POLICY BRIEF

LOWY INSTITUTE
FOR INTERNATIONAL POLICY

SEPTEMBER 2008

BEYOND GOOD GOVERNANCE: SHIFTING THE PARADIGM FOR AUSTRALIAN AID TO THE PACIFIC ISLANDS REGION

JENNY HAYWARD-JONES
Program Director
The Myer Foundation Melanesia
Program at the Lowy Institute
Tel: +61 2 8238 9037
jhayward-jones@lowyinstitute.org

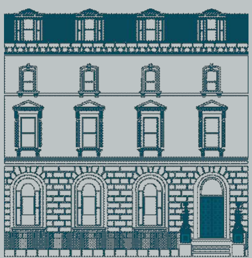
WHAT IS THE PROBLEM?

Australian development assistance has not been effective in helping Pacific Island countries and particularly Melanesia meet their development aspirations or make progress towards achieving the Millennium Development Goals. The overwhelming focus of Australian government-to-government assistance on strengthening public sector institutions and improving governance does little to stimulate vital private sector participation in Pacific Islands. New approaches are required if Australia is to make better use of its increase in Official Development Assistance to 0.5 per cent of Gross National Income by 2015.

WHAT SHOULD BE DONE?

Australia needs to employ a different mix of policy tools if it is to help Pacific Island countries achieve real development outcomes. In particular, Australia should:

- *Balance expenditure of aid on public sector strengthening with assistance to the productive sectors of Pacific Island economies;*
- *Leverage global corporate interest in development through the establishment of new public-private alliances to help generate better business outcomes in the Pacific;*
- *Help increase the use of micro-credit facilities;*
- *Invest in public-private partnerships with Pacific Island governments and private investors to improve the quality of infrastructure and service delivery;*
- *Introduce an output-based approach to service delivery programs to increase the coverage and quality of basic services.*



LOWY INSTITUTE FOR
INTERNATIONAL POLICY
31 Bligh Street
Sydney NSW 2000
Tel: +61 2 8238 9000
Fax: +612 8238 9005
www.lowyinstitute.org

The Lowy Institute for International Policy is an independent international policy think tank based in Sydney, Australia. Its mandate ranges across all the dimensions of international policy debate in Australia — economic, political and strategic — and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia's international policy and to contribute to the wider international debate.

- promote discussion of Australia's role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Policy Briefs are designed to address a particular, current policy issue and to suggest solutions. They are deliberately prescriptive, specifically addressing two questions: What is the problem? What should be done?

Introduction

The Pacific Islands region is not on track to achieve the Millennium Development Goals, the internationally agreed targets for improving human development by 2015 (see Annexure 1). The Melanesian countries, which have the largest population, face the most significant challenges in attempting to meet the goals. In the Port Moresby Declaration of 6 March 2008, the Australian government promised to work jointly with Pacific Island countries to meet the goals in the context of new Pacific Partnerships for Development. While the Millennium Development Goals may not be the fairest measurement of the success of inputs from the Australian aid program, they provide a valuable universal mechanism of measuring development outcomes.

Australia has committed to improving the quality and effectiveness of its aid in line with the 2005 Paris Declaration on Aid Effectiveness. Current development assistance frameworks and tools employed by the Australian government have not delivered significant improvements in progress towards the Millennium Development Goals, particularly in Melanesia. In its own review of the effectiveness of Australian aid, AusAID has acknowledged that it has been 'difficult to demonstrate the links between well-managed activities and better outcomes for the poor.'[1] Australia will spend $999.5 million in development assistance in 2008-09 on a regional population of just 8.3 million people. In an era of increasing global interest in reducing poverty, Australia will need to work harder to ensure its development assistance results in demonstrably better outcomes.

> *'Achieving development results – and openly accounting for them – must be at the heart of all we do.* More than ever, citizens and taxpayers of all countries expect to see the tangible results of development efforts. We will demonstrate that our actions translate into positive impacts on people's lives. We will be accountable to each other and to our respective parliaments and governing bodies for these outcomes.'[2]

Private sector investment is crucial to drive economic growth and prosperity and ultimately the achievement of the Millennium Development Goals. While appropriate local policy frameworks need to be in place and adherence to good governance principles is important, government activity by itself cannot sustain the economic growth necessary for long-term sustainable development. There is growing global corporate interest, partly inspired by Bill Gates, in investing in economic growth in developing countries to help them meet the Millennium Development Goals. The British government in cooperation with key African governments has mobilised the leaders of major international companies to invest in Africa, to create employment opportunities, improve the quality of supply chains, help local companies to become internationally competitive and introduce innovation and technology. The United States has been making similar efforts in Africa, Latin America and the Caribbean. Australia could do more to inspire a similar commitment for the Pacific and help the region realise its potential.

What is wrong with the current approach?

