

POLICY AND GOVERNANCE

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accountability in the
Pacific islands

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Abstract

The paper investigates the relationship between corruption and accountability in the Pacific Islands, using evidence from surveys of 'national integrity systems' in 14 states. It identifies and assesses four international initiatives to improve accountability and reduce corruption: public sector reform; peer review of accountability systems; cleaning up offshore financial centres, and the intervention of Australian officials on the ground. The paper finds that the relationship between increased accountability and reduced corruption is not straightforward. Moves to improve financial accountability may increase the chances of corruption being detected, but greater political accountability may increase the incidence, or suspicion, of corruption. Comparison between the 14 suggests that accountability and levels of corruption vary independently of each other.

Corruption and Accountability in the Pacific Islands

Peter Larmour

Campaigns for 'good governance' often yoke accountability together with the reduction of corruption. The link is plausible. Officials may be less tempted by corruption, if they have to account for their bad behaviour to superiors. Politicians may think twice if they have to face voters in a subsequent election. An increase in accountability and the reduction of corruption are both self evidently good, so it makes sense for aid donors and international financial institutions to promote them together.

Nevertheless, there are circumstances in which these two goods may conflict, or at least work independently or at cross purposes. For example, voters may hold a politician accountable for failing to provide jobs for voters. Or an authoritarian government, unaccountable to voters or the media, may nevertheless have a justified reputation for incorruptibility.

This chapter tries to unpack the relationship between corruption and accountability by looking at patterns of corruption in the Pacific Islands, and at projects by aid donors and international financial agencies to make them more accountable and less corrupt. Neither idea – corruption or accountability – is straightforward, so we have to start with some discussion of what they mean in this context. Then the paper turns to surveys of corruption, and at attempts to introduce reform from outside, most recently in Australia's police/military intervention in Solomon Islands, which having restored law and order, is now leading to prosecutions of police and politicians for corruption offences. Finally it considers what comparison between these cases can tell us about the relationship between corruption, anti corruption, accountability and governance.

Corruption

Corruption is defined differently in different countries. Few in this region have a specific offence of 'corruption' though most countries' penal codes prohibit bribery of officials, and most public service regulations prohibit conflicts of interest. Papua New Guinea, Solomon Islands and Vanuatu have legislated codes of practice applying to senior officials. Offences against these codes are disciplinary offences, typically punished by dismissal. There is often provision for related misbehaviour, such as fraud, in the private sector.

The definition of corruption most used in international campaigns for good governance is 'the use of public office for private gain'. It puts great stress on a distinction between 'public' and 'private' that is often blurred in the Pacific Islands. Centralised bureaucratic states, with their values of impersonality, and equal treatment are a recent introduction to the region. Ethical commitments to family and kin may

contradict official duties, but they are not 'private' in an individualistic, personal sense. Traditional gifts and small payments to chiefs and pastors may be misinterpreted as bribes. Courts in Kiribati, for example, have rules out certain kinds of gifts during election campaigns. One part of the region is not even nominally a democracy. A monarchical system of government in Tonga fuses the state with the private interests of the ruling family (echoed, in a weaker way, in chiefly systems of government, particularly at local level in other parts of the region).

Most democracies in the region (except notably Fiji) have weak, non-ideological political parties. Even the most honest and public spirited politicians are under pressure to offer favours to voters, or offer inducements to legislators to hold together winning coalitions in parliament or congress. 'Stronger parties' are often seen as a way of reducing this kind of corruption, even though they may become corrupt themselves, or act as conduits for corruption.

Each country's legal system is inherited from colonial rule, and is often criticised by island leaders as being out of step with popular opinion. Politicians sometimes defend 'traditional' or 'customary' behaviour that outsiders might regard as corrupt. Popular opinion – particular in letters to the newspaper, or street demonstrations – seems often to take a wider view of corruption than the law, to include what the Muslim historian Ibn Kaldun called 'loose living among the elite'¹ Perceptions of corruption may be biased against minority groups, like the Chinese traders that provide the backbone of a local private sector in most of the region, or foreigners, including aid donors, or simply the wealthy. As Krastev² found in post-communist Balkans, unwelcome, new and visible inequalities of income are often more easily explained as the result of corruption, rather than bad luck, effort, or the working of the merit principle.

