart 18 shows the volatility of real net aid flows from 2001 to 2007. It compares actual aid disbursed in each year to the trend level over the period. With some notable exceptions (e.g. Solomon Islands), aid flows are generally more volatile in smaller countries. This is partly linked to the disproportionate impact in small economies of larger expenditures such as infrastructure and disaster relief.

Chart 18: Aid flows to some countries are volatile



Source: AusAID calculations using data from OECD, Stat Extracts database.

Note: Volatility is measured by actual disbursements expressed as a percentage deviation from the level predicted by a linear trend, averaged over the period 2001–07.

Development partners are changing practices to make aid more predictable. New Zealand, for example, already provides three-year forecasts for its bilateral and regional programs in the Pacific, while Australia's new Pacific Partnerships for Development are introducing greater funding certainty by providing forward estimates of baseline funding for priority sectors and sub-sectors. Pacific island countries can also contribute through consistent and predictable policy settings that give development partners greater confidence in making medium-term commitments. Pacific island countries can facilitate these commitments by preparing realistic medium-term expenditure plans which identify financing gaps.

How good is development coordination in the Pacific?

Since the *Paris Declaration*, the DAC has monitored development coordination through the 2006 and 2008 *Surveys on Monitoring the Paris Declaration*. While there have been difficulties in administering the surveys consistently across developing countries, the results paint a picture of gradual but insufficient change. PNG participated in the 2008 survey, the only Pacific island country to do so. In the remainder of the Pacific, data is not

collected in a way that allows progress towards indicators to be measured consistently. Annex 3 provides PNG's data and illustrates the experiences of other Pacific island countries.

The picture emerging from the limited data available is that, apart from Cook Islands and Niue, the use of country systems to deliver aid is well below the rate in other developing countries. The use of program-based approaches, which coordinate aid resources towards a single program in a sector, is relatively well developed in PNG and to some extent in Vanuatu, but not elsewhere in the region. No Pacific island country has been included in World Bank assessments of the quality of their national development programs or monitoring systems. The performance of development partners in coordinating country analysis and missions varies between countries but development partners too often undertake missions and analysis independently of each other.

Development partners too often undertake missions and analysis independently of each other.

The picture is consistent with assessments conducted of the capacity of national public expenditure systems (outlined in Chapter 3 and discussed further in this chapter) and with the difficulties regularly faced by Pacific countries in managing aid—including coordinating requests for assistance, keeping track of aid flows, reporting on large numbers of activities and meeting with visiting missions. However, without a sharper focus by governments and development partners on coordinating development efforts, accompanied by action plans (such as the ones in the *PNG Commitment on Aid Effectiveness*, which is only in the early stages of implementation) it will be difficult to make progress. Experience from elsewhere in the world shows that significant achievements in development coordination can be made through mutually supportive efforts (Box 2).

Box 2: Getting more out of development efforts: Tanzania and Uganda

Tanzania and Uganda manage significant aid flows from multiple development partners. For some time, both have linked comprehensive poverty reduction plans to their budgets. These plans are backed by strong sector plans. Both countries have put significant resources through their finance ministries into coordinating external financial assistance and into creating stronger links between better use of aid and internal reform. Tanzania and Uganda are among a handful of countries to have received a 'largely developed' rating from the World Bank for their poverty reduction plans and results-based monitoring frameworks.

Changes in development partner behaviour have been marked. Major development partners in both countries now work under a single joint country strategy, with many providing direct budget support. In 2007, use of national public financial management systems for aid delivery stood at 57% in Uganda and 71% in Tanzania, which has made public financial management reform a priority. Around two-thirds of aid in each country is provided through coordinated program approaches under national leadership. The only area where even these strong managers of external aid have difficulty in imposing discipline is on visiting single-development partner missions — Tanzania still has a joint mission rate of only 16 per cent and Uganda 21 per cent.

Source: OECD, 2008 *Survey on Monitoring the Paris Declaration: Making aid more effective by 2010*, country chapters, November 2008.

There are examples of good practice, but they need to be more consistent

Concern about development coordination and effective aid in the Pacific goes back several decades and has heightened in recent years. The Pacific Islands Forum Secretariat is already taking a lead role in managing important regional consultations on effectiveness and in contributing to international thinking. Analysis of aid in the Pacific has also focused on the specific issues involved in integrating aid from non-traditional development partners into common approaches.

The increasing use of budget support, sector programs and partnership approaches in the Pacific emphasises mutual accountability for reducing poverty.

The 2007 *Pacific Aid Effectiveness Principles* consolidate the commitments made by Pacific countries and development partners in a range of areas, including country leadership through national plans and budgets, predictability, harmonisation, greater use of strengthened national systems and appropriate technical assistance. The principles also call for ‘use of an agreed monitoring and evaluation framework that will ensure joint assessments of the implementation of agreed commitments on aid effectiveness’. However, better development coordination has so far had little systematic attention from decision-makers in the region. In 2008, the Pacific Regional Workshop on Aid Effectiveness identified examples of progress in implementing the principles and highlighted other areas requiring further attention. These included: a lack of common approaches by development partners to policy dialogue; reluctance on the part of development partners to use country systems; persistent weaknesses in country systems; and a lack of capacity within Pacific island countries to coordinate and lead development activities.