The Rudd government has shifted Australia's development assistance rhetoric to a clear focus on reducing poverty and helping the Pacific achieve the Millennium Development Goals.[3] It is negotiating Pacific Partnerships for Development with Pacific Island countries based on mutual commitments for results that are designed to make more rapid progress towards achieving the Millennium Development Goals. Australia has committed to providing more development assistance in return for commitments by Pacific Island countries to 'improve governance, enhance private sector development, increase investment in economic infrastructure, and achieve better outcomes in health and education.'[4] Commitments are to be jointly agreed and progress against them jointly assessed. The Partnerships, already signed with Papua New Guinea and Samoa, have changed the tenor of dialogue and altered coordination frameworks but not changed the delivery mechanisms of Australian aid.

Papua New Guinea Foreign Affairs Minister Sam Abal said in April 2008 that the current delivery of Australian aid was not effective, and money would be better spent on things like roads, wharves and bridges.[5] This statement reflects the increasing desire of most Pacific Island countries to see more donor investment in tangible projects that have a more visible direct impact on the population than capacity-building programs, the benefits of which are difficult to translate for public consumption.

The Australian government argues that 'improving governance, including through strengthening government performance and accountability, is a critical factor in achieving the Millennium Development Goals.'[6] The Australian aid program is heavily reliant on technical assistance, delivered through consultants managing capacity-building or institutional strengthening projects in the public sector or in some cases occupying in-line positions across the Pacific. The Australian approach prioritises the development of effective systems and seeks to avoid involvement with politics. This has unwittingly contributed to a sense of division between public servants and politicians and communities in some countries. It has also enhanced a sense, particularly in Melanesia, that the reach of government is limited to urban areas. Papua New Guinean politicians, for example, claim that public servants are not responsive to the needs of their rural constituents while public servants argue that politicians prevent them doing their jobs effectively by interfering in bureaucratic processes.

Improving governance in government institutions is undoubtedly a worthwhile objective of the aid program and of national governments. Good governance practices by Pacific Island governments build a more stable environment that reassures citizens, donors and investors. Research on the causal relationship between development and good governance, however, is divided. Some researchers have found evidence across a number of countries that there is a strong linkage between good governance and development. Other researchers believe poor governance is linked to international conditions or the particular historical context of some countries or the negative impact of aid.[7] In the absence of tangible and measurable benefits from improved governance, such as better progress in meeting the Millennium Development Goals or increased economic opportunities, it has been difficult to prove the effectiveness of aid that focuses so heavily on governance programs.

AusAID estimates the proportion of aid funds spent on technical assistance accounts for around 50 per cent of program spending.[8] This is a very high proportion by international donor standards, twice as much as the OECD average of 24 per cent. In the 2006-07 financial year, 62 per cent of total Australian assistance to Solomon Islands was spent on expert technical assistance.[9] Delivery of aid through technical assistance also leads to the unfortunate perception that Australian staff gain significant benefits from high salaries while their Pacific counterparts struggle on meagre salaries to support extended family networks.

The OECD's Development Assistance Committee, in its peer review of the Australian aid program in 2004, suggested Australia's reliance on technical assistance should be reassessed in light of concerns about ownership and involvement.[10] The review's advice was based in part on perceptions that Australia's hands-on approach in Solomon Islands and Papua New Guinea in support of an Australian-driven law and order agenda worked against long-term capacity-building and ownership of reform. AusAID's own research has shown that technical assistance had limited impact on building local capacity.[11]

AusAID defends its preference for delivering aid through technical assistance by pointing to high demand in partner countries for technical assistance in the public sector. This defence conveniently ignores AusAID's own preference for delivering aid via these mechanisms over a long period, which is well known in Pacific Island governments. Consultations and negotiations over aid are held on a government-to-government basis. Few Pacific Island government officials would decline assistance being offered to strengthen their own departments or place technical advisors in their departments, particularly if it takes pressure off their already stretched resources.

AusAID's emphasis on assisting Pacific public sectors has increased the national importance of public institutions but has also fostered an existing sentiment in the Pacific that employment in the public sector is more attractive than that in the private sector. The negative consequences of this are in the high cost to national economies of maintaining large public sectors and limiting space for entrepreneurs.

The significant governance and security challenges facing Melanesia in particular demand external efforts to support government institutions. But if the local private sector fails to generate sufficient growth to deliver economic opportunities while aid focuses on government-to-government assistance, it is difficult to see how better development outcomes will be achieved.

What can be done to improve service delivery?

The increased global focus on measurement of progress against the Millennium Development Goals has revealed weaknesses in the delivery of health and education services in the Pacific. Improvements in the delivery and quality of essential services are important if Pacific Island countries are to make real progress in advancing their development. Donors and non-government organisations contend that states have to be assisted to develop their capacity to deliver essential public services such as health, education and access to clean water — to safeguard the social contract between governments and populations and guarantee equitable access to services.[12]

Australia has a strong interest in encouraging and measuring better service delivery in the Pacific and particularly in Melanesia. It is putting renewed pressure on the Papua New Guinea government, through the Pacific Partnership for Development signed in August 2008, to invest in national health and education services. States have a responsibility to ensure all their citizens have access to the basic human rights of food, clean water, shelter, health care and education. Maintaining governments' social contract with their voters is vital but that does not mean states have to deliver services themselves.