Anti corruption activity does not necessarily arise as a response to a problem of corruption, or in proportion to it. In the Pacific Islands, anti corruption laws and institutions are typically in place, but ineffective in dealing with what is regarded as a growing problem of corruption. It may also be that a stable level of corruption has become, though donor pressure, or changes in popular or elite opinion, to be regarded as 'corrupt', and in need of urgent action. Accusations and counteraccusations of 'corruption' are also part of the normal language of politics in the region, as loose coalition group of self interested and ideologically indistinct politicians rotates office, and its spoils, with one another.

Accountability

'Accountability' is, like corruption, a complex and multi-dimensional idea. Day and Klein³ distinguish political from financial accountability, noting that the two have developed in different ways. Political accountability has developed with democracy, and it is only towards the end of the twentieth century that democracy has come to be regarded as a good system of government for everyone⁴. Financial accountability has a much older history, as a way for leaders – democratically elected or not – to manage their subordinates. Thus colonial states in the Pacific Islands may have had strong systems of financial accountability (money was spend according to budgets, accounts were audited etc), but weak systems of political accountability (Governors were not elected; the franchise of legislatures was limited; information was not easily available to the media, or the public). In Tonga, never colonised, but not completely a

democracy, the auditor general is still responsible to the Prime Minister, though reports eventually go to parliament⁵. The two senses of political and financial accountability come together in the office of auditor general, supervising the executive but responsible to the legislature.

Banks and bilateral aid agencies were reluctant to talk about corruption (but may now talk about it to the exclusion of other important issues). The officials who inhabit them are often more comfortable, and expert, in talking about financial than political accountability. However, some donors have become interested in the way electoral systems may make leaders more accountable. In PNG, for example, the EU funded a publicity campaign in support of the government's proposals to amend the constitution, and the election laws, to replace its first-past-the-post system with a 'limited preferential' one, which would allow peoples second, third and fourth preferences to affect the outcome. The publicity campaign included radio talk shows, TV, newspaper advertisements and posters and flyers such as one setting out 'The Ten Commandments of PNG Democracy', including 'Thou Shall Not Vote for Self Interest'. The latter is a difficult sell, in any country. The legislation, which was successfully passed, also created incentives for MPs to join political parties.

The Pacific Islands region

The Pacific Islands include three groups of islands – Melanesia, to the south west, Polynesia to the east, and Micronesia, which extends northwards across the equator to include the former US territories of Palau, Federated States of Micronesia, and Marshall Islands. The Polynesian islands share a common linguistic and cultural heritage, particularly about how leaders should behave⁶. The Melanesian islands by contrast, were settled much longer ago, and now show a huge diversity in languages and cultures, and styles of leadership. Colonial rule created new divisions, but it also parceled islands together, and brought them under standardised systems of government from new administrative centres. Constitutions based on Westminster and Washington models embodied ideas of 'checks and balances' and 'judicial independence' that shape current anti corruption policies. The first constitution of the first country to be decolonised, Samoa in 1962, did not address issues of corruption, but the idea of a Leadership Code for senior officials and politicians was introduced at independence in PNG in 1975 (from Africa), and then copied by Solomon Islands and Vanuatu (though neither implemented these provisions for many years)⁷. Kiribati's trust fund for offshore investment provided a model for Tuvalu's⁸.

Now the Pacific Islands constitute a region in at least four senses. First, regional organisations like the Pacific Islands Forum, which consists of leaders of the island states, and Australia and New Zealand, promote a sense of common identity, shared experience and, more recently, peer review of each other's policies. The island states also form sub regional groupings in larger organisations like the Asian Development Bank, or the Commonwealth. During the 1990s these regional and international organisations became conduits for policies of 'good governance', including accountability and the prevention of corruption. The Pacific Islands Forum has tried to draft a standard 'leadership code' to govern the activities of politicians and senior officials, and been promoting peer reviewed accountability principles. More recently several countries have come under pressure from the OECD's Financial Action Task Force to clean up their offshore banking legislation.