The recent *Evaluation of the Implementation of the Paris Declaration*, and the country studies carried out for the 2008 *Survey on Monitoring the Paris Declaration*, further highlight the gaps between intention and practice. Despite formal commitments, it has been difficult for both countries and development partners to move past entrenched habits and change incentives. In part this is because better coordination is not just a technical issue where a plan is laid out in advance; it also requires building consensus around targets and the best ways to reach them, and relationships that facilitate mutual accountability and discussion about the medium and long term, not just the next activity.

The increasing use of budget support, sector programs and partnership approaches in the Pacific emphasises mutual accountability for reducing poverty. The policy discussions surrounding these approaches are most useful when they move beyond principles to establishing realistic programs of actions for both sides. The following analysis identifies what such programs might focus on.

Managing aid

Pacific island countries do not always manage aid so that it makes the highest value contribution to their development objectives. Samoa has relatively well-developed, centralised mechanisms to filter aid requests, collect information, link aid to resources and coordinate external assistance. From financial year 2009-10 Samoa’s national budget will provide significantly more accurate information on aid. In PNG most aid commitments are already reflected in the development budget and feature in the overall resources shown to be available for development priorities. The key in both cases is the strong mandate given to the appropriate central agency that has overall resource allocation responsibility (not just aid) together with adequate personnel.

Good aid management starts with the quality of aid requests. Requests need to be effectively linked with national plans and budgets so aid does not contribute further to the problem of poor coordination. Requests made in the context of transparency about domestic expenditures allow development partners to understand the overall resource situation and tailor their contributions appropriately. The ability to track resource flows is also essential. For example, PEFA assessments for Samoa, Solomon Islands, Tonga and Vanuatu all rate development partner performance in providing accurate and timely information as poor. Also in Tonga, planning for the Medium Term Budgetary Framework has noted large disparities between plans and disbursements, and substantial information gaps, on development partner financed projects. Comprehensive aid commitment and disbursement information, including on the value of aid provided as goods and technical assistance, is a minimum requirement if countries are to better coordinate aid and link it to their own budget processes. This information should not in principle be difficult to provide or collect.

Country leadership through nationally owned plans and budgets

All Pacific island countries have national development plans or an equivalent. These vary in degrees of quality, usefulness and ownership by the national government. Most are not costed (or not realistically costed) and are not used to drive expenditure decisions in line ministries or, where relevant, at sub-national levels. Moreover, while national development plans implicitly rely on development partner support, these plans often lack guidance on how this support should be provided. Consequently, development partners have a free hand to define their own aid activities and their relationship to the national plans and are not bound by considerations of coordination, appropriateness or ease of absorption.

Most national development plans are not realistically costed and used to drive expenditure decisions.

On the other hand, strong sector plans, backed to varying degrees by budget processes that translate policy into operations, have proved to be a more effective way to direct development partner efforts in the Pacific. Sector plans are central to sector approaches to aid delivery. Table 13 shows examples where coordinated aid is supporting sector plans. Some of these sector approaches involve strong country leadership while some are still driven by development partners. Most are leading to more flexible, coordinated approaches by partners. Although the nucleus of a sector approach is often a relationship between a line agency and one or more development partners, all are growing in different ways to encompass other sources of funds and key delivery mechanisms such as sub-national governments, civil society and the private sector.

Table 13: Coordinated aid supporting sector plans for selected sectors

	Health	Education	Transport infrastructure
Cook Islands		✓	
Kiribati		✓	
PNG	✓	✓	✓
Samoa	✓	✓	
Solomon Islands	✓	✓	✓
Tonga		✓	
Vanuatu		✓	✓

✓ Existing ✓ In preparation

Notes: The definition used here for 'program based approach' is the same as the one used in the 2008 Survey on Monitoring the Paris Declaration. 'Existing' means not only that a sector plan exists but that to varying degrees it directs development partner support and involves use of national systems.

To be fiscally realistic, sector approaches also need to include the perspective of central agencies such as ministries of finance and planning. In principle, sector approaches provide a means to plan for the use of all available resources over the medium term. In practice, however, they have to overcome a problem that besets public financial management in the Pacific, namely the division between the recurrent budget and the (often externally funded) development budget. Typically, recurrent budgets cover staff and often minimal operating costs, leaving capital expenditure to development budgets. Without strong sectoral leadership and analysis, and mutual commitment to a comprehensive view of funding sources and requirements, the result can be a set of externally funded capital investments that bear no relationship to the budget cycle and may have scant regard for the recurrent funds available for essential operations and maintenance.

Sector approaches that work with the whole service delivery system offer the best potential to promote a comprehensive view of what it costs to achieve a set of targets; focus on where the money is coming from; and create at least some incentives for development partners to provide more flexible aid that is clearly directed to common priorities.

