



## Introduction

Recent economic policy writing about Solomon Islands has frequently attributed slow development progress to the ‘*wantok* system’ and its incompatibility with the delivery of the political and administrative functions required of a modern state (Fukuyama 2008; Duncan 2010; Duncan and Nakagawa 2007; Hughes 2004; ADB 2010; Gay 2009). Within this technocratic literature, ‘*wantokism*’ is seldom precisely defined or placed within an adequate historical or cultural frame, but is often used as a loose catch-all term for various real or perceived collectivist elements of Solomon Islands’ culture. While possessing strengths in terms of delivering equity and social cohesion, *wantokism* is said to fundamentally impede Solomon Islands society’s capacity to deal with collective action problems due to the continued embeddedness of political leadership within personalised networks of reciprocity (Fukuyama 2008:1–2). *Wantokism* is, therefore, to blame for endemic problems of political instability, corruption, and slow private sector development — problems that require Western professionalised bureaucratic forms to adequately manage. The only solution is cultural change and the inculcation of a sense of national identity, which donors have limited scope to facilitate and can only be achieved over many decades. Such arguments have achieved broad legitimacy within the local development community, and are recited by development practitioners far more frequently than more nuanced discussions of interactions between development and Melanesian culture within the anthropology, geography, history, and political science literatures.<sup>1</sup>

In this paper, I present a political-economy critique of culturally based explanations for uneven development progress in Solomon Islands. I argue that the behaviours frequently blamed for slow-

ing economic development and social progress are primarily driven by perverse material incentives prevailing under existing policy and institutional settings. While various cultural factors doubtlessly influence behaviour, the behaviours that commentators and development practitioners are most concerned about are entirely consistent with traditional economic models emphasising the tendency of individuals to act in their material self-interest. Understanding poor outcomes in Solomon Islands as the result of perverse material incentives facing individuals, rather than a result of the local culture, is more useful from a policy perspective and avoids the unjustified problematising of Solomon Islands culture. By applying this framework, I identify a range of practical policy priorities to ameliorate existing perverse material incentives and accelerate development progress.

The paper focuses on the causes of three key development problems facing Solomon Islands: weak political and policy cohesion, poor public administration, and limited private sector development. The paper is divided into four sections. In the first, I outline key facts regarding the current economic and social context in Solomon Islands. In the second, I explain recent arguments regarding the importance of the *wantok* system as a cultural constraint to development. In the third section, I demonstrate that poor development outcomes in Solomon Islands can be explained in terms of the material incentives facing individuals, without re-course to cultural arguments. In the final section, I identify the implications of this analysis for development interventions. I highlight the role played by international donors in contributing to existing perverse incentives, and recommend tangible policy reforms through which these incentives could be ameliorated or removed.

### The Solomon Islands Context

The lives of Solomon Islanders have