Third, the Pacific Islands also constitute regions of influence for relatively powerful neighbours. Australia, in particular, has become more directly involved in the government of what it sees as potentially 'failing' states Solomon Islands, Nauru and PNG. In 2003 it sent troops, police and other officials in 'regional assistance mission' to Solomon Islands. In each case, local corruption has provided a public justification for intervention New Zealand is a continuing influence on its former colonies of Niue and Cook Islands, where it has been increasing pressure for good governance. There are many Niueans and Cook Islanders resident in New Zealand, and they influence political thinking back home. North of the equator, the US continues to be a powerful influence on the self governing states with which it has defence agreements, and a so-called Compact of Free Association.

Fourth, the Pacific Islands also constitute a region in the analytic sense. The combination of similarity and diversity provides opportunities for systematic comparison of causes and effects. Variations in some factors (resource endowments or electoral systems) that might affect levels, or perceptions, of corruption can be compared against a background of similarity. The region provides a number of cases in a natural experiment. Though the experiments influence each other, and the number (14, listed in table 1) is still too few for statistical work, comparison usually turns up counterexamples to reckless generalisations from a single case. Nauru, for example, has had trouble with corruption in offshore investments, but Kiribati and Tuvalu have not.

For the purposes of this chapter, we look the independent states and those in free association with their former colonizing power, because these are the ones for which comparative information on corruption is available. This excludes the remaining colonies and territories of the US, France and Britain (only in Pitcairn), while noticing that these territories have not been without corruption and other scandals (like sexual abuse in Pitcairn). In the 1980s, for example, scandals over land allocations in New Caledonia showed local officials biased towards towards white settler interests, while Guam and the Northern Marianas suffer from party funding scandals like those on the mainland US.

Corruption Risks

The island states of the South Pacific share many characteristics that create risks of political and administrative corruption⁹. The average GPD per capita only US 3,103 (see table 1). Governments dominate economic life, and politics is often a 'means to personal wealth'¹⁰. The median population is a little over 50,000 and Ministers involve themselves in the day to day running of government and are suspected of favouring their relatives and political supporters¹¹. In small societies with strong cultural ties 'there is a tendency to promote one's own colleague or relative' and 'everyone knowing each other makes the act of ignoring illegal practices easier than "blowing the whistle"¹². Legislation inherited from the colonial period is often out of step with popular opinion, and with new opportunities for corruption after Independence. A geography of scattered islands, or inaccessible interiors of the larger Melanesian islands, makes the supervision of local and provincial government particularly difficult.

The timber industry has been a particular source of corruption in PNG, Solomon Islands and Fiji, but there are no forests to exploit in the smaller islands. Local opportunities for investment are so small in Polynesia and Micronesia that people migrate for employment, and governments invest offshore – creating another set of corruption risks. Countries with democratic systems face different risks from a monarchy like Tonga, where the king and his ministers are only weakly accountable to parliament, and the royal family is involved in business ventures. Countries with traditions of deference towards leaders, like those in Polynesia, face different risks from countries, like those in Melanesia, where leadership is more contested. Weaker states, like Solomon Islands, find it harder to implement anti-corruption policies than those, like Samoa, where there is less intimidation of officials, greater government stability and more bureaucratic effectiveness.

The region depends heavily on foreign aid. Aid relationships are at risk of corruption, or suspicion of corruption. Bilateral funding may fall into some grey area outside the normal accountability structures of both donor and recipient governments. Though the multilateral banks have offices in the region they rely heavily the recipient government's accountability structures. The ADB used to have a poor reputation for corruption in its own operations, but has recently adopted stringent policies against corruption in the disbursement of funds it deploys. Smaller amounts at the discretion of ambassadors and high commissioners, or mobilised for emergency relief, are sometimes, perhaps unfairly, seen as forms political patronage. In Solomon Islands, for example, a Prime Minister once resigned over claims that French hurricane relief funds were disproportionately channeled to his own village (Solomon Islands politicians today are less easily embarrassed). Funding under the first Compact of Free Association that the US signed with its former colonies was so plagued with problems of accountability and suspicions of corruption that the revised Compact contains provision for a special audit office based in the US.