Despite dedicating substantial resources, Australia has not been able to guarantee these rights to its own indigenous population and has actively been exploring alternative methods to government service delivery. Pacific Island states, which lack capacity rather than the will to deliver essential services, could also explore alternative methods of service delivery. Churches and other charitable organisations already take responsibility, with government funding in some cases, for running schools and health clinics.

Carol Kidu, Papua New Guinea Minister for Community Development, said in an address to the Lowy Institute in May 2008 that the Papua New Guinea government needed help in delivering services; while it was important that the state maintained a coordination and monitoring role, private and other non-government sector actors could be more effective in delivering crucial services.[13] Papua New Guinea, despite being the richest country in the Pacific, needs the most help in delivering services. Government health services in Papua New Guinea suffer from serious shortfalls in human and financial resources. Donors currently finance approximately 30 per cent of all expenditure in Papua New Guinea's education and health sectors and 90 per cent of expenditure on HIV/AIDS.[14]

In expressing his support for Fortescue Metals Group Executive Director Andrew Forrest's plans to create 50,000 jobs for indigenous Australians, Australian Prime Minister Kevin Rudd said that government-only programs were 'doomed to failure.'[15] He called for a strong partnership between indigenous leadership, Australia's major companies and the federal government to ensure the success of Forrest's proposal. Prime Minister Rudd has also talked about the need to get beyond the public versus private debate in his calls for better education outcomes for Australian children. His argument is equally valid in the Pacific. Aid approaches beyond building government capacity and putting more pressure on already stretched governments need to be tried.

The very strong interest in the Pacific in participating in the recently announced pilot program for seasonal workers in the Australian horticulture sector demonstrates the importance of employment to Pacific Island populations. Families need to increase their household income to meet their basic needs and ultimately improve their own economic progress, particularly as food and fuel price rises have increased the cost of living. Improvements to government performance are only part of the answer to their demand for development outcomes.

Policy recommendation:

Balance expenditure of aid on public sector strengthening with assistance to the productive sectors of Pacific Island economies.

Private sector development

Only a small percentage of the aid budget is channelled into Pacific Island private sector initiatives. AusAID is currently funding The Enterprise Challenge Fund, a six-year $20.5 million program in the Pacific and South-East Asia that allows private companies to participate in an open competition for matching grants to fund commercially viable pro-poor business projects. This commitment does not come close to the new $107 million four-year initiative 'Investing in Pacific Public Sector Capacity' which complements a raft of other institutional strengthening programs.[16]

Donors advise Pacific Island governments that the private sector must be allowed to drive growth and encourages the development of a better enabling environment for business. The global indicators established in the World Bank's annual Doing Business survey are an example of the standards donors expect developing countries to meet to improve their business enabling environment. The survey measures the ease of doing business in 181 countries by assessing the regulation applicable to the life cycle of a domestic small to medium size business, such as the ease of starting a business, getting credit, dealing with construction permits trading across borders, and enforcing contracts. The global ranking system applied by the World Bank helps countries to compare their reform progress against others. Reforms to business enabling environments often take place in the Pacific with the help of donor-funded technical assistance but in the absence of concerted domestic private-sector lobbying.

Prospects for foreign investment and private sector growth to date have been constrained not only by poor enabling environments but security concerns, corruption, infrastructure deficiencies, land ownership disputes, skills shortages, law-and-order problems, and a lack of support for entrepreneurial activity. The small size of the formal private sector in Pacific Islands, protectionist tendencies and a history of weak relationships or mistrust between governments and the private sector have meant the impetus for the regulatory reform necessary to enable growth has not been strong enough to inspire action from governments in the face of competing demands.

Pacific Island governments, helped by donors, need to do more to improve their business enabling environments and encourage private-sector investment. The World Bank's *Doing Business 2009* survey found that the region has not been keeping pace with the global trend for reform and rankings for Pacific Island countries have been slipping since the survey series started.[17] The region's relatively slow pace of reform does not help overcome its natural disadvantages of remoteness from global markets and small domestic markets. The growing youth populations in the Pacific and particularly in Melanesia cannot wait for their governments to improve laws. Bill Gates has suggested that the lack of an ideal regulatory environment is not an impediment to all new investment.[18] New businesses and new investment are desperately needed in the region to generate employment. Stronger business participation in domestic economies would also help to increase demand for reform and demonstrate the benefits of better laws to Pacific Islands.

The Australian government should take advantage of heightened global corporate interest in development to generate more commitment in Australia to making investments and creating employment opportunities in the Pacific region. Investing in the welfare of populations in Australia's region is valuable in itself as it creates more consumers, producers and labour. The Pacific Islands market of 8.3 million people is small by world standards but equates to almost 40 per cent of the current Australian population, a not insignificant market. Population projections for 2029 estimate the Pacific Islands regional population at 12.9 million people.[20]

PNG is projected to have a working age population of 3.9 million by 2015; only 5.8 per cent of these workers are expected to be in formal sector employment in 2015, giving PNG 3.6 million workers outside formal employment. Solomon Islands will have a working age population of 312 000 by 2015; only 10.4 per cent are projected to be in formal sector employment in 2015, leaving 279 000 Solomon Islands workers outside the formal sector. Vanuatu is projected to have a working age population of 147 000 by 2015, with only 12 per cent in formal sector employment, leaving 129 000 workers outside the formal sector.[19]

Business interest in development

In Australia, the Business for Millennium Development organisation aims to promote the business case for deeper corporate engagement in poverty relief, to promote business models that successfully reduce poverty and improve business, and to facilitate joint ventures to maximise poverty relief efforts in the Asia Pacific region.[21] If the Pacific is to benefit from the global business movement to improve development, the Australian corporate sector and the Australian government will need to work together. Business should not be seen primarily as the provider of resources but as a partner with government in building social and economic progress.