Sector approaches do not in themselves lead to better development outcomes. Recent studies have shown that despite the intention to pool resources in support of a common sector plan, the extensive accounting and other procedural requirements imposed by development partners can work against the timely use of funds for service delivery.³⁸ Adopting common arrangements, particularly for procurement, often means adopting the rules of the most restrictive contributing partner.

Experience in the Pacific has shown that moving to sector approaches takes a great deal of effort on the part of governments and development partners, and there can be false starts. This is partly because there is insufficient learning from one country to another, but also partly because it can be difficult to move towards working with entire systems rather than single institutions. Also, development partners and sector agencies find it difficult to agree on whether the conditions for commencing a sector approach have been met and on the governance and financial management arrangements needed for implementation. Competing views are not provided to senior Pacific decision-makers in ways that allow decisions to be taken efficiently. Some sector agencies in the region are learning and benefiting from the experience of leading such approaches. However, development partners have a responsibility to agree on a common approach early in the process, a responsibility sector agencies could do more to enforce. Such an approach should include a strategy for development partners absorbing the costs of coordination as much as possible.

But despite the challenges, sector approaches that work with the whole service delivery system offer the best potential to promote a comprehensive view of what it costs to achieve a set of targets; focus on where the money is coming from; and create at least some incentives for development partners to provide more flexible aid that is clearly directed to common priorities.

In sector approaches, performance arrangements that track important changes, and which are jointly monitored and reported on, are becoming increasingly common: there are good examples in PNG (health, law and justice, HIV/AIDS), Samoa (health), Solomon Islands (education and health) and Tonga (education). In PNG, there is a strong government interest in evidence-based oversight of provincial administrations which has the potential to underpin development partners' own assessments of how programs at sub-national levels are progressing. Pacific island countries and development partners can build on these experiences to encourage local accountability through national monitoring of each country's programs. Using national systems for program monitoring and evaluation is also an important part of the move towards greater use of national systems in aid delivery.

Development partners working together

The growth in the number of international development organisations has significantly increased aid fragmentation. As the number of development partners increases, incentives to focus on development partner-specific goals rather than on joint activities that maximise overall development outcomes increase. Development partners' multiple and conflicting objectives can exacerbate this problem.

When development partners do not work together, Pacific island countries inevitably have to be consulted separately by multiple development partners on their country strategies. For most this includes dealing with at least Australia, New Zealand, the ADB and the EU. Lack of coordination among development partners also means Pacific island countries have to deal with multiple visiting missions and travel more frequently to regional consultations. Lack of coordination at an activity level means Pacific island countries have to juggle disparate inputs and deal with gaps in funding.

³⁸ Zainab Kizilbash Agha and T Williamson, *Common funds for sector support, building blocks or stumbling blocks?*, Overseas Development Institute, Briefing Paper 36, February 2008; AusAID *Australian Aid to Health Service Delivery*.

Pacific island countries are pressing development partners to collaborate. Samoa, for example, has encouraged a division of labour between Australia and New Zealand. PNG has introduced a protocol for reducing missions, which requires development partners to consider whether they should undertake their mission with another partner. The *PNG Commitment on Aid Effectiveness* will assess the comparative advantage of development partners and encourage lead development partner roles. In Solomon Islands a working group on the global recession has enabled the Government to establish priorities for external support and encourage common development partner responses. Sector approaches usually involve a degree of formal or informal agreement to collaborate (as in, for example, the World Bank – New Zealand agreement on education in Tonga). There is also some evidence that Pacific island countries are using the commitments that arise from participating in sector approaches to influence partner behaviour.³⁹

Development partners have also taken their own initiatives. Numerous examples of jointly funded activities exist in addition to the sector approaches mentioned above. Australia has delegated to New Zealand its aid to Cook Islands, and other such arrangements are being pursued. The Pacific Regional Infrastructure Initiative, supported by Australia, New Zealand, the ADB and World Bank, is designed as a consolidated source of assistance on planning, building, managing and maintaining infrastructure, to cut the transaction costs of dealing with four development partners. These initiatives are welcomed in the Pacific when they are demonstrably effective. Many countries would also welcome greater use of delegation or lead development partner arrangements as a way of cutting transaction costs.

The present arrangements throughout the Pacific for high-level dialogue on development issues do not lend themselves to focusing on development coordination and mutual accountability.

At the *national* level, although joint country-led consultations with Australia and New Zealand are becoming more common, there are few examples of Pacific island countries taking the initiative to hold regular discussions aligned with national budget cycles with all development partners together. The Pacific has not traditionally had access to initiatives such as the consultative groups facilitated by multilateral organisations. A commitment by Pacific governments to hold regular consultations with all development partners, at least annually, would be an important step in strengthening country leadership and promoting mutual accountability for development results.

At the *regional* level there are opportunities for development partners to meet collectively with Pacific representatives in Post-Forum Dialogue and Pacific Island Countries (PIC) – Development Partners meetings, but these are large and unwieldy forums where it is difficult for each side to hold the other to account for commitments made or to get agreement on actions. The most recent PIC – Development Partners meeting, held in April 2009, was attended by no less than 21 representatives of development partner countries and organisations as well as six regional organisations. At neither national nor regional levels are non-traditional development partners engaged in consistent dialogue.