Perceptions of Corruption

Corruption is famously difficult to see, or measure. It typically takes place in secret, often between willing partners, leaving no obvious victims or a 'smoking gun'. Successful prosecutions are difficult to achieve, and may bear an inverse ratio to the underlying rate. Countries with the fewest prosecutions may have the most corruption, and vice versa. Measurement then turns to perceptions, which may be based on different understandings of what counts as corruption. As with the distinction made between 'crime' and the 'fear of crime' - which may move independently, or in opposite directions - people may perceive there is more corruption than there actually is (if the real rate could ever be discovered). Newspaper reports are usually based on government and court information. Competition for readers may lead to an exaggeration of the extent of corruption. Equally, reporting may be inhibited by government censorship, or self-censorship, fear of loss of advertising (government and private) or intimidation by cronies of those accused. Local journalists in Palau and Solomon Islands have suffered physical intimidation.

Corruption is easily blamed on foreigners, or trading minorities. Contradicting the cultural defence sometimes offered politicians, popular opinion also often casts the net of corruption widely, to include the sexual misbehaviour of elites, or inequalities of lifestyle: large cars, and foreign travel. In Solomon Islands, Roughan describes a

state of mind of ‘insidious tolerance’ – every official is regarded as on the take, but no one feels anything can be done about it¹³.

Of the 14 countries we are comparing, only PNG has featured in the Transparency International’s Corruption Perceptions Index (CPI) – coming in at 102 of 145 countries surveyed in 2004, tied with Eritrea, Philippines, Uganda, Vietnam and Zambia¹⁴. TI’s CPI is based on opinions expressed in at least three existing surveys by ratings agencies, academics and journalists, and there are insufficient survey data available to rank the other countries. It is concerned with the kinds of corruption that worry business. Perceptions of corruption may over or underestimate the real amount, but still have an impact on decision to invest. These decisions are not only those of international investors – perceptions, or more direct experience, of corruption may force local investors offshore. There is, for example, anecdotal evidence of substantial investment from PNG into real estate in Queensland.

Surveys of National Integrity Systems

TI’s ‘national integrity systems’ (NIS) surveys are an effort to counter criticism that the CPI rankings were failing to grasp the particularities of each country, relied too much on external perceptions, and failed to identify opportunities for improvement (or register them in the index, if improvement were made). Instead, the NIS studies assess the several ‘pillars’ of national integrity – parliament, Ombudsman etc - and look for differences between what is there in theory, and what happens in practice. A local consulting firm surveyed Fiji in 2001. PNG was surveyed by two PNG academics in 2003, and the remaining 12 small island states were surveyed by academics or former local officials in 2004, in a project I coordinated with Manu Barcham at the Australian National University. The Fiji and PNG projects were organised by local TI groups, while the NISPAC project was organised by TI (Australia) with funding from the Australian government’s aid agency, AusAID.

PNG and Fiji are the two largest countries in the region, and Fiji the most commercially developed, so it makes some analytic sense to deal with them separately from the twelve smaller states we later surveyed. Nevertheless there are similarities as well as differences between the findings. The differences also have much to do with the authorship of the individual country reports. Some were academics, looking from outside, sometimes unwilling to apply external standards of judgement. Others were by former officials, or retired local officials, who tended to be angrier and less forgiving.

The word ‘corruption’, in English, implies a falling away or derogation from some purer situation. The unstated ideal of each NIS report was of an impartial, impersonal, tenured civil service, whose officials would be uncontaminated by personal, familiar regional or ethnic loyalties, one the one hand, or political pressures on the other. This idea goes back at least to Weber’s ideal type of bureaucracy, while the division between ‘public administration’ and politics is the one pushed by reformers in the late nineteenth century US. In some lights, it also looks like the colonial state, and there is nostalgia in parts of PNG for the supposed incorruptibility of colonial officials (and some forgetting of the racial biases of colonial administration, its opacity, and the way European business interests were often preferred over local).

The PNG report found that corruption ‘has saturated many aspects of the public and private sectors’, while most government institutions were ‘passive and tolerant’ towards it¹⁵. It devoted more attention than the others to political corruption, and the government’s attempts to restrict it through reform of the electoral system, campaign financing, and the strengthening of political parties

The NISPAC study of twelve small states found government ministers particularly at risk of corruption. It reported complaints about favoritism towards relatives in appointments, contracts and travel. Particular government departments were more vulnerable to corruption than others: the police, the customs service; forestry and fisheries; ports; health and education. Retirement funds and offshore banking were often involved in cases of corruption. In very small countries, there was often little to sell but the symbols and tokens of sovereignty, like stamps, work permits and passports. It was sometimes not clear if this trade was for the benefit of individual ministers and officials, or sanctioned by the parliament as a source of government revenue. Offshore banking brought governments into close contact with an international underworld of tax avoidance money laundering. Again corruption by senior officials sometimes blended into an authorised search for government revenue, trading on the country’s status as an independent sovereign state.

