Good Governance Indicators for Seven Pacific Island Countries

The Pacific Institute of Advanced Studies in Development and Governance (PIAS-DG) of the University of the South-Pacific (USP) has constructed indices to evaluate the governance performance of seven Pacific island countries. The seven countries are Cook Islands, Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, Kingdom of Tonga, and Vanuatu.

It is now widely believed that good governance is a key factor in achieving faster economic growth and development and the perceived quality of governance has become one of the conditions for receiving development assistance and for investing in the country by international investors. For example, the US Government has made eligibility for its Millennium Challenge Account grants contingent upon 16 performance indicators in three categories: governing justly, investing in people, and promoting economic freedom (see http://www.whitehouse.gov/infocus/developingnations/millennium.html).

Various indicators constructed by international and non-governmental organizations and private for-profit firms are now available to measure various aspects of government activities and governance quality. These include Transparency International’s Corruption Perception Index (2006). Probably the most influential governance indicator is the Governance Matters series published by researchers at the World Bank Institute. Their latest release (Kaufmann, Kraay, and Mastruzzi, 2006) uses composite indices for six governance dimensions. The composite indices are calculated from 37 source indicators constructed by 31 organizations and cover 209 countries for the years 1996, 1998, 2000, 2002, 2004, and 2005. All six composite indices are included in the 16 indicators chosen by the US Government to measure the governance quality of developing countries in determining eligibility for the Millennium Challenge Account. However, all of the source indicators are discrete data (or averages of discrete data) taken from surveys of perceptions of experts and opinion polls.

In deciding to construct good governance indicators for Pacific island countries, the researchers at PIAS-DG felt that expert opinions and opinion polls reflecting perceptions about governance in the small Pacific states would be very difficult to obtain on a widespread and regular basis. Moreover, there was agreement that the subjectivity of indicators based on perceptions could be a source of resistance by developing country governments to accepting them as fair evaluations of their governance quality (Knack, 2002).

In contrast to the perceptions-based approach, the PIAS-DG approach provides measures of governance quality that are almost entirely based on objective data, a substantial proportion

---

1 This work has been undertaken by Dr Azmat Gani of the Economics Department and Dr Haruo Nakagawa and Professor Ron Duncan of the Pacific Institute of Advanced Studies in Development and Governance, (PIAS-DG), the University of the South Pacific, and Dr Teuea Toatu, previously with PIAS-DG and now with the Commonwealth Secretariat, London. The project is being funded by the Australian Agency for International Development (AusAID).

2 They are (1) Voice and Accountability; (2) Political Stability, (3) Government Effectiveness, (4) Regulatory Quality, (5) Rule of Law, and (6) Control of Corruption.

3 In Kaufmann et al (2006), governance indices for most of the Pacific countries included are calculated from a very limited number of source indicators, except for Papua New Guinea. A majority of the indices are derived from only three source indicators or less. The statistical viability of the method used by Kaufmann et al (2006) depends on the independence of source indicators (i.e., those who were surveyed in a particular exercise do not refer to other indicators). This might be a problematic assumption for small island countries.
of which is drawn from official statistics. The only exceptions are the use of Freedom House’s *Freedom in the World* (2006) and *Freedom of the Press* (2006) indicators. The PIAS-DG approach also intends for there to be annual updates of the governance measures and for the indices to be comparable across the countries. With this information, Pacific governments can have a measure of the changes in their governance performance over time and comparisons of their performance with that of their neighbours.

The appropriateness of the indicators is also an important issue. That is, do they measure what they are intended to measure? Also, the reliability of official statistics in small developing countries is frequently problematic. Therefore, the margins of error in our method are not necessarily smaller than those in the perception-based indicators. However, given the limitations of obtaining perceptions-based information in small developing countries, such as the high cost of carrying out opinion surveys on a regular basis and the difficulty of obtaining a sufficient number of expert opinions, the method of using quantitative proxy indicators is believed to be a very effective alternative. As it is our objective that the governance indices are primarily based on quantitative data, whether the data will be available on an annual basis and in a timely manner are important considerations in choosing indicators.

**Dimensions of Governance**

The indices developed by PIAS-DG comprise three core governance dimensions, each of which has several sub-dimensions. These dimensions of governance are believed to reflect the now widely accepted definitions of governance such as in Kaufmann *et al* (2006). They are *the rule of law, government effectiveness,* and *regulatory quality.* The indicators or proxy variables that are believed to directly and indirectly capture or reflect these sub-dimensions of governance are used in the measurement of governance quality.