The United States Agency for International Development is implementing a Global Development Alliance which recognises the emergence of the private for-profit sector and the non-governmental sector as significant participants in the development process. USAID forms public-private alliances with the intention of stimulating economic growth, developing businesses and workforces, addressing health and environmental issues, and expanding access to education and technology. USAID has been able to leverage more value to development assistance through over 600 partnerships with private corporations with this Alliance.

Companies are unlikely, however, to invest in the Pacific for purely philanthropic reasons. As Martin Wolf argues, recognition is not enough to encourage companies to invest in developing countries, unless 'they gain tangible benefits from the activities.'[22] Pacific Island countries need investment driven by sound business rather than philanthropic intentions. Companies need to be convinced there are profits to be made, even in an alliance with donors. Pacific Island governments need to play their part by continuing to lessen the impact of existing constraints to both domestic and foreign investors. It is possible for Pacific communities to attract the type of public-private alliance investment that USAID has leveraged elsewhere even if their governments have not implemented adequate reform to enabling environments. Communities which are able to manage property rights within defined areas and minimise local threats from crime can overcome some national disincentives to investment.

The role of corporations in development is changing. Corporations, philanthropists, foundations and wealthy individuals are taking a much greater interest in poverty reduction efforts in developing countries. Sixty corporations signed the UN's Business Call to Action in 2007 to assist developing countries achieve the Millennium Development Goals. The Hudson Institute's 2008 Index of Global Philanthropy found that US private giving to developing nations totalled USD34.8 billion in 2006, far exceeding US official development assistance for the same year – at USD23.25 billion. Australian private giving, as reported to the OECD, was USD620 million in 2006.[23]

Although Australians may be culturally less inclined to be as generous with private donations than Americans, there is evidence that Australian investors are joining a popular global trend towards ethical investment. Investments that have a strong emphasis on environmental, social, ethical or governance issues outgrew mainstream investing by more than double in the 2006-07 financial year.[24] Australian fund managers have increasingly incorporated environmental, social and governance factors into their investment process. In 2007, 23 major charities and charitable trusts had screened investment portfolios of $635 million.[25] Some investment fund managers believe the recent credit crisis has increased investor interest in proper consideration of environmental, social and governance issues and supporting the sustainable development of societies.[26] Australia has one of the highest representations on the signatory list (51 of 400 signatories) of the United Nations-backed Principles for Responsible Investment Initiative which established a set of best practices for implementing responsible investment.

The top end of Australia's private sector has demonstrated it is able to articulate and act on its role in community development within Australia. There is very strong interest amongst Australia's largest corporations in using business development as a tool to benefit the indigenous population. Andrew Forrest's indigenous employment plan is the highest-profile illustration of this interest. There is an opportunity for the Australian government to leverage Andrew Forrest's initiative as a valuable Australian export to the Pacific that uses the talents of the Australian business sector and the enthusiasm of its leading executives.

The need to increase investment in the Pacific is another good reason to increase efforts to measure development outcomes from Australian aid. If development outcomes are measured they can also be costed for use in developing business plans for the increased involvement of the private sector and for enforcing contractual obligations to deliver results.

Policy recommendations:

Establish new public private alliances between government, the private sector, non-government organisations and communities.

Guide the development of agreements with businesses and Pacific Island communities that will match development funds with non-government resources – investment, expertise and technology – to generate business outcomes in the Pacific; develop much more robust ways to measure the effectiveness, in terms of identified goals, of Australian aid.

Opportunities in the informal sector

There is little attention given in public policy, either in Pacific Island countries on amongst donors, to addressing the growth of the rural or informal sector. The country-wide approach to development adopted by AusAID complies with the principles of the Paris Declaration on Aid Effectiveness but does not take into consideration differences between communities, within countries and their different states of readiness to take on business development initiatives. Improvements to business enabling environments are unlikely to stimulate significant private sector growth in areas where local capacity to invest in and manage the development of business is poor.

The formal economy in most Pacific Island countries typically employs about 15 per cent of the population, is concentrated in urban areas and dominated by the public sector. The vast majority of the population of every country draws its income from the informal (and mostly agriculturally-based) sector. There are many entrepreneurs in the informal sector but their lack of access to markets beyond their village or local urban environments and the lack of local support for start-up operations makes it difficult for them to gain the capacity or knowledge to develop their business. Some 80 per cent of start-up businesses in the Pacific fail before reaching the establishment phase because of lack of business expertise.[27]

Successes in public-private alliances leveraged by USAID in the agriculture sector in Africa and the Caribbean suggest similar projects could also stimulate growth in the informal sector in the Pacific.