There is a strong case for restructuring regional meetings to enable more effective dialogue and coordination between Pacific island countries and development partners. The Post-Forum Dialogue and PIC – Development Partners meetings, for example, could be restructured to devote more time to substantive discussions on stronger coordination between Pacific island countries and their core development partners, while still

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³⁹ Given that most change has costs as well as benefits, it is not surprising that the OECD *Evaluation of the Implementation of the Paris Declaration* found that developing countries ‘... are not vigorously pressing for the further expansion of ... common [development partner] arrangements’. Making a greater proportion of aid predictable and focused on long-term systemic changes, as the Australian Partnerships for Development aim to do, can help build trust and increase incentives for countries to use it more effectively. But any change process needs direction and consistent attention from decision-makers at national and regional levels to sustain it.

providing opportunity for discussion with a wider group of partners. Existing mechanisms for practical discussions aimed at harmonising aid delivery arrangements between development partners, such as the annual quadrilateral meeting of Australia, New Zealand, the ADB and World Bank, could be expanded to other development partners, including scope for more sustained dialogue with non-traditional partners.

Managing technical assistance

Given the extreme difficulties of training and retaining skilled staff in Pacific island countries, governments often request that their most urgent skills gaps be covered through technical assistance. Such assistance is aimed at developing the capacity of national institutions, often by providing a qualified person to perform duties for which there is no national available, but increasingly to work with teams of national staff to build local capacity and enable staff to operate effectively and independently. RAMSI in Solomon Islands is perhaps the most obvious example of technical assistance that works in both these ways.

No reliable figures are available on the overall proportion of aid to the Pacific provided as technical assistance.⁴⁰ However, DAC reporting for 2005–07 suggests that technical assistance accounted for more than half of all aid in Fiji, PNG, Samoa, Solomon Islands and Vanuatu, and a high proportion (at least 40 per cent) of all aid in Nauru and Tonga. Technical assistance in the form of personnel accounts for a significant part of this aid.

The continuing requirement for technical assistance, combined with its potentially high cost, presents problems for effective aid management. Experience suggests that the following principles should guide the use of technical assistance:

- > **Policy consistency:** Technical assistance is an important resource which needs to be carefully directed to ensure it leads to service delivery outcomes. However, because requests for technical assistance are generated in different parts of Pacific administrations, there is little consistency in diagnosing needs or setting expectations of results. The Government of PNG took a significant step forward by participating in the management of the Australian Advisory Support Facility, which brought some discipline to the selection of technical assistance placements. The Government took a further step by developing the 'Protocol for Mobilising and Managing Technical Assistance in Papua New Guinea' which is attached to the *PNG Commitment on Aid Effectiveness* and describes minimum conditions for the effectiveness of technical assistance.
- > **Transparency and economy:** Pacific island governments are not usually involved in contracting technical assistance and may not be aware of the costs. Technical assistance can be perceived as a free good and is sometimes accepted without considering more cost-effective options. In PNG, a new phase of Australian assistance for the public service includes a choice of type of support based on full information about costs. This new approach may also provide options for increasing the use of local expertise where skills match the task.
- > **Ownership and appropriateness:** Good practice is for technical assistance to be demand driven, aligned to partner country priorities and appropriate for the context. Most technical assistance placements in the Pacific are in response to partner country requests, and Pacific official representation on recruitment panels is well established, for example in RAMSI. However, achieving continuity and consistency of technical assistance provided by different sources has been problematic in the Pacific. The motivation for accepting technical assistance varies and is not always linked to a plan for improving performance. Effectiveness depends on Pacific island leadership

Full information about the costs of technical assistance may increase the use of local expertise where skills match the task.

⁴⁰ This includes not only contracted personnel but also any form of transfer of knowledge and skills, including volunteers, training and scholarships.

actively shaping and using the assistance. In Solomon Islands, technical assistance has supported strong national leadership to rebuild the institutions of the Auditor-General and Parliament. In Samoa, the government now manages, with minimal external support, the provision of technical assistance for performance improvement in the public service. Without effective leadership, technical assistance can produce good but unsustainable results, or unintentionally overwhelm or de-motivate local capacity.

- > **Measurement of results:** The effectiveness of technical assistance, particularly for capacity development, can only be determined when there is a clear view of what is to be achieved. There is an increasing emphasis not just on improvements in performance, but also on behaviours, resilience and networking within organisations. Measuring effectiveness means paying attention to how capacity is being built as well as its effects on performance. For example, as an indicator of success, the performance assessment of RAMSI focuses on ensuring that capacity development activities meet Solomon Islands' expectations and are integrated with local management systems.

The regional perspective

Regional aid programs, at more than 10 per cent of flows to the region, are an important resource, but typically involve small activities in each Pacific country and high participation costs for officials. These programs also contribute to fragmentation and are not well coordinated at country level. Because they are frequently specialised (for example, concentrating on a single set of diseases) additional care is needed to ensure they integrate with national development efforts.