**Rule of law**

In the rule of law dimension, the interactions between citizens and the institutions for ensuring political transparency and an effective system of law and voice for all citizens are addressed. We have assigned it four sub-dimensions: *political freedom, political stability, judicial effectiveness,* and *media independence.*

*Political freedom* is considered to be one of the foundations of contemporary democracy, as it allows citizens to have some control over the way the government runs the country. *Political stability* is seen as important for protecting institutions responsible for realising the rule of law. *Judicial effectiveness* is also a very important factor in realising the rule of law because the judiciary is the institution ultimately responsible for facilitating its sound and fair observance. The quality and independence of the *media* can also influence the rule of law. A free media allows people to voice their concerns about government actions and influence government performance.

**Government effectiveness**

The *government effectiveness* dimension captures the ability to develop and implement sound policies, efficiently deliver public goods and services, and enforce rules uniformly. Three sub-dimensions were chosen to reflect this aspect of governance: *bureaucratic efficiency, economic management,* and *corruption.*

Other than its taxing and spending functions, government’s role extends to the establishment of property rights, policing, the judiciary, national defense, regulation of market activity, and
so on. Bureaucratic efficiency in these areas can promote speedy progress in nation building and improvement in the welfare of society. However, if public officials are able to exert discretionary power over economic affairs, they can divert resources from the intended public purpose to private use. Thus, with its extraordinary powers in the form of police and/or army enforcement, government often damages human welfare intentionally.

Economic management is an essential responsibility of government. Subsidies, regulations, and direct participation in economic activity are some of the interventions leading to government failure due to the absence of mechanisms that pressure government to behave in accordance with social costs and benefits. The presence of corruption in the public sector can adversely affect government effectiveness. The abuse of public power for private benefit can arise as a result of governmental regulation of economic activities, such as price ceilings or floors, quantitative restrictions on imports, and regulations about types of workers to hire. Further, the complexity of taxation and other laws may allow scope for evasion or for the exercise of rent seeking by public officials.

Regulatory quality

Regulatory quality refers to the extent to which government policies promote or inhibit market activity and is broken down here into two sub-dimensions: the strength of financial institutions and the extent of competition. Regulatory intrusion into enterprise activities may be manifested in a variety of forms: obstacles to entry in the form of registration permits and licenses; repressive, unpredictable and arbitrary taxation; required compliance with wide-ranging, superfluous statutes and regulations; and significant statutory power given to regulatory officials charged with monitoring and enforcing compliance among firms. Regulations that are costly to firms or people can induce bribes or other lobbying activities to bring about changes or, at least, waivers of the regulations in question.

The availability of suitable indicators to measure these many sub-dimensions varies among the seven countries. We have tried hard to find several indicators for each sub-dimension but this has proven impossible for some of the countries. The indicators used are not all the same for all countries. Alternative indicators are used where appropriate substitutes can be found. A listing of the indicators for each of the sub-dimensions is shown in the Table.

Table 1: Indicators measuring the various sub-dimensions of governance

Rule of Law
Sub-dimensions
- Political freedom – Freedom House rankings for political rights and civil liberties; female parliamentary participation
- Political stability – frequency of regime change; number of political parties; frequency of major civil disturbances such as coups and riots
- Judicial effectiveness – expenditure on the judiciary; expenditure on public order and safety
- Media independence – Freedom House rankings for freedom of the press; proportion of Internet users

Government Effectiveness
Sub-dimensions
- Bureaucratic efficiency – proportion of telephone mainlines; national government budget balance; expenditure on education; expenditure on health
• Economic management – central government debt; exports/GDP ratio
• Extent of corruption – economic services expenditure/total government expenditure; national government recurrent expenditure/total government expenditure

Regulatory Quality
Sub-dimensions
• Strength of financial institutions – money and quasi money (M2)/GDP; Contract Intensive Money ratio; domestic credit to the private sector; domestic credit provided by the banking sector; interest rate spread
• Extent of competition – availability of electricity; relative size of government

Compilation of Governance Indices
Once data was collected for each indicator, it was expressed in index form. In computing the indicators for each of the three dimensions, “benchmark values” (BMVs)—which indicate the minimum and maximum attainable numerical values for each of the indicators—were established. This is a new use of the benchmarking concept, which allows comparisons of governance performance across countries and shows what realistic governance targets can be set. While the BMV concept has not been used previously in construction of governance indices, UNCTAD (2002) has used minimum and maximum values of each of the eight key FDI determinants in computing its Inward FDI Potential Index.

Establishing the BMVs for the governance measures was a difficult task. The most appropriate procedure would be to refer to a sample of countries that are high and low achievers in terms of good governance. This would give an indication of the minimum and maximum achievements for each dimension in relation to the best and worst performers. The difficulty lies in the choice of countries. The high-income countries have a record of much more effective governance than the low-income and less-advanced countries. Therefore, the minimum scores on indicators are often higher than the maximum scores for the Pacific countries. However, linking governance indicators of Pacific countries to a sample of lower-income countries was not possible at this stage because the necessary data have not been collected.

Hence, it was decided to restrict selection of the BMVs to the BMVs of the seven Pacific countries. This meant selecting the minimum and maximum attainable achievements for each of the indicators from the seven countries over the sample period. Once the indicators were benchmarked, they were aggregated to form the governance sub-dimensions, then aggregated into the three core governance dimensions, and aggregated again to form the overall governance index. All aggregations are simple arithmetic averages.

Good Governance Indices
The aggregate governance indices and the indices for the three core dimensions of governance for the seven Pacific countries over the period 1995-2005 are presented below.

Aggregate Governance Indices
Figure 1 shows the Good Governance Index for the seven Pacific countries. It can be seen that the countries fall into three groups: (i) countries where governance quality has been improving over the past decade; (ii) countries where governance quality has improved only marginally; and (iii) one country, Solomon Islands, where governance quality has deteriorated severely. Cook Islands, Fiji Islands, Samoa and Vanuatu are in the first group;
Papua New Guinea and Tonga are in the second group.

Governance improved sharply in Cook Islands between 1995 and 1999, but has shown only slight improvement since then. Nevertheless, Cook Islands ranks highest on this aggregate measure. Fiji’s Good Governance Index has improved remarkably over the past decade, despite the coup in 2000, which was a significant setback. In 2007 it might be experiencing another setback in governance because of the coup at the end of 2006, but this event is beyond the present coverage of the index. Samoa’s improvement in governance has been gradual but consistent. After years in the doldrums, governance quality in Vanuatu has improved sharply since 2001.

In Papua New Guinea, improvement in governance quality has been only marginal over the past decade. In 2005 the PNG governance index is only slightly higher than it was in 1995 and there is a disappointing decline in 2005. Unfortunately, for Solomon Islands the quality of its governance deteriorated significantly during the period of civil unrest after 1997. Since the intervention of RAMSI (the Regional Assistance Mission to Solomon Islands) the improvement in governance has not been sufficient for recovery to the level of 1997. It is also alarming that after two years of improvement in 2003 and 2004, the aggregate index declined in 2005.

Below, we look at the three core dimensions of governance for the seven countries.

**Rule of Law Indices**

Figure 2 shows the Rule of Law indices for the seven countries. Here, the three groupings are the same as for the aggregate index but changes and differences are more distinct. Samoa has been the consistent high achiever in this dimension, with steady improvement. For the remaining countries, the political instability that has plagued so many countries in the Pacific shows up in the sharp changes in the indices. The rule of law in Cook Islands saw improvement in the 2001-03 periods, following a declining trend over the period 1997 to 2001. The overall result is that in 2005 the index is no higher than the peak of 1997. Fiji had been catching up rapidly to Samoa since the coup of 2000. However, it is likely that the rule of law index will take a sharp plunge in 2007 following the 2006 coup.

Improvements in the rule of law dimension have probably been the most impressive in Vanuatu, despite the sharp fluctuations in the index. The 2002-04 decline as the result of significant political instability has been recovered by the stability enjoyed by the current government and the index in 2005 is back near to the 2002 peak. In PNG there has been slight improvement in the rule of law, beginning from the start of the Morauta administration. But the index remains at a low level and there was a downturn in 2005, which together with the decline in the regulatory quality (see below) explains the downturn in the aggregate index. Tonga’s rule of law index has not changed over the ten-year period and remains at a very low level. The deterioration in the rule of law during the civil unrest in Solomon Islands shows up clearly and the recovery since 2002 is minimal.

**Government Effectiveness Indices**

Figure 3 shows the changes in the Government Effectiveness dimension and these are quite different from those in the rule of law dimension. The Fiji Islands has been the consistently high achiever in this dimension. The index dipped a little following the 2000 coup but subsequently recovered; although performance on this measure fell in 2004 and 2005. The Cook Islands has been the big mover in this core dimension. Between 1996 and 1999, the Cook Islands index rose from being the lowest to the highest. This sharp improvement
followed the adoption of the Comprehensive Reform Program by Cook Islands in 1996. Following this strong performance the index fell sharply and has been fluctuating since then without any overall improvement. However, the increase in 2004 and 2005 is encouraging.

In 2005 Fiji’s ranking as the best performer in terms of government effectiveness was overtaken by Samoa and, rather surprisingly, by Papua New Guinea. The prudent fiscal management during the recent resource boom appears to be behind the improvement of this dimension in Papua New Guinea over the period 2002-05. The quality of government effectiveness in Vanuatu deteriorated steadily from 1997 to 2003 but has been recovering since then. There is little cause for joy in this core governance dimension in Tonga. While the index improved in 2004 and 2005, it has not recovered back to the level reached in 1997. In Solomon Islands there has been a substantial recovery in this dimension since 2002, no doubt due to the beefing up of the core public service departments through the RAMSI intervention. It is of concern, however, that the index fell in 2005.

**Regulatory Quality Indices**

As shown in Figure 4, the three country groupings defined above can also be observed in the Regulatory Quality dimension. In Cook Islands there was sharp improvement in this dimension in the period 1995-98; subsequently there was a steady improvement between 1998 and 2002. However, while Cook Islands has maintained its position as top performer in this dimension, the decline in 2003, 2004, and 2005 should be of concern. Vanuatu has recorded the best progress in regulatory quality since 2000 and now ranks next to Cook Islands. Fiji’s performance changed little over the period 1995-2002 but between 2002 and 2005 improved steadily. There was steady improvement in Samoa’s regulatory quality between 1995 and 2004. However, there was a sharp decline in 2005 that is worth some examination. In Tonga there has been slight progress in regulatory quality since 1995, with the improvement in 2005 taking the index to its highest level. Papua New Guinea’s performance has been disappointing throughout the period. The sharp decline in 2005 appears to be cause for alarm. For Solomon Islands, the index follows the familiar pattern of a sharp decline from 1997 and only limited recovery after 2002.

**Limitations of the Indexes**

The governance indices have limitations to do with data and the choice of core dimensions, sub-dimensions and indicators. The foremost limitation of the indexes as constructed is the availability of relevant data. For some sub-dimensions only one indicator was available. The measures of governance are captured using proxies or indirect measures and their ability to reflect accurately the governance attribute being measured may be subject to debate. The second major limitation is in the choice of dimensions and indicators. Three core dimensions were chosen but this set is arbitrary, as are the chosen sub-dimensions and indicators. Finally, there is the limitation in the choice of BMVs. These are restricted to the data for the seven countries themselves, as other comparator country measures are not yet available.

**Conclusions**

As measured here, substantial improvements in governance quality are suggested for Cook Islands, Fiji, Vanuatu and Samoa, while the quality of governance has improved to a much smaller extent in Tonga and Papua New Guinea. For Solomon Islands, the Good Governance Index suggests a significant deterioration in governance quality, with a substantial part of the decline coincidental with the ethnic tensions and turmoil experienced in the country.
It is noteworthy that three of the four countries showing substantial improvements in the quality of their governance are countries that introduced a Comprehensive Economic Reform Program (CRP) in the 1990s: Cook Islands, Samoa, and Vanuatu. These three countries are also the only Pacific countries that have shown strong growth in real per capita incomes in recent years.

Cook Islands adopted a CRP in mid-1996, following the accumulation of large public debts as the result of excessive public expenditure and losses on speculative public investments. The governance index for Cook Islands shows a sharp increase from 1997 to 1999 and some gradual improvement since then. Samoa began its CRP in 1998. However, there had been some economic reforms in the lead-up to the CRP. The Samoan governance index shows some improvement from 1995 to 1998, but the most significant improvement has been since 2000. Vanuatu also announced its CRP in 1998. But the period 1999-2001 was a period of poor fiscal management, political instability, and dubious financial deals by the government. It is not surprising, therefore, that the improvements in governance quality do not show up in the index until 2002 and 2005.

Indicators available to construct the governance indices are limited to 23 or 24. These individual measures are drawn from various sources for the period 1995 to 2005. The qualifications of the exercise with respect to the choice of dimensions and sub-dimensions, the selections of indicators, and the quality of data, are noted. But, hopefully, these governance indicators will provide government, policy makers, the private sector, society generally, and aid donors useful information by which to monitor changes in the quality of governance over time. The intention is to continue to improve the selection of indicators. With improved availability of data, the index should gain greater precision.

There is no claim or guarantee that these indices give a complete picture of achievements in governance in the seven Pacific countries. There will always be disagreements over the definition of governance and which dimensions and indicators should be included. The important issue is whether the governance indices reflect the changes over time in the quality of governance and the differences between countries in a fair manner.

References


Knack, S., (2002). “Governance and Growth: Measurement and Evidence”, paper presented at the Forum Series on the Role of Institutions in Promoting Growth, organized by the IRIS Center at the University of Maryland and sponsored by the USAID.


Figure 1: Good Governance Index of Seven PICs

Figure 2: Rule of Law Index of Seven PICs

Figure 3: Government Effectiveness Index of Seven PICs

Figure 4: Regulatory Quality Index of Seven PICs
**Good Governance Indicators: Cook Islands**

Large external government borrowings in support of years of wasteful public expenditure and public investment in highly speculative ventures resulted in a fiscal crisis in Cook Islands in 1995-96. In 1996, foreign debt was 141 per cent of GDP. In response to the fiscal crisis, a Comprehensive Reform Program (CRP) was introduced in mid-1996, led by the Asian Development Bank. The reform program had three main elements: public sector reform (emphasizing fiscal responsibility and improved public sector management); promotion of the private sector (reforming the leading sectors, improving the competitive environment, and improving access to land); and ensuring equity and sustainability (protecting vulnerable groups, ensuring environmentally sustainable growth, and mainstreaming gender issues).

As a result of the prudent fiscal policies adopted, external debt has been reduced significantly. The latest figures available for external debt are for 2002 and in that year it was equivalent to 55.6 per cent of GDP. However, it is likely that external debt has fallen substantially in the meantime as in 2002 total public debt stood at 40 per cent of GDP, while in 2005 it is shown as being only 12 per cent of GDP.

The economy has performed well since 1999, led by expansion of the private sector—tourism, in particular. GDP growth in real terms averaged 6.2 per cent over the period 1999 to 2004. Government statistics show the per capita GDP growth rate as averaging 3.5 per cent during this period (Government of Cook Islands 2006).

The overall governance index increased sharply from 1996, the year of implementation of the CRP, up until 1999 (see Figure 5). Since 1999, however, the aggregate index has been unchanged. The implementation of the CRP is reflected in increases in the government effectiveness dimension, which improved sharply over the 1996-99 period, and in the regulatory quality index. The regulatory quality of Cook Islands improved significantly throughout the period from 1995 to 2002. However, since 2002 there has been a decline in performance in this area of governance. The CRP could not address political instability and perhaps not surprisingly, therefore, the rule of law index indicates no improvement in performance over the whole period.

The Cook Islands has had many changes of the government over the past decade. Between 1999 and 2002, for example, the government changed five times. As a result, the political stability sub-dimension has not shown any improvement but has fluctuated considerably. The poor performance in the political stability sub-dimension has offset the improved performance of the media independence and judicial effectiveness sub-dimensions. The net outcome is the lack of improvement in the rule of law dimension of governance.

The government effectiveness index dipped in 1996 as the result of a large increase in government expenditure to 45 percent of GDP. However, between 1997 and 1999 the index rose as the result of the fiscal austerity measures adopted in the CRP (increased tax revenues, declines in budget overruns, and declines in expenditure on repairs and maintenance). One of the reasons for the decline in the government effectiveness index since 1999 has been the increase in the measure of corruption up to 2002. The improvement in the government effectiveness index in 2004 was largely due to the government’s good financial management that resulted in a budget surplus.

The regulatory quality index rose significantly between 1995 and 2002. This very good performance is largely attributable to increases in the extent of competition, mostly in the services sector. However, there has been a decline in this core dimension since 2002.
References

Figure 5: GGIs for Cook Islands
Fiji’s per capita GDP growth has averaged less than 2 per cent over the 1995-2005 period. While real GDP growth averaged close to 4 per cent in the 2002-04 period, it slumped to 0.5 per cent in 2005. The rapid growth of tourism in Fiji has helped to compensate for the decline in the sugar and garment industries, although the tourism sector suffered serious setbacks as a result of the coups in 1987 and 2000. Overseas investors have been encouraged to move into the industry through the implementation of reasonably secure 99-year leases on customary land. However, the continuing political uncertainty following the 2000 coup and culminating in the 2006 coup is a dark cloud hanging over the industry. Remittances from indigenous Fijians working overseas have grown rapidly since 2000, which has also helped to offset the decline in the garment and sugar exports. But while the growth in remittances has some positive aspects, it also reflects the inability of the economy to provide job opportunities for a large and growing number of Fijians.

Since 1990 the focus of economic reform has been on trade liberalization but reforms have been inadequate and incomplete. Successive governments have rolled back trade reforms and there has been inconsistency in the setting of tariffs. Fiji’s export performance remains poor due to lack of investment and Fiji has not been able to diversify its merchandise export base to any great extent. These difficulties largely result from the continuing political uncertainty and the inability of the political system to resolve the impasse over the leasing of agricultural land.

Fiji’s aggregate governance index improved significantly between 2001 and 2005. The index declines only slightly in 2000, the year of the coup led by George Speight. There was a sharp fall in the rule of law dimension of governance in 2000 but this was almost offset by improvements in the government effectiveness and regulatory quality indices. It remains to be seen what impact the military coup in December 2006 will have on the overall index.

The rule of law index rose in 1999 as the result of the 1999 election, which was based on the implementation of the 1997 constitution. The index declined sharply as the result of the coup in May 2000 but increased just as sharply in 2001 and 2002 as the country returned to government by election. The gradual gain from 2002 is attributable largely to improvement in media independence and to a lesser extent to improvements in judicial effectiveness.

The government effectiveness dimension has not improved at all since 1995. There was a slight increase in the index during the brief Chaudary administration but then a decline with the interim administration put in place after the coup. The index recovered a little in the first two years of the first Qarase administration but declined in the later years of this administration in 2004 and 2005, due mostly to a decline in the quality of economic management.

Regulatory quality in Fiji fell sharply between 1995 and 1998. Both the strength of financial institutions and the extent of competition deteriorated over this period. In 1999, performance in regulatory quality improved due to an improvement in the extent of competition, while the further recovery in 2000 was solely from improvement in the strength of financial institutions. There was a very significant gain in regulatory quality from 2002, which is attributable to improvements in both the strength of financial institutions and the extent of competition in the economy.
Figure 6: GGIs for Fiji

Index Numbers

Year

GGI
Rule of Law
Government Effectiveness
Regulatory Quality

0.20 0.25 0.30 0.35 0.40 0.45 0.50 0.55 0.60

Good Governance Indicators: Papua New Guinea

Improved macro-economic management during the current PNG administration has led to greatly improved macro-economic indicators. Strong government expenditure control, together with increased revenues from the recent high prices for copper, petroleum and gold, have provided scope for the government to reduce the burden of public debt. When the current government took office the public debt/GDP ratio was around 80 percent. The government is now well on the way towards its goal of reducing the public debt/GDP ratio to 55 percent by 2007.

Budget surpluses have also been realised, the interest rate and inflation rate have been sharply reduced, and foreign exchange reserves have been maintained at a high level—all reflecting the improved macro-economic management in place. This macro-economic framework should provide an encouraging environment for investment. However, investment, employment, and economic growth have not increased significantly. Real GDP growth has been positive since 2003 but it is barely above the rate of growth of population. The government’s inability to improve the investment climate basically derives from its inability or unwillingness to implement the necessary changes in micro-economic policies to overcome the high-cost and unreliable infrastructure and to tackle the significant law and order and corruption problems.

The quality of governance in Papua New Guinea ranks below that of the other six countries except for Solomon Islands. Moreover, governance has shown only a slight improvement during the decade-long period. Indeed, there was a slight decline in the aggregate governance index in 2005.

Looking at the three core governance dimensions separately, we see that the rule of law and the regulatory quality indices show much the same behaviour as the aggregate index in recent years. The rule of law index improved significantly in 1998 due to improvements in political freedom and political stability. Since 1998 there has been a steady increase in this index as the result of improvements in political stability and media independence. However, there was a slight downturn in 2005 because of a decline in judicial effectiveness.

The regulatory quality index fell sharply in 1998 and 1999 due to declines in the indicators for the extent of competition. It recovered somewhat in the period from 1999 to 2004 due to recovery in these areas. However, in 2005 there was a further sharp decline in governance performance in this core dimension, which was solely attributable to deterioration in extent of competition in the economy.

In sharp contrast to the other two core dimensions, the government effectiveness dimension points to a sharp improvement in this area of governance in 2003, 2004, and 2005. This improvement is in accord with the good macro-economic management of the national government during the minerals price boom of recent years.
Good Governance Indicators: Samoa

The Government of Samoa’s 1996/97 “Statement of Economic Strategy” outlined the major economic reforms to be undertaken in its Comprehensive Reform Program. These included trade and investment liberalization, financial sector liberalization (removal of controls on credit and interest rates, and strengthening of the independence of the central bank), public service reform, and corporatisation and privatization of government business enterprises. As part of the economic reform program, there was a large reduction in tariffs in 1998; except for the higher tariffs on vehicles, alcohol, and tobacco, the highest tariff rate now applied is 20 per cent, as compared with 60 per cent previously. In 1994, in the lead up to the tariff reform, a value added general services tax (VAGST) of 10 per cent was adopted. The VAGST was subsequently increased to 12.5 per cent, and on October 1, 2006 it was increased again to 15 per cent. Financial sector liberalization also began in 1998. As well as the removal of the controls on credit and interest rates, capital account controls were removed, while at the same time there was a strengthening of prudential supervision.

The economic reforms appear to have led to improved economic performance. Samoa had two years of six to seven per cent GDP growth in 1995 and 1996 and another two years of growth at similar levels in 2000 and 2001. The downturn in tuna harvests from mid-2002, the disastrous impact of cyclone Heta in January 2004, and the subsequent drought help explain the disappointing GDP growth of 1.5 per cent in 2002/03 and 3.5 per cent in 2003/04. Real GDP growth for 2004/05 is estimated at 6.5 per cent. The boom in the construction industry in preparation for the 2007 South Pacific Games is partly responsible for this upswing in GDP, as well as the improved harvests from tuna fishing and agriculture.

Despite the improved investment legislation established as part of the reform program, foreign investment has been very disappointing until recently. However, with improved overseas airline services as the result of the establishment of the Pacific Blue/Polynesian Airlines and Air Pacific/Polynesian Airlines joint ventures, there are now direct flights from Brisbane, Sydney and Melbourne in Australia. The tourist hotel occupancy rate has soared to near capacity, and two major international hotel chains have constructed resorts while others are planned.

The aggregate governance index shows steady improvement throughout most of the 1995-2005 period. This steady improvement stems from the increases in the three core governance dimensions. The slight decline in the aggregate governance index in 2005 is the net effect of a slight decline in the rule of law index, a sharp increase in the government effectiveness index and a sharp fall in the regulatory quality index.

The marginal deterioration in 2005 in the rule of law index is solely attributable to deterioration in the media independence indicator. The Freedom House Press Freedom Index for Samoa, one of the indicators of media independence, fell in 2005. The jump in the government effectiveness index in 2005 was almost all due to the improvement in the indicator of the extent of corruption. The dive in the regulatory quality index in 2005 was solely attributable to deterioration in the measure of the extent of competition.
Figure 8: GGIs for Samoa
Good Governance Indicators: Solomon Islands

The adverse impacts of the period of civil unrest in the Solomon Islands during 1998 to 2002 show up clearly in the aggregate governance indicator and in its three core dimensions. According to the aggregate index there was an improvement in overall governance in 2003 and 2004, following the arrival of RAMSI. However, the index turned down in 2005. *Government effectiveness* and *regulatory quality* both show improvements in 2003 and 2004, but both show a downturn in 2005. The *rule of law* dimension improved in 2003 but declined in 2004 and was unchanged in 2005.

The loss in the rule of law index after 2003 is attributable to the decline in the sub-dimension of judicial effectiveness. Expenditure on law and order, one of the indicators for this core dimension, rose in 2003 but returned to its previous level in 2004. The slight decline in government effectiveness after 2004 is attributable to deterioration in both bureaucratic efficiency and economic management. The loss in regulatory quality in 2005 is due to deterioration in the extent of competition in the economy.

![Figure 9: GGIs for Solomon Islands](image-url)
Good Governance Indicators: Tonga

The aggregate governance index for Tonga shows no improvement in governance performance over the period 1995-2004. However, the increase in 2005 took the index to a higher level than seen in the past ten years. Still, Tonga’s governance performance remains well below that of Cook Islands, Fiji, Samoa and Vanuatu.

The performance of the rule of law dimension almost mirrors that of the aggregate index, with no improvement over the period for which the governance indicators have been constructed. The fall in the index in 2003 was mostly attributed to increased political instability, while the recovery in 2004 was the result of improved judicial effectiveness. In 2005 the slightly improved performance was the result of an improvement in political freedom.

In contrast to the other two core governance dimensions, the regulatory quality index increased strongly over the period 1997 to 2001. The strong gain between 1996 and 2001 was due to improvements in both the strength of financial institutions and the extent of competition. The increase in 2005 was also due to improvements in both sub-dimensions.

Government effectiveness has not made any gains since 1995. The deterioration in governance performance in this area in 1998 that took the index down to a much lower level was the result of deterioration in both bureaucratic efficiency and economic management. Improvements in bureaucratic efficiency in 2004 and 2005, particularly the fiscal surpluses achieved and the higher public expenditure on health, have only returned this sub-dimension to its 1995 level.

Figure 10: GGIs for Tonga

![Figure 10: GGIs for Tonga](image-url)
Good Governance Indicators: Vanuatu

Prudent macroeconomic policies were followed in Vanuatu for much of the 1990s, resulting in low inflation, healthy foreign reserves, and low debt levels; but political instability and poor governance of public institutions created considerable problems for macro-economic management in the late 1990s. The fiscal deficit rose sharply to a high of 9.4 per cent of GDP in 1998 and was still at 7.1 percent in 2001.

In July 1998 a Comprehensive Economic Reform Program (CRP) was introduced. The reforms included trade liberalization and reform of the financial sector and the tax system, promotion of the private sector, and provision for social equity. Tariffs were reduced on average by 22 per cent. A VAT of 12.5 per cent was introduced in place of the manufacturing turnover tax and the reduction in tariffs. Other reforms included financial sector reforms, a revised Public Service Act and the establishment of a Leadership Code. In total, the reforms involved 22 pieces of legislation.

The financial sector reforms included the introduction of indirect market-based instruments for monetary management, strengthening of supervision of commercial banks and other financial organizations, and restructuring of public financial enterprises. At the time, the non-performing loans of the Development Bank of Vanuatu (DBV), the National Bank of Vanuatu (NBV), both state-owned banks, and the VNPF amounted to VT2 billion. The NBV and the VNPF were recapitalized and the DBV was closed.

By 2003 the fiscal deficit had been reduced to 1.8 per cent of GDP and there was a fiscal surplus of 1.2 per cent of GDP in 2004. Public debt had risen from 27 per cent of GDP in 1997 to around 40 per cent in 2002. However, the pressure on the budget of the increasing debt level was not severe as most of the country’s public debt is external and is on concessional terms.

The Vanuatu economy has performed very well in recent years. Over the three-year period 2004-06, real GDP has averaged over 6 per cent.

The aggregate governance index shows no improvement over the period 1995 to 2001. However, improvements in 2002 and 2005 have lifted the aggregate index by 10 percentage points.

The rule of law index peaked in 2002 but fell in 2003 and 2004 and picked up again in 2005. This pattern was mainly the result of similar patterns in the sub-dimensions of political freedom, political stability and judicial effectiveness. These three indicators peaked in 2002. Freedom House gave its highest mark to Vanuatu in 2002, and the expenditure allocation on the judiciary and law and order peaked also in 2002. The decline in the rule of law index in 2003 was due to the decline in political freedom and judicial effectiveness. The deterioration in 2004 was largely attributable to the decline in the indicators of political stability (the prime minister changed twice during the year). All of these three sub-dimensions improved in 2005. The share of female parliamentarians increased in 2005, improving the index for political freedom. The survival of the current Lini government contributed to political stability in 2005 and therefore also contributed to the improvement in the rule of law.

Regulatory quality performance in Vanuatu has sharply improved since 2000. The good gains after 2000 are attributed to both the strengthening of financial institutions and improvement in the extent of competition.

Figure 11: GGl's for Vanuatu