The Jamaica Farmers Access to Regional Markets program which receives private sector sponsorship from Jamaican agribusinesses and matching funds from the USAID Global Development Alliance has built relationships between small growers and mid-level marketers to expand the agribusiness industry. Growers formed an association which reduced production costs through bulk purchasing and obtained loans for infrastructure and equipment.[28] The program has increased farmers' production, access to markets and rural jobs. USAID's Business Creation Alliance has supported the expansion of a business creation social venture, KickStart, in Tanzania and Kenya. The venture has focused on selling low-cost equipment which has enabled subsistence famers to increase their production and with the marketing and business-planning expertise of the Nike and Case Foundations has transformed subsistence smallholder producers into 50,000 new businesses and generated USD52 million a year in new profits and wages.[29]

The limited monetisation of the informal sector has restricted its capacity to leverage financing options. Agricultural producers and small businesses in rural and urban areas in the Pacific have difficulty obtaining commercial bank loans because of their inability to supply sufficient asset-based collateral as security for loans. Enterprise lending is seen as high risk by commercial banks in the Pacific. Microfinance, which gives individuals collateral-free loans and other financial services to support income-generating businesses, has an established presence in the Pacific but has space to grow, particularly given its useful multiplier effect. Business incubators which provide support with resources and advice such as business planning and networking could also assist the informal sector to grow.

PNG Microfinance, whose shareholders are PNG Sustainable Development Program Ltd, Bank South Pacific and the International Finance Corporation, has defied conventional wisdom about savings capacity in Melanesia. It commenced operations in 2005 as a specialised financial institution to provide credit and financial services, including savings, to small business and microenterprises. It now has eight branches in five provinces, 115,000 depositors and total balances of K23 million.[30]

The estimated microfinance market in PNG is between 400,000 and 470,000 people, which provides a clear business opportunity for corporations interested in social investments. The high participation of women in the informal sector in Pacific Island countries and the relative success of women in small-business initiatives suggest an increase in microfinance facilities for women would be beneficial. Microfinance is appropriate for some enterprises but others need access to different scales of financing to grow their businesses. The Australian corporate sector could be engaged in enhanced microfinance programs, at a 'mezzanine' level, perhaps creating a new 'mezza-finance' facility for private sector development in the Pacific.

Policy recommendations:

Increase assistance to micro-credit facilities – work with civil society and NGOs to increase the availability and uptake of micro-credit facilities in the informal sector, particularly for women operating small businesses.

Develop a new facility – mezzanine finance – based on micro-credit structures that can provide higher levels of credit to existing businesses.

Public-private partnerships

Infrastructure shortfalls are a major constraint to growth in the Pacific Islands. Inadequate investment in the development and maintenance of Pacific Island airports and ports, for example, has been a serious obstacle to trade, tourism and economic development. Public-private partnerships have been implemented in other developing countries to build and maintain infrastructure and deliver health services but are relatively unknown in the Pacific. They may not be appropriate in every case but deserve closer examination, particularly in Papua New Guinea, which has the financial resources to invest in partnerships and is suffering most from poor infrastructure and service delivery.

Public-private partnerships can inject investments into infrastructure that governments could not afford up-front and enable them to pay off over time. They can attract and sustain high-level expertise into health services that government investment would not be able to attract. They can improve efficiency and increase service quality. The private company also brings to a partnership with government its own corporate governance structures and independent auditing requirements that provide accountability to partner governments and users.

The experience of developing countries in public-private partnerships suggests that a good legal and regulatory framework and appropriate design of the partnership to accommodate stakeholder demands and build in local recruitment and skills development are essential. The tangible benefits the private partner is contracted to supply can assist in building demand for higher quality services. The opportunities provided can also encourage entrepreneurs, increase employment, make use of the expertise of non-government organisations and generate greater growth.

Pacific Island countries face difficulties attracting private investors to traditional public private partnerships because they lack long-term purchasing power and the Triple A credit risk ratings that investors require. Investors would be attracted, however, if the Australian government, which has the appropriate sovereign risk rating, is the public partner. Australia is a recognised leader in best practice in public-private partnerships. If this approach is to work in the Pacific, Australia might need to be creative in developing trilateral partnerships between the Commonwealth government, the partner government and the investor.

Recent reforms in the aviation and telecommunications sectors in the Pacific were largely inspired by the interest of Virgin and Irish mobile phone company Digicel in investing in the Pacific, and demonstrate that there are viable opportunities for corporate success in the Pacific. The entry of Virgin into the aviation sector in Vanuatu and Samoa has increased inbound tourism and encouraged the development of more tourism services in-country, providing much needed employment. The entry of Irish mobile telephone company Digicel into markets in PNG, Fiji, Vanuatu, Samoa and Solomon Islands has increased telecommunications coverage in rural areas previously poorly served by state monopolies.