Pacific regional organisations have a role to play, according to their different mandates, in promoting progress towards the objectives of the *Pacific Plan*. In doing so, they have the potential to support development coordination by channelling aid to the region from a wide variety of external sources, and becoming the preferred source of specialist advice or supplementary capacity for member states. But they face the same challenge as member states in managing the disparate aid they receive. Examples exist of regional approaches being effectively implemented by a regional organisation with common financing by more than one development partner. One such example is the *Pacific Regional Strategy for HIV/AIDS*, implemented by the SPC and backed by a response fund to which New Zealand and Australia contribute. Another example is the work of the Pacific Islands Forum Fisheries Agency, which—with the backing of development partners such as Australia and New Zealand—has been the key to sustainably managing regional tuna stocks. However, just as it is important for bilateral aid to be more closely integrated with national priorities and systems, so too is it important for regional aid to be more closely integrated with regional priorities and institutional mandates.

Diagnosis, improvement and use of national systems need to be accelerated

Governments organise their human and financial resources to achieve national outcomes through public administration systems. These systems are the essential link between setting a policy and the availability on the ground of the right staff, health equipment, drugs and text books. Weak systems use resources inefficiently. National systems in the Pacific need to perform better, both to make the most of the limited resources available in the short term and to improve policy implementation in the medium term.

Development partners can help strengthen national systems through technical assistance but risk undermining these systems unless they actively seek to use them. If development partners establish parallel systems there is a danger of investing time and effort in one

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By helping to strengthen the systems that governments rely on for service delivery, development partners can help improve the effectiveness of public administration and create more durable development gains.

standard of public administration for managing aid while leaving another, weaker, system for domestic resources. Such parallel systems distract attention from the improvements needed in basic national systems. By helping to strengthen the systems that governments rely on for service delivery, development partners can help improve the effectiveness of public administration and create more durable development gains. All major development partners in the Pacific have endorsed strengthening national systems and using them more.

Monitoring of the *Paris Declaration* concludes that the use of national systems globally 'is improving in a gradual and selective way,' and is linked in many cases to the provision of budget support. Overall progress against the commitment to use national systems has, however, been unsatisfactory. While development partners are willing in principle to use these systems at the same time as strengthening them, there is a lack of precision about the minimum standards needed to enable national systems to be used with confidence.

In the Pacific there are examples of aid programs using elements of national systems. The EU is providing budget support (which by definition uses national systems) in Samoa and Vanuatu, for example, as are Australia in Solomon Islands, New Zealand in Cook Islands, Solomon Islands and Tuvalu, and the United States under its compacts with FSM, the Marshall Islands and Palau.⁴¹ Payments by Australia to Tonga, and in future to Samoa, under performance-related arrangements are also a form of budget support. In Vanuatu the United States Millennium Challenge Account uses Vanuatu's financial management systems, and Australia uses a national development account for its malaria control assistance. In PNG Australia's aid for road maintenance has long used PNG's procurement systems, and aid for the law and justice sector is accounted for using the systems laid down for the development budget. There are increasing examples of experimentation with support to programs owned and operated by partner governments, such as the Public Sector Improvement Facility in Samoa, the Public Sector Workforce Development and Provincial Performance Improvement initiatives in PNG, and work on constitutional and electoral reform in Tonga.

Using government systems does not always strengthen the core ability of the country to provide services. Taiwan provides more than half the aid managed directly by the Government of Solomon Islands, and deserves credit for providing flexible support. However, these funds are provided through the Rural Constituency Development Fund and similar programs that effectively bypass public sector delivery mechanisms by providing funds directly to Members of Parliament. The governments of Solomon Islands and Taiwan have taken some encouraging steps to improve accountability in the use of these funds, for which continued effort will be required.

Development partners often face constraints on changing the way they work. The ADB and World Bank's rules of operation constrain their ability to use, for example, national procurement systems. Advances to date have been piecemeal and have operated within the limits of development partner-determined procedures and perception of risk. What has been largely missing is discussion with Pacific island countries on where development partners and partner countries want change to lead. On the one hand there is a desire to explore using national systems and a clear but generalised demand from Pacific island countries to do so.⁴² On the other hand, development partners aim to support improving parts of national systems through other means, notably technical assistance. Discussion is only just beginning on how to bring both types of assistance together, based on a coherent view of how systems in their current form promote or undermine development.

41 Some of these arrangements use trust accounts or commercial bank accounts and so do not conform to the full DAC definition of budget support, but they are close in intention and practice.

42 For example, see P Pruaitch, Statement by the PNG Treasurer on behalf of Pacific Developing Member Countries, ADB Annual Meeting, Bali, Indonesia, 4–5 May 2009.

What does analysis tell us about the performance of national systems?

For public financial management, procurement and accountability systems to function well, a number of players must work effectively together, including finance ministries and other central agencies, tender boards, line agencies, audit institutions and parliaments, and, in some countries, provincial and district governments. Analysis of strengths and weaknesses should look at practices in the full expenditure cycle. At present the most widely accepted diagnosis is the PEFA framework, described in Box 3.

