Book reviews

Aid and development in the South Pacific
Peter Bauer, Wolfgang Kasper, Savenca Siwatibau, *et al.*
The Centre for Independent Studies, St Leonards and Auckland, 1991

This collection of essays deserves serious attention from all analysts interested in the role of official development assistance. Three authors in particular provide views that stimulate discussion.

Peter Bauer is the outstanding respectable exponent of the view that aid should be terminated. He points out that the recipients of the greatest amounts of aid have frequently experienced the slowest growth rates.[1] His essay is not a convincing argument for the extreme view that this justifies the termination of all aid, but it contains some valuable suggestions for changes in aid policy and administration, especially by donor governments.

Official development assistance is intergovernmental transfers provided directly by donor country taxpayers. It should be as carefully scrutinized as other government expenditures to ensure that it is efficiently used. Bauer proposes that official development assistance 'should go to those governments whose policies are most likely to promote the economic progress, and general welfare of their peoples' (page 17), including the relief of poverty (page 6). In the past welfare considerations, economic policies and human rights have been given little weight in the allocation of aid. Instead, governments have been rewarded for following desirable (that is, either pro-Communist or anti-Communist) policies. With the dramatic change in the international political scene in the past two years there is some chance that economic growth and poverty alleviation considerations may replace 'Cold War' criteria for official development assistance.

Bauer suggests four conditions for aid transfers:

- proposals should promote general welfare, and be founded on responsible macroeconomic policies;
- official development assistance should be bilateral rather than allocated by international organizations;
- aid should be untied; and
- aid ought to take the form of grants rather than subsidized loans.

Micro-reforms to promote general welfare might include: curtailment of military expenditures; reforms in educational systems (average female enrolments are still only slightly more than 80 per cent of male enrolments in some countries); and improvements in health services (with an emphasis on primary health care, which provides few opportunities for the display of donors' plaques). However, it is impossible to institute micro-reforms in an atmosphere of uncertainty created by irresponsible macro policies.

Bauer draws attention to the fact that much official development assistance 'drives up the real rate of exchange, and adversely affects foreign trade competitiveness' (page 11). In many countries the aid distributing bureaucracy has become the booming sector that discourages exports and encourages imports thereby contributing to the foreign exchange gap that official development assistance is intended to close. Much of this effect is created by the unconditional transfer of funds to recipient country bureaucracies. A return to one of the limitations imposed in the original charter of the International Bank for Recon-

1 Increases in income are not a completely satisfactory proxy for increases in welfare. However, if equitably distributed they are additions to welfare, and they are a prerequisite for improving income distribution without creating social tension, and for increased expenditure on education, health and other social objectives.

struction and Development (now the World Bank) as a condition for official development assistance should reduce the direct booming sector effect of these transfers. If official development assistance was limited to the financing of the foreign exchange costs of specific development projects, including the indirect import costs of domestic investment expenditures, the exchange rate pressure would be alleviated.

Bauer's second criteria is that official development assistance should be bilateral. Some multilateral agencies, particularly those associated with the United Nations, were established to implement policies that inhibit rather than stimulate development. Others, however, provide a useful service in administering the conditionality that should be a more important aspect of official development assistance. Multilateral administration of internationally agreed policies eliminates the impression of colonial imposition that arises when one donor imposes conditionality on its contribution to one recipient.

Bauer's third criterion that aid ought to be untied (page 18) is sensible. If a country wishes to subsidize certain activities, it should disburse subsidies openly through subsidizing agencies, not covertly via aid agencies purporting to contribute to welfare.

The fourth criterion (that aid should take the form of grants rather than subsidised loans) is consistent with the third. Aid should be determined by welfare and development criteria. Loans should be determined by finance criteria. Otherwise, 'it becomes quite impossible to ascertain ... to what extent taxpayers of the donor countries subsidise the aid recipient governments rather than exporters and bankers in their own countries' (page 18).