Prior to Digicel's arrival in PNG, only two per cent of the population had access to the mobile phone network. Over ten per cent of the population now has mobile phone coverage. The price of a SIM card has fallen by 80 per cent and the costs of a mobile phone call have fallen by a third.[31] The state-owned B-mobile arm of PNG Telikom was forced into improving its own services and coverage as a result of competition. The introduction of competition in Samoa's telecommunications sector and the entry of Digicel saw an almost four-fold increase in the number of mobile phone subscribers in one year.[32]

The contribution of aid to improving service delivery could be improved by a greater emphasis on output-based aid. An output-based aid approach links the payment of aid to the delivery of specific services or outputs and has been used to improve access to basic services for poor communities in developing countries. Service delivery is contracted to a third party, a private firm or non-government organisation, which receives subsidies in cases when the community cannot afford to pay user fees for services. Subsidies are performance-based and are paid after the services have been delivered and checked by an independent source. The service provider finances the project until the delivery of the outputs. This approach has shown results in water, sanitation, health and telecommunications projects in Africa, Asia and the Caribbean since 2003.[33]

The approach has not yet been used in the Pacific, although Australia is a contributor to the World Bank's Global Partnership on Output Based Aid. Output-based interventions could be used in small-scale service delivery projects, utilising the talent and experience of non-government organisations. Charging responsibility for the physical delivery of services to a non-government or private organisation does not remove the government's accountability or breach its social contract with its population. It shifts the role of government from deliverer to monitor and to building capacity in civil society. Civil society can also play a greater role in the accountability chain by working as independent verifiers of output-based projects and ensure that promised outputs are delivered to the people who need them. Trialling this approach will focus all stakeholders on a business approach to development and increase accountability for every aid dollar spent.

Policy recommendations:

Invest in public-private partnerships with Pacific Island governments and private investors where appropriate to improve the quality of infrastructure and service delivery.

Introduce an output-based approach to service-delivery programs to increase the coverage and quality of services.

ANNEXURE I

Millennium Development Goals

The UN's Millennium Development Goals are: (1) eradicate extreme poverty and hunger, (2) achieve universal primary education, (3) promote gender equality and empower women, (4) reduce child mortality, (5) improve maternal health, (6) combat HIV/AIDS, malaria and other diseases, (7) ensure environmental sustainability, (8) develop a global partnership for development.

Table: Millennium Development Goals Data by region

Indicator	Year	Pacific Islands	Sub-Saharan Africa	Latin America & Caribbean	South-East Asia
$1/day poverty (%)	2004	50 (PNG) (a)	41.1	8.7	6.8
Underweight children (%)	2005	…	29.0	7.0	28.0
Primary enrolment (%)	2006	70 (b) 53.9 (PNG)	70.0	97.0	94.0
Under 5 mortality (per 1,000 live births)	2005	63.4	166.0	31.0	41.0
Maternal mortality (per 100,000 births)	2000	241.6	911.6	191.0	211.8
HIV prevalence (% ages 15-49)	2005	1.6	6.2	0.6	0.5
TB prevalence rate (per 100,000)	2005	345.0	524.1	77.7	275.4
Access to clean water, urban (%)	2004	79.1	80.4	96.1	89.4
Access to clean water, rural (%)	2004	39.8	42.1	73.3	76.8
Access to improved sanitation, urban (%)	2004	80.2	53.1	85.8	81.1
Access to improved sanitation, rural (%)	2004	43.3	27.6	48.8	55.6

Data extracted from UNESCAP/ADB/UNDP, *The Millennium Development Goals: Progress in Asia and the Pacific 2007.*

(a) Economic data on the Pacific Islands region is limited. World Bank sources estimate 50 per cent of the population in Papua New Guinea and 23 per cent in Solomon Islands live below a basic needs poverty line.

(b) Data from other UN and World Bank sources suggest the Pacific Islands region has made good progress against Millennium Development Goal 5 (Achieve universal primary education). Most have achieved primary completion rates over 70%, with only Papua New Guinea falling behind on 53.9 per cent (2003).

NOTES

[1] Australian Agency for International Development, Office of Development Effectiveness. *Annual review of development effectiveness 2007*. AusAID 2008: http://www.ode.ausaid.gov.au/publications/pdf/arde_report-2007.pdf, p viii.

[2] Third High Level Forum on Aid Effectiveness, *Accra agenda for action*. Accra, Ghana, 2-4 September 2008.

[3] The Hon Bob McMullan. International development initiatives in Budget. Parliament House, Canberra, 15 May 2008.

[4] Australian Agency for International Development. *Pacific partnerships for development*. AusAID 2008: http://www.ausaid.gov.au/country/partnership.cfm.

[5] ABC News. *Australian aid to PNG hot topic at summit*. 22 April 2008: http://www.radioaustralia.net.au/programguide/stories/200804/s2224389.htm.

[6] The Hon Stephen MP Smith and The Hon Bob MP McMullan, *Budget: Australia's International Development Assistance Program 2008-09*. Canberra, 2008, p 31.

[7] Merilee S. Grindle, Good enough governance revisited. *Development Policy Review* 25 (5) 2007, p 571.

[8] Office of Development Effectiveness. *Annual review of development effectiveness 2007*, p 32.