Box 3: Public Expenditure and Financial Accountability framework

PEFA is a diagnostic framework developed by a group of development partners including the EU, IMF and World Bank. It aims to support integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability. It applies a series of standard tests for:

- > **credibility of the budget**—the budget is realistic and is implemented as intended
- > **comprehensiveness and transparency**—the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public
- > **policy-based budgeting**—the budget is prepared with due regard to government policy
- > **predictability and control in budget execution**—the budget is implemented in an orderly and predictable manner and arrangements are in place to exercise control and stewardship in the use of public funds
- > **accounting, recording and reporting**—adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes
- > **external scrutiny and audit**—arrangements for scrutiny of public finances and follow up by the executive are operating
- > **development partner practices**—elements of these practices which impact on the performance of country systems.

As noted in Chapter 3, PEFA assessments have been carried out in recent years in PNG, Solomon Islands, Samoa, Tonga, Tuvalu and Vanuatu. No information is available on trends, however, because a full assessment has not been completed twice for any country.

PEFA assessments are concerned with the quality of processes and systems, not the quality of expenditure itself—this is an issue for other diagnostics such as public expenditure tracking studies.

PEFA assessments have had mixed reception in the Pacific. The initiative, which came largely from development partners, is a condition of receiving EU budget support. Some finance ministries find the assessments provide a useful snapshot, while others find they understate progress. In general the process has been limited to the assessment itself, without being integrated from the beginning with an approach to supporting reforms. However, the assessment has advantages: it is relatively simple and standardised and tracks progress over time. It is therefore currently the best available starting point for dialogue. Its benefits may be more evident as more assessments are completed.

PEFA assessment is simple, standardised and tracks progress over time. It is the best available starting point for dialogue on how to strengthen country public financial management systems.

Budget rules can make it difficult to achieve policy outcomes. For example, separate development and recurrent budgets undermine coherent budgeting.

The results of the PEFA assessments carried out in the Pacific to date suggest that the following three areas are the greatest risks to effective and accountable expenditure:

- > **Procurement:** Difficulties in public procurement systems include the quality of legislation, the capacity of tender boards and the use of discretionary powers to set aside procurement procedures. Outsourcing to the local private sector is often not practical because the required skills do not exist.
- > **Reporting and audit:** Despite some recent improvements, including in PNG where internal audit is being re-established in public sector agencies, the lack of adequately trained accountants in the region undermines accountability. Moreover, even where external audit is improving and uncovering poor practice, mechanisms such as parliamentary committees may not be effectively holding executive bodies to account.
- > **Finance functions:** While there has been some development partner support for financial management systems in the region, the systems remain weak in some jurisdictions and the skills of those running the systems need improving at all levels. There are frequent instances of parallel information systems running in a single government, with erratic reconciliation between them.

Budget comprehensiveness and transparency, at least at the level of the budget process itself, tends to be better. Aggregate expenditure control is satisfactory in most Pacific countries, but the extent to which expenditure matches forecasts at sector or program level varies and is subject to the quality and timeliness of financial reporting. Budget rules can make it difficult to achieve policy outcomes. In addition to separate development and recurrent budgets, which undermine coherent budgeting, budgets can be too detailed or have inadequate controls over departmental discretion. Off-budget revenues, expenditures and liabilities are also found in some jurisdictions.

Why has there not been a focus on strengthening national systems?

Many Pacific island countries and development partners have sought to strengthen and use national systems, but their efforts have often lacked the sustained focus needed to decisively shift the way domestic and aid resources are managed together. There are several reasons for this:

- > Interest in the functioning of systems is limited to one group of development partners; others ignore the weakness of systems because they provide aid in forms that bypass the systems.
- > Development partners often engage with parts of the system, particularly line ministries. Other parts of the system, such as central ministries or audit agencies, are not seen as part of a single system that has to work to deliver outcomes.
- > It is easier to respond to identified weaknesses in national systems by offering to build capacity (or asking for assistance) rather than plotting a course towards using them.
- > Development partners need a strong signal from Pacific island countries that they want to build capacity so their national systems can deliver policy. 'Active and sustained country leadership, driven from the political level, is the most important single precondition for alignment to move beyond formal commitments'.⁴³

43 OECD, *Evaluation of the Implementation of the Paris Declaration*, July 2008.

Moving from diagnosis to action

Pacific island countries such as Samoa, which sees greater development partner consistency and support for national systems as integral to improving public administration, are finding that development partners are slowly responding to the need to strengthen and use national systems. But incremental change will not integrate aid with national systems to the levels required and found elsewhere in the world. The *Accra Agenda for Action* deliberately challenged developing countries and development partners to use national systems as a first option for delivering aid for the public sector or explain why they are not doing so. As well as Pacific island leadership, a major step forward on integration will involve the following:

- > **Agreeing to common diagnostics:** Country-by-country, a sufficient number of development partners need to agree that the outcomes of PEFA (or similar assessments) should include identifying practical measures to improve national systems and a pathway to greater use of those systems for aid.
- > **Basing dialogue on diagnosis:** Having agreed to common diagnostics, governments and development partners should use these as the basis for discussion about strengths and weaknesses of national systems.
- > **Understanding national systems:** Government and development partners need a clear understanding of what constitutes ‘systems’ and the constraints within them—this is especially important where sub-national levels of government have service delivery responsibilities. Greater use could be made of public expenditure tracking studies, which track how public resources flow from the centre to front-line service delivery and how much of original allocations reach each stage in the system. They also help to identify blockages and the extent to which service delivery depends on non-budgeted money (such as user fees and discretionary funds).
- > **Development partners monitoring each others’ progress:** Development partners need to exert and accept peer pressure over moves towards use of national systems.