Visible petty corruption – routine payments for services that officials already received salaries to perform – was an issue in only three countries (Samoa, Tonga and Palau) though in PNG the police sometimes exacted small payments at roadblocks. Under the headings of ‘kickbacks’ the Fiji report found public officials ‘imposing/demanding extra levies for services they are expected to deliver in the normal course of their duties’, particularly in the issuing of passports, work permits, driving licenses and vehicle certification¹⁶. The PNG report found officials ‘hinting their willingness to be bribed, either an invitation to lunch or “six packs” [of beer] and “bus fares” in return to speed up inquiries and service delivery processes’. There was also abuse of powers to administer on the spot fines. Officials were also using their official vehicles to carry out private businesses. In PNG

It is not uncommon to sight ‘Z’ plated government owned vehicles dropping off vendors with their cooling boxes and marketing tables as strategic locations¹⁷

The Fiji report also found nepotism and cronyism, particularly in the use of powers of appointment delegated from the Public Service Commission as part of an earlier public sector reform program. This was sometimes hard to distinguish these incidents from policies of ‘positive discrimination’ or ‘affirmative action’ on behalf of marginalised groups – a contentious issue in Fiji, where the supposed economic disadvantage of indigenous population has been an issue in coups d’etat in 1987 and 2000. The National Bank of Fiji was massively defrauded, in a post coup climate where affirmative action was applauded.

Not all the news was bad. The NISPAC reports found oversight institutions generally weak, though the courts remained largely free of suspicion of corruption (except perhaps in Fiji)¹⁸.

International Initiatives to Increase Accountability and the Prevent Corruption

Several regional and international initiatives have linked accountability and corruption prevention, more or less explicitly since the 1990s. Public sector reform has been promoted by the Asian Development Bank (ADB), the World Bank and the International Monetary Fund (IMF). Improved accountability has been promoted by Australia, though the Pacific Islands Forum. A crackdown on offshore financial centres has been promoted by the OECD. Recently Australia has provided soldiers, policemen and other government officials to 'strengthen' institutions in Solomon Islands, PNG and Nauru.

1. Public Sector Reform by the ADB the World Bank and the IMF

Fiscal crises in the mid 1990s led Cook Islands, Solomon Islands to turn to the ADB for loans and technical assistance. In a short period, the ADB made six program loans, each conditional on public sector reform. The conditions in Cook Islands drew particularly on New Zealand experiments in 'New Public Management' and were transmitted to Vanuatu, as the same consultants moved from one job to the next.

Loan conditions typically included asset sales, downsizing, the introduction of Value Added Tax, and output budgeting. Existing heads of department were to be removed, and their jobs advertised, though most in Cook Islands got them back. New consultation and accountability mechanisms were to be introduced, such as national summits with the private sector and NGOs.

Cash flow problems brought PNG to the World Bank in 1994¹⁹. The first slice of a loan was released in 1995, but negotiations over the rest dragged on through the 1990s. The strongest points of contention were land and forestry policy. The Forest Industry was notoriously corrupt, and politicians were often involved in negotiations between local landowners and foreign timber companies. The World Bank pushed to make reform of the statutory body responsible for forestry policy and condition on the loan, and PNG ministers resisted. Negotiations broke down, amid accusations from PNG that the World Bank was interfering with domestic policy (and the picture was further complicated by the defection of the World Bank's chief negotiator to the PNG side)

However a change of government bought both sides back to the table. In March 2000, the PNG government signed a letter of intent with the IMF and reinstated the previous export regime for logs, funded an inspection service, and declared a moratorium on new permits. It also promised to require more transparency from the Forestry Board. A \$90 million loan from the World Bank contained four new second tranche conditions about forestry. Meanwhile, the World Bank official who had changed sides had been arrested on charges of tax evasion.

There is an uneasy relationship between the wave of public sector reforms and corruption. In many ways the objectives of reform were consistent (and if corruption is regarded simply as a problem for the public sector, then reducing the size and scope of that sector will, by definition, reduce opportunities for it). But if corruption is also imagined to take place within the private sector, and within NGOs then the net effect may be nil. The reports also found the process of privatisation very vulnerable to

corruption. There was suspicion and controversy over the sale of a government owned tourist hotel in Cook Islands, and over the sale of the PNG Banking Corporation in PNG. Processes of deregulation also increased opportunities for cronyism and nepotism in Fiji.

2. Peer Review of Accountability by the Forum

Recently Australia has been using the Forum to press island states to improve their system of governance. The Forum has attempted to sign its members on to a common leadership code (something Australian parliaments have often found difficulty applying to themselves). So far, ministers have rejected the draft proposed. The Forum has also been promoting a process of 'peer review' of countries success in implementing 'eight principles of accountability' that they have jointly affirmed support for. These combine political and financial accountability. They do not deal directly with corruption, though their adoption might make it less likely, or easier to detect:

1. Budget processes, including multi-year frameworks, to ensure Parliament/Congress is sufficiently informed to understand the longer term implications of appropriation decisions.
2. The accounts of governments, state-owned enterprises and statutory corporations to be promptly and fully audited, and the audit reports published where the general public can read them
3. Loan agreements or guarantees entered into by governments to be presented to Parliament/Congress, with sufficient information to enable Parliament/Congress to understand the longer term implications.
4. All government and public sector contracts to be openly advertised, competitively awarded, administered and publicly reported.
5. Contravention of financial regulations to be promptly disciplined.
6. Public Accounts/Expenditure Committees of Parliament/ Congress to be empowered to require disclosure.
7. Auditor General and Ombudsman to be provided with adequate fiscal resources and independent reporting rights to Parliament/Congress.
8. 8 Central bank with statutory responsibility for non-partisan monitoring and advice, and regular and independent publication of informative reports.

The Forum's Financial and Economic ministers have signed up to these principles, and are meant to report to each other on progress in adopting them. The pace, however, has been slow. A 'stocktake' of the process found agreements made at the Forum were not being well communicated and implemented back home²⁰. Another stocktake two years later found some changes, mainly to legislation, but only among the seven countries who replied to the questionnaire. The main constraints were lack of political will, technical capacity and human resources²¹.

The Forum principles are directed at the public sector, and representative democracy. They are not intended to have purchase on corruption within the private sector, or NGOs like churches. Several principles – merit appointments, prompt reporting, punishment apply across sectors, while shareholders meetings, and congregations may play analogous roles to legislatures in ensuring accountability. Publicity also provides opportunities for media interest and more direct forms of democracy – including, in the last instance, riots that followed disclosures by the Ombudsman about losses from the National Provident Fund in Vanuatu.

3. Cleaning up Offshore Financial Centres

The Group of Seven rich countries set up a Financial Action Task Force attempting to persuade the governments which sponsored Offshore Financial Centres to regulate them more closely. Among their targets were OFCS in Cook Islands, Marshall Islands, Niue, Nauru, and Palau²². OFCS have been one of the ways in which island states, with few other development opportunities, can trade on their sovereignty by providing more permissive tax and identification regimes than richer countries do. The OECD was originally concerned with loss of tax revenues, but since 9/11 has shifted its emphasis to money laundering which is 'the process of converting cash, or other property, which is derived from criminal activity, so as to give it the appearance of having been obtained from a legitimate source'²³.

The Financial Action Task Force tried to get governments to adopt what it called its 'Forty Recommendations', which included obligations to criminalise laundering the proceeds of serious crimes, to require financial institutions to be able to identify their clients, and to report suspicious transactions. Governments were to introduce systems to control financial institutions, and to enter into treaties allowing international cooperation.

They published annual lists of 'non-cooperative' countries, starting in 2000. The US also sharply increased its own pressure on the OFCs, as part of its counter-terrorist activity after September 11 2001. Among South Pacific countries, Cook Islands, Marshall Islands, Niue and Nauru appeared on the first FATF list. Listing invoked countermeasures included warning non-financial businesses dealing with listed countries that the transaction might run the risk of money laundering. In December 2001, FATF members agreed to apply additional countermeasures to Nauru for its failure to abolish 400 shell banks, which had no physical presence in the country.

Australia then found itself in an awkward position. Nauru had agreed to act as a processing centre for intercepted asylum seekers heading for Australia. In exchange Australia had offered aid and help in lobbying to have Nauru taken off the FATF blacklist (*Sydney Morning Herald* 25 June 2002). As of March 2004 (the latest figures available on FATF's website) and in spite of passing domestic legislation against money laundering, Cook Islands and Nauru remained on the FATF blacklist, but Marshall Islands and Niue had been removed. As Nauru drifted towards bankruptcy it has agreed to the appointment of Australian officials to positions in its government

4. Australian action against 'state failure'

In 2003, after steadily turning back earlier requests from the Solomon Islands Prime Minister, Australia it responded to a call to launch a 'regional Assistance mission' (RAMSI) to restore law and order, and 'rebuild' institutions. Solomon Islands had suffered a period of what was called 'ethnic tension' before a police led coup d'etat in 2000 forced the then Prime Minister to resign. Though a civilian government stayed in place, and a general election held, officials, including those responsible for paying out money, continued to be intimidated by thugs and gangs often believed to be linked to political leaders. RAMSI has largely restored law and order and has turned its attention to supporting institutions involved with finance, accountability, and the prevention of corruption. Solomon Islands already has a Leadership Code Commission, for example, but it has been reluctant to prosecute, and underresourced²⁴. Australia has been providing funding and technical assistance so that several hundred Solomon Islands police and others now face corruption charges brought under local legislation. The Solomon Islands government which invited the intervention contained ministers who were widely suspected of corruption, and there is the beginning of a backlash among some MPs. An Australian policeman on patrol in the capital was recently murdered by a sniper. Australian has not set a deadline for the withdrawal of RAMSI, but a figure of '10 years' is often mentioned.

Nauru used to have one the highest per capita income of the island states, as a consequence of phosphate mining (see Table 1). Corruption and mismanagement of its offshore investment portfolio and regional airline have led to Nauru's near bankruptcy, its acceptance of a new role as prison for 'boat people' seeking asylum in Australia, and the placement of Australians into senior official positions on the island. In PNG, like Nauru a former Australian colony, an 'Enhanced cooperation Program' has seen Australian police on patrol in the PNG capital, and Australian officials in 'line' positions in PNG government departments. There is also now an Australian police commissioner in Fiji.

Governance

Governance is a word with several meanings²⁵. The reforms described above are concerned with governance in several senses. One is borrowed from the professions of accounting and audit, and is concern with the responsibilities of boards of directors, and structures of accountability. It can be seen, for example, in the Public Expenditure Review Committee which brought private accountants in to oversee public expenditure in Cook Islands. Another draws on constitutional law, and is concerned with the role of parliament, politicians, and public oversight. It can be seen in provisions for legislative oversight of the executive in PNG and other constitutions. A third, from political science, sees governance as 'order without hierarchy', achieved in stateless society, and the decentralised world of international relations. It is expressed in the 'peer review' processes of that association of sovereign states, the Pacific Islands Forum. It is related to a fourth, from economic sociology, that points to the interaction between markets, governments and communities. It can be seen, in the ADB's insistence on involving the private sector and NGOs in reform efforts. It points away from the idea that corruption is a problem of government, and to the

possibility of corruption within the private sector, and within NGOs, including churches.

The international, regional and Australian approaches differed in the kind of sanctions and pressure they could bring on governments reluctant to reform. In the first case, governments need loans to get them through fiscal crises, and reform became conditional on the loans. In the second there was reliance on a steady deluge of consultations, reports and reviews in which countries were supposed to shame each other. In the third case, recalcitrant governments were blacklisted and eventually boycotted by the banks, which they regularly had to deal with. In the fourth case, Australia has intervened directly, with the host government's permission, grudging in PNG and Nauru, welcoming in Solomon Islands. In Solomon Islands it has also sent soldiers, wore a cloak of regionalism, and involved neighbours, whereas the placement of Australian officials in line positions, including police in PNG, has been bilateral.

Accountability and Corruption

The Forum's 8 principles trace a complex relationship between financial and political accountability and the prevention or detection of corruption. Principles 1, 3, 6 and 7 of the go to the power of a democratically elected legislature over the executive and the bureaucracy. However the NIS surveys show that legislature may be the source of corruption as much as a check on it. The NISPAC report criticised what was called 'pitch and catch' budgeting in former US territories where congressmen voted for projects in their own constituencies. In PNG and Solomon Islands politicians have wrested control of part of the budget from the finance department, in the form on constituency development funds (in principle, however, they remain accountable for how these funds were spent, though payments were hard to track).

Principle 2 mixes financial and political accountability – with the latter direct to the public, rather than mediated by the legislature. Principle 8 points in another direction – against executive and legislative control of an independent central bank (though this undemocratic feature is moderated by the principle of publication, which opens up the possibility of post hoc criticism and questioning). However, the publication of reports cited in 2 and 8 may have little effect on a public unable through illiteracy to read them or indifferent to their findings.

Some principles clearly point to the discovery of corruption once it has taken place, or its punishment (5). Principle 5 – providing for open competitive selection - would restrict the opportunities for nepotism, before they happened (though it still may be the case that someone's relatives are more alert to job advertisements, and well qualified, leaving the impression of nepotism).

Comparison of the 14 (see Table 2) countries shows political accountability and perceptions of corruption often ran together: politicians needed to promise services to voters, and exchange favours in parliament to secure the passage of legislation. A free media reported on suspicions, and on the cases that occasionally worked their way through the legal system.

In the least politically accountable country, Tonga, the royal family's involvement in the ownership of infrastructure created suspicion of grand corruption. The government's recent moves to control the media, on the grounds of its disrespect, added to suspicions.

Samoa has had a single party in government since the late 1980s, and this stability is often credited for its relatively high growth rates. There were strong suspicions of corruption in the 1990s, voiced by the auditor general, whom the legislature tried to silence. The government is perceived (by the NISPAC report) to have become less corrupt since then.

Fiji has been moving in the other direction, particularly since the coup d'état in 1987. Pressures for affirmative action on behalf of indigenous Fijians have created new opportunities for corruption.

Among the smaller countries, it is hard to make summary comparative judgements about the level of accountability and corruption. Comparison between how they manage offshore investments points to the importance of insulating investment decisions from ministers. Nauru's ministers picked and chose investments in airlines and hotels, and were often exploited by middle men. Their secrecy added to suspicions. Kiribati and Tuvalu preferred a hands-off approach, through autonomous corporations using professional advisers, and their funds have held up.

Efforts by donors and international financial institutions have had contradictory effects. The Public Sector Reforms aimed, among other things, to improve financial accountability, and budget control, which would thereby reduce opportunities for corruption (and in PNG to protect the forests which had been a source of corruption). Deregulation increased opportunities of nepotism in appointments. But the process of privatisation produced opportunities and deep popular suspicion.

The Pacific cases also show a sharp tendency towards greater international intervention, both to clean up OFCS, and to restore financial rather than political accountability. The Forum process has tried to use peer review to achieve a mix of political and financial accountability, with (according to its own reviews) very limited success. The threat of commercial boycotts has brought about legal changes in OFCS. And Australia's direct intervention in Solomon Islands is bringing a backlog of cases to the courts.

Table 1

Pacific Islands Population Average Annual Growth Rates and GNP per capita

	Population ²⁶ (2004, estimated)	GNP per capita \$ US purchasing Power parity ²⁷ (2000)
<u>Melanesia</u>		
Papua New Guinea	7,236,000	2180
Solomon Islands	589,700	1710
Vanuatu	289,400	2960
Fiji	891,100	4480
Average		2833
<u>Polynesia</u>		
Samoa	182,700	5050
Tonga	98,300	1660
Cook Islands	14,000	5000
Tuvalu	9,600	1100
Niue	1,600	3800
Average		2768
<u>Micronesia</u>		
Federated States of Micronesia	112,700	2000
Kiribati	166,100	950
Marshall Islands	55,400	1600
Palau	20,700	9000
Nauru	10,100	5000
Average		3710

Table 2

Accountability and Corruption

	More accountable	Less accountable
More Corrupt	Solomon Islands PNG Vanuatu Cook Islands	Tonga Fiji (after 1987 coups) Nauru? Samoa (1990s)
Less Corrupt	Niue Tuvalu Palau FSM	Samoa (2000s) Marshall Islands? Kiribati?

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