[9] Australian Agency for International Development. *Solomon Islands: annual program performance update FY 2006-07*. AusAID 2007: http://www.ausaid.gov.au/publications/pdf/sol_appr_2007.pdf.

[10] Organisation for Economic Co-operation and Development. Development Assistance Committee. *DAC peer review of Australia* 2004: http://www.oecd.org/dataoecd/10/39/34429866.pdf., pp 31-36.

[11] Office of Development Effectiveness. *Annual review of development effectiveness 2007*.

[12] Oxfam. *Business and the Millennium Development Goals. Your call to action*. 2008: http://www.oxfam.org.uk/resources/policy/private_sector/downloads/business_mdgs.pdf.

[13] Dame Carol Kidu. *The power of partnerships in addressing PNG's social challenges*. Lowy Institute for International Policy 7 May 2008: http://www.lowyinstitute.org/Publication.asp?pid=797.

[14] Australian Agency for International Development Asian Development Bank, World Bank, *Strategic directions for human development in Papua New Guinea*. Washington, DC, The World Bank, 2007, p 225.

[15] Govt gets behind indigenous jobs plan. *Australian Associated Press*, 3 August 2008.

[16] Smith and McMullan, *Budget: Australia's International Development Assistance Program 2008-09*, p 30.

[17] International Finance Corporation, *Doing business 2009: Pacific countries must accelerate reform efforts: news release*. Sydney, 10 September 2008.

[18] Bill Gates. *Making capitalism more creative*. Time 31 July 2008: http://www.time.com/time/business/article/0,8599,1828069,00.html.

[19] Graeme Dobell, Australia and the Pacific's Lost Generation. *Quadrant Magazine* 51 (3) 2007.

[20] Ron Duncan, Heather Booth, Guangyu Zhang, Maheshwar Rao and Taomia Fakavae. *At home & away: expanding job opportunities for Pacific Islanders through labour mobility. Chapter 2: The young and the restless: the challenge of population growth*. World Bank 2006: http://go.worldbank.org/FU6EIDBG30.

[21] Business for Millennium Development. *Vision and mission*. 2008: http://b4md.com.au/.

[22] Martin Wolf. *What Bill Gates really means by creative capitalism*. 10 August 2008: http://creativecapitalism.typepad.com/creative_capitalism/2008/08/what-bill-gates.html.

[23] Hudson Institute Centre for Global Prosperity. *The index of global philanthropy*. 2008: https://www.hudson.org/files/documents/2008%20Index%20-%20Low%20Res.pdf.

[24] Responsible Investment Association Australasia. *Responsible investment growth outstrips mainstream - with better returns*. 19 October 2007: http://www.eia.org.au/files/QW6GZ5J4WX/RIAA-Benchmark-Report-2007-PRESSRELEASE.pdf.

[25] Responsible Investment Association Australasia. *Responsible investment 2007: a benchmark report on Australia and New Zealand*.

[26] Principles for Responsible Investment. *Rapid growth in responsible investment despite credit crisis: media release*. 7 August 2008: http://www.unpri.org/files/credit%20crunch%20_final.pdf.

[27] Dorine Narayan, Incubators 'the key'. *Fiji Times*, 11 September 2008.

[28] Citizens Development Corps. *Jamaica farmers access to regional markets*. http://www.mbaec-cdc.org/desktopdefault.aspx?page_id=148304.

[29] United States Agency for International Development. *Global partnerships: Showcase Alliance Database*. USAID 2008: http://www.usaid.gov/our_work/global_partnerships/gda/showcase.html.

[30] Paul Thornton, *The challenges of mobilising savings in PNG* (paper presented at the Pacific Microfinance Week 2007, Port Moresby, Papua New Guinea, 27-31 August 2007).

[31] Nigel Roberts. *The Digicel controversy*. Pacific Magazine 27 April 2008: http://www.pacificmagazine.net/issue/2008/04/27/the-digicel-controversy.

[32] Australian Agency for International Development. *Pacific economic survey 2008: connecting the region*. AusAID 2008: http://www.pacificsurvey.org/UserFiles/file/Pacific%20Economic%20Survey08.pdf.

[33] Global Partnership on Output-Based Aid. *GPOBA activities*. 2008: http://www.gpoba.org/activities/index.asp.

BIBLIOGRAPHY

ABC News. *Australian aid to PNG hot topic at summit*. 22 April 2008: http://www.radioaustralia.net.au/programguide/stories/200804/s2224389.htm.

Asian Development Bank, Australian Agency for International Development, World Bank,. *Strategic directions for human development in Papua New Guinea*. Washington, DC, The World Bank, 2007.

Australian Agency for International Development. *Pacific economic survey 2008: connecting the region*. AusAID 2008: http://www.pacificsurvey.org/UserFiles/file/Pacific%20Economic%20Survey08.pdf.

———. *Pacific partnerships for development*. AusAID 2008: http://www.ausaid.gov.au/country/partnership.cfm.

———. *Solomon Islands: annual program performance update FY 2006-07*. AusAID 2007: http://www.ausaid.gov.au/publications/pdf/sol_appr_2007.pdf.