Wolfgang Kasper is probably the most articulate Australian exponent of the contribution that private enterprise can make to economic welfare. He is particularly vehement on the role of official development assistance in removing constraints on bureaucracies and permitting them to impose regulations and protection 'that gives rent seeking a certain respectability'. He is a strong advocate of the principles of conditionality inherent in Bauer's presentation. Eight of his 'ten commandments of foreign aid' are conditions for the allocation of official development assistance.

Kasper deals with one point not covered by Bauer: the problem of small countries. Many countries with populations of less than one million, particularly in the Pacific, are not viable as independent entities. The independence of many small countries reflects the convenience (or employment opportunities) of 19th century colonial administrators rather than the requirements for cohesive societies. They can no more exist as independent states without official development assistance than they could have existed without colonial subventions.

For the Pacific, Kasper suggests that 'an excellent way to overcome some of the handicaps of small scale would be to form an economic and currency union' (page 77). He limits his actual proposal to an economic union. The consolidation of small island official development assistance supported bureaucracies would permit a more equitable distribution of aid in the South Pacific and elsewhere. Currently Niue and Tokelau receive \$1600 per capita each year while Fiji receives only \$60[2], China \$2.00 and India \$2.50. Consolidation would also prevent central bank policies from absorbing the resources of micro-states. Even if the islands' central banks were consolidated, it would be unreasonable to expect that they could contribute anything to the welfare of the micro-states. As the Netherlands has found, small, open economies cannot pursue independent monetary policies.

One of Kasper's 'ten commandments' must be questioned. He advocates that 'as much aid as possible should by-pass the sticky fingers of aid bureaucracies to be distributed and administered privately' (page 76). This implies that non-government organizations such as the Vatican, the London Missionary Society, the Church of Latter Day Saints and Greenpeace are not bureaucracies. AIDAB's administrative costs are 2.5–3.0 per cent of disbursements. The World Bank figure is below 1 per cent. Care Australia is proud of its *low* cost–disbursement ratio of 10–12 per cent.

Moreover, it cannot be assumed that private organizations will not have a vested interest in imposing their ideas in regions where they are inappropriate, often with catastrophic effects. Cargo cults emerged as imitations of the actions of non-government organizations. Missionaries have persuaded many people that their traditional practices and social constraints were barbaric. One result in the Pacific is that Melanesian customs such as the severe punishment of rapists, pre-

2 See Statistical Annex to this *Bulletin*.

viously effective forms of social control, fell into disuse.

Savenca Siwatibau is an experienced Pacific island economist. He provides a brief but comprehensive survey of the South Pacific island economies, with emphasis on their development needs and opportunities. He draws attention to the emerging tendency for South Pacific countries to promote private sector investments and acknowledges the need to deregulate the business environment. He favours a regional approach to many of the area's problems because 'the benefits of a collective approach in a changing world where smallness has obvious disadvantages are increasingly appreciated' (page 38).

Official development assistance has a poor record in improving conditions in lower income countries. The responsibility for this less than satisfactory outcome lies with the donors as well as the recipients. As noted by Bauer, attempts by Western donors to influence the policies of recipient governments have been half-hearted and ineffectual' (page 15). In reality, only the World Bank and the International Monetary Fund have provided criteria for recipient government policies that are effective in stimulating growth and alleviating poverty. Members of the donor community must accept their responsibility to the largely unrepresented residents of low income countries as well as to their own taxpayers. Such an acceptance would require consensus among all the donor countries (or at least the members of the Development Assistance Committee). Reaching such a consensus will require discussion. These essays provide an excellent basis for this discussion.