The use of national systems should not be pursued for its own sake. In some cases other ways of delivering aid are more appropriate—such as with infrastructure projects that are beyond a country’s capacity to manage, assistance to the non-government sector and emergency aid. Each decision to use part of a national system, or to move towards using a whole national system, should therefore be based on:

- > an understanding of the strengths to be built on and the weaknesses to be addressed
- > the costs and benefits involved, including possible loss of momentum in the provision of goods and services
- > the potential costs and distortions of using only part of a national system
- > the incentives within development partner agencies and national governments to default to development partner systems when difficulties arise.

Analysis should be undertaken and decisions made collectively by development partners wherever possible. While careful analysis is required before proceeding, the potential benefits of using national systems to deliver aid, including strengthening systems and reducing costs, are very large. Increasing the use of national systems will be a significant part of improving development coordination.

Increasing the use of national systems will be a significant part of improving development coordination.

Conclusion

This report has examined development, governance and development coordination in the Pacific, to help policymakers design policies and programs to maximise progress towards the MDGs in the region. The key conclusions in this Chapter are drawn from chapters 2 to 4. The conclusions highlighted from chapters 2 and 3 focus mainly on principal empirical findings, whereas those from Chapter 4 concentrate on forward-looking messages for policy.

Progress towards the Millennium Development Goals

The agreed timeframe for achieving the MDGs is 2015. The world is past the half-way mark, and achieving all MDGs across the Pacific region by the deadline is unlikely. While progress has been made, no country is on track to achieve all MDGs, and no MDG is on track to being achieved by all countries. Overall, some countries are better at translating economic growth into reducing poverty and meeting the MDGs.

Samoa and Tonga have made the most progress and are on track to achieve four MDGs. Fiji, Niue, Palau and Vanuatu are on track to achieve three MDGs. For many of these countries, substantial progress was made during the 1990s in the health and education MDGs. However, in recent years, progress has been slow (or in some cases reversed, as in the case of child and maternal health). Clearing the final hurdles to achieve universal primary education and improve mother and child health will often require more expensive interventions in service delivery in remote areas and smarter approaches to service delivery for vulnerable groups such as people living with disability.

Cook Islands, Kiribati, the Marshall Islands, Nauru, Solomon Islands and Tuvalu are positioned to meet very few MDGs. PNG and Timor-Leste are off track on the majority of MDGs: poverty in these countries has increased; approximately 400 000 primary school aged children are not enrolled in primary school and many who are do not finish primary school; child and maternal mortality rates have improved but remain very high; and infectious diseases are spreading at alarming rates.

Of MDGs 1 to 7, progress towards MDG 1—reducing poverty and hunger—has been the slowest and is of most concern in the region. While monitoring poverty in the Pacific is hampered by poor quality and out-of-date data, it appears that the number living in poverty is rising. Only Vanuatu has made significant improvements in reducing poverty, due largely to strong economic growth, and it is the only country on track to achieve this MDG. Approximately 2.7 million people in the Pacific are living in poverty and do not have the income or access to subsistence production to meet their basic needs. This number increases to 3.2 million people when Timor-Leste is included.

Only two countries are on track to achieve MDG 4 on reducing child mortality rates by two-thirds. The majority of deaths occur in children aged less than one, underscoring the need for improved and better coverage of maternal health care. Many households in the Melanesian and Micronesian sub-regions have no access to safe water and basic

sanitation (MDG 7), leading to high incidences of water-borne diseases and poor health. Progress in reducing maternal mortality rates (MDG 5) has been slow, and in some cases has deteriorated. Only three countries are on track to achieving this MDG. Most Polynesian countries and Fiji are on track to achieving universal primary education by 2015 (MDG 2). For other countries, primary enrolment rates vary considerably but most countries have shown improvement; however, primary school completion rates are low and therefore many children do not continue into secondary school.

Progress on MDG 6 is mixed. Infectious diseases—specifically HIV/AIDS and malaria—continue to spread at alarming rates in PNG and Timor-Leste, severely impacting on people's capacity to work and be active members of their communities. While malaria remains the largest killer of children in PNG, renewed political and development partner commitment to combat the disease in Solomon Islands and Vanuatu is paying off, with the incidence dropping significantly in a short timeframe. With effective partnerships, quick wins are possible. In Polynesia and Micronesia, for example, infectious diseases (including TB) are being effectively controlled, but NCDs are placing significant burdens on health budgets.

Tracking progress towards the MDGs in the Pacific is made harder by the poor quality of regional statistics. The country coverage of MDG-related data is poor. Timeliness is also a problem, with the latest statistics often being five or six years out-of-date. Better data on progress towards the MDGs is essential if informed judgements on policy interventions are to be made. Pacific island countries and development partners need to work together to improve the availability of sound data.

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Country governance performance

Achieving effective and accountable governance—essential to achieving the MDGs—remains a challenge in much of the region. Pacific island countries continue to make significant investments in human development. Most governments spend more per person on health services than other countries with similar levels of income. Despite this investment the reach and quality of services remains poor in many countries. Expenditure is often poorly targeted and the Pacific is an expensive region in which to deliver services. Providing better services requires both better resource management and greater community involvement in decision-making around service delivery. Well informed and engaged communities can play a significant role in demanding effective and accountable government.

Public financial management is central to effective service delivery. While efforts have been made to improve public expenditure management, weaknesses remain, particularly in audit and oversight processes. Ratings for the Pacific on overall indicators of governance—such as government effectiveness, control of corruption and the rule of law—remain mixed, although some countries have significantly improved their performance in recent years. For example, Vanuatu has improved its control of corruption and Solomon Islands improved government effectiveness (although Solomon Islands, together with PNG, performs poorly on these measures of governance relative to most other countries. Fiji's government effectiveness has declined since 2002). Vanuatu was the only country in the region to improve its global ranking on the ease of doing business between 2007 and 2008. Given the natural disadvantages faced by Pacific island economies, improvements in business environments are necessary to attract investment.

What remains clear is that improvements in government effectiveness—the quality of public services, the capacity of the public service and its independence from political pressures, and the quality of policy formulation matter for growth. Growth, in turn, matters for the MDGs in the Pacific, as it does in other parts of the world.

Improvements in government effectiveness—the quality of public services, the capacity of the public service and its independence from political pressures, and the quality of policy formation matter for growth.

A new development framework is required to ensure that all development resources are more effectively directed in support of the Pacific's highest priority development challenges.

Pacific island countries and development partners need to work together more to improve public financial management and monitoring systems.

Development partners should speed up the search for new ways of doing business.

Development coordination

Domestic resources and aid resources together constitute the funding available to put policy into practice. The two need to be integrated within sound national plans and public expenditure systems and applied to the highest priority programs. Separating recurrent from development budgets, and aid from non-aid budgets, works against the efficient allocation of resources.

A new development framework is required to ensure the Pacific keeps pace with better international development practice, and that all development resources are more effectively directed in support of the Pacific's highest priority development challenges. As a first step, more frequent and higher level dialogue is needed between countries and development partners on key challenges.

Pacific island governments and their development partners will be judged for the impact their collective efforts have on the lives of Pacific Islanders. Transparent and accountable use of all development resources is necessary to achieve the MDGs. Clear and measurable commitments, reinforced by sustained dialogue, are required to improve development coordination and accelerate progress towards mutually agreed development outcomes.

Most Pacific governments are aware they are not managing aid as well as they could. At a minimum, governments would like to reduce the amount of time and effort spent on managing development partners. The most effective way to assert national leadership over aid is to be clear about how resources will be prioritised and used. Pacific island countries are beginning to do so most effectively through nationally-led sector plans. These plans allow realistic targets to be set and costed. They also allow for an assessment of how the whole public administration system (including financial and human resources management) is promoting or hindering development results. By being clear about their own plans, Pacific island countries can: streamline and improve the quality of aid requests; control the proliferation of development partner activities; and ask for greater coherence among development partners. Countries can also lead discussions with development partners to hold both parties to account for their commitments, including rationalising the number of missions and better defining divisions of labour. Capacity building will be more useful if it is linked to improvements in systems for service delivery and, if it is appropriate, transparent and regularly and jointly reviewed.

Pacific island countries and development partners need to work together more to improve public financial management and monitoring systems. Countries in the region are responsible for leading reform and making services more accessible and effective. Development partners, in turn, are responsible for ensuring that their aid works over time to strengthen, not undermine, national systems. Relatively simple diagnoses for national systems are available and can be adapted further for the Pacific context if necessary. Pacific island countries and development partners can discuss the diagnoses to determine how to improve their systems in practical and sequential ways. Development partners should be more willing to use the systems as they improve.

Development partners should speed up the search for new ways of doing business. Examples already exist of development partners operating in innovative, responsive and collective ways in the region. But Pacific island countries face rapidly changing circumstances without correspondingly fast change in external support. There is scope for development partners to further improve matters in a range of ways, including by backing national medium-term MDG-based planning with joined-up approaches and prompt and flexible support; developing more innovative collective actions like the Pacific Regional Infrastructure Facility; and promoting more delegation of responsibility.

Development coordination in the Pacific needs more sustained attention. At the national level, commitment to more effective aid can be built by creating opportunities for high-level collective dialogue on progress towards the MDGs and other national targets, and on how national reform and development efforts can best be supported by aid, including from non-traditional development partners. At the regional level, existing opportunities for consultation between Pacific island countries and development partners can be reshaped so they focus more on development outcomes in the region and monitor mutual commitments to increased development coordination. A practical first step would be to establish annual monitoring in the Pacific of a selection of key indicators based on the *Paris Declaration*.