Business for Millennium Development. *Vision and mission*. 2008: http://b4md.com.au/.

Citizens Development Corps. *Jamaica farmers access to regional markets*. http://www.mbaec-cdc.org/desktopdefault.aspx?page_id=148304.

Dobell, Graeme. Australia and the Pacific's Lost Generation. *Quadrant Magazine* 51 (3) 2007, pp 9-17.

Duncan, Ron, Heather Booth, Guangyu Zhang, Maheshwar Rao and Taomia Fakavae. *At home & away: expanding job opportunities for Pacific Islanders through labour mobility. Chapter 2: The young and the restless: the challenge of population growth*. World Bank 2006: http://go.worldbank.org/FU6EIDBG30.

Gates, Bill. *Making capitalism more creative*. Time 31 July 2008: http://www.time.com/time/business/article/0,8599,1828069,00.html.

Global Partnership on Output-Based Aid. *GPOBA activities*. 2008: http://www.gpoba.org/activities/index.asp.

Govt gets behind indigenous jobs plan. *Australian Associated Press*, 3 August 2008.

Grindle, Merilee S. Good enough governance revisited. *Development Policy Review* 25 (5) 2007, pp 553-574.

Hudson Institute Centre for Global Prosperity. *The index of global philanthropy*. 2008: https://www.hudson.org/files/documents/2008%20Index%20-%20Low%20Res.pdf.

International Finance Corporation. *Doing business 2009: Pacific countries must accelerate reform efforts: news release*. Sydney, 10 September 2008.

Kidu, Dame Carol. *The power of partnerships in addressing PNG's social challenges*. Lowy Institute for International Policy 7 May 2008: http://www.lowyinstitute.org/Publication.asp?pid=797.

McMullan, The Hon Bob. International development initiatives in Budget. Parliament House, Canberra, 15 May 2008.

Narayan, Dorine. Incubators 'the key'. *Fiji Times*, 11 September 2008.

Office of Development Effectiveness, Australian Agency for International Development. *Annual review of development effectiveness 2007*. AusAID 2008: http://www.ode.ausaid.gov.au/publications/pdf/arde_report-2007.pdf.

Organisation for Economic Co-operation and Development. Development Assistance Committee. *DAC peer review of Australia*. 2004: http://www.oecd.org/dataoecd/10/39/34429866.pdf.

Oxfam. *Business and the Millennium Development Goals. Your call to action*. 2008: http://www.oxfam.org.uk/resources/policy/private_sector/downloads/business_mdgs.pdf.

Principles for Responsible Investment. *Rapid growth in responsible investment despite credit crisis: media release*. 7 August 2008: http://www.unpri.org/files/credit%20crunch%20_final.pdf.

Responsible Investment Association Australasia. *Responsible investment 2007: a benchmark report on Australia and New Zealand*. 2007: http://www.eia.org.au/files/4G802MWSMG/RIAA%20Benchmark%20Report%202007%20FINAL.pdf.

———. *Responsible investment growth outstrips mainstream - with better returns*. 19 October 2007: http://www.eia.org.au/files/QW6GZ5J4WX/RIAA-Benchmark-Report-2007-PRESSRELEASE.pdf.

Roberts, Nigel. *The Digicel controversy*. Pacific Magazine 27 April 2008: http://www.pacificmagazine.net/issue/2008/04/27/the-digicel-controversy.

Smith, The Hon Stephen MP and The Hon Bob MP McMullan. *Budget: Australia's International Development Assistance Program 2008-09*. Canberra, 2008.

Third High Level Forum on Aid Effectiveness. *Accra agenda for action*. Accra, Ghana, 2-4 September 2008.

Thornton, Paul. *The challenges of mobilising savings in PNG*. Paper presented at the Pacific Microfinance Week 2007, Port Moresby, Papua New Guinea, 27-31 August 2007.

United States Agency for International Development. *Global partnerships: Showcase Alliance Database*. USAID 2008: http://www.usaid.gov/our_work/global_partnerships/gda/showcase.html.

Wolf, Martin. *What Bill Gates really means by creative capitalism*. 10 August 2008: http://creativecapitalism.typepad.com/creative_capitalism/2008/08/what-bill-gates.html.

ABOUT THE AUTHOR

Jenny Hayward-Jones is Program Director of The Myer Foundation Melanesia Program at the Lowy Institute. Prior to joining the Lowy Institute Jenny was an officer in the Department of Foreign Affairs and Trade for thirteen years, serving in the Australian missions in Vanuatu and Turkey, where she was Deputy Head of Mission from 2004 to 2007. She worked as Policy Adviser to the Special Coordinator of the Regional Assistance Mission to Solomon Islands from its inception in July 2003 and in 2004 and was a member of the election monitoring team in Solomon Islands in 2001. Jenny holds a BA (Hons) in political science from Macquarie University and a Masters degree in International Relations from Monash University; her Masters thesis focused on governance and political change in Vanuatu.

LOWY INSTITUTE

FOR INTERNATIONAL POLICY

WWW.LOWYINSTITUTE.ORG