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Development and performance of management agencies in Papua New Guinea agriculture

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98 pp (1 map), ISBN 9980 77 109 7

This is an enlightening study for anyone interested in the operational problems in the Papua New Guinea economy. It is mistitled. It comprises a 23 page essay on the role of 'Plantation management agencies in Papua New Guinea' and a 75 page case study of the experience of the New Guinea Islands Produce Company. As these are essentially two separate essays there are a number of repetitions. Manning's recent experience is evidently largely limited to managing cocoa plantations. Therefore, this study is really a report on the Company's experience in cocoa production, with limited references to the coffee and copra industries.

This study's authority is enhanced by the fact that it was written by a Papua New Guinean citizen. It describes many of the difficulties faced by Papua New Guinean enterprises. There is the basic problem that 'the education system has not produced great numerical skills' (page 40). The same could be said of its results in producing literary skills. Consequently, the Agricultural Bank (Agbank)—the major source of finance for plantations—requires most borrowers to retain the services of a management agency to supervise the operation of plantations under an agreement when many owners do not understand the documents that they are expected to sign. This weakness was aggravated by the policy of 'plantation companies and landowners to run down their assets rather than to reinvest' (page 21) in the period of uncertainty prior to independence, so that there was no investment in labour. The skills of Papua New Guinean plantation managers are still inadequate. Consequently, there is a role for management agencies to administer plantations now owned by independent semi-literate landowners. The New Guinea Islands Produce Company and 21 other accredited agencies have provided a valuable service in overcoming these deficiencies.

The Company has faced two related difficulties. For institutional reasons, the government can neither provide incentives to entrepreneurs nor improve labourers' discipline. Therefore, the government's service has deteriorated so much that it can no longer be effective. This, together with the resentment of public servants towards independent or semi-independent research and operating agencies makes relations with the government very difficult and encourages bureaucratic inertia. The Agbank's protection of its fiduciary integrity leads to delays of nine to sixteen months in the approval of loan applications, and the bank only rarely rejects a loan—it just fails to approve it. This can lead to a plantation losing a season, a year, or a year and a season or, alternatively, misallocating its capital. In contrast to Agbank's tardiness, the New Guinea Islands Produce Company submits its operating accounts three weeks after the end of each accounting period.

As with all studies of the Papua New Guinea economy, attention is drawn to the high cost of production. Costs here are approximately 50 per cent higher than, for example, in Malaysia. This is largely a result of relatively high wages, but the fact that the ratio of total Papua New Guinea costs to those in Malaysia is higher than the comparable ratio of wage costs indicates the presence of other inefficiencies in Papua New Guinean production.

Manning claims that interest costs in Papua New Guinea are high by comparing them with the legally repressed rates in Tonga. A different conclusion is reached if Agbank's rates of 9.5–10.5 per cent are compared with rates in other cocoa producing countries (Indonesia 21 per cent, Nigeria 15–20 per cent, Ghana 26 per cent). Agbank's low rates on high cost loans and higher rates on lower cost loans appear to be institutionally repressed (largely under the influence of the World Bank and the Asian Development Bank).

Management agencies such as the New Guinea Islands Produce Company have undoubtedly contributed to bringing the production of plantation cocoa back up from 8,600 tonnes in 1983–84 to 13,000 tonnes in 1988–89. It had declined from 14,000 tonnes in 1979–80, largely as a result of lack of maintenance in the years prior to and immediately after independence. Manning believes that the Agbank agency investment program will lead to further growth. This report places great importance on the agencies' role in overcoming the difficulties faced by relatively large landowners. It does not indicate how the smallholder sector, presumably facing greater difficulties, still produces more cocoa than is grown on plantations.

The New Guinea Islands Produce Company, along with other agencies, takes credit for making 'it possible for large areas of land to pass from foreign to Papua New Guinea groups in order to buy out foreign-owned land' (page 56). The government has now retreated from this transfer of ownership program. It contributed to an increase in the proportion of the economy under the control of Papua New Guinea individuals and groups. However, it is debatable whether the appropriation of foreign owned investment (rather than the financing of new physical investment) was the best use of Papua New Guinean savings and the limited amount of foreign aid available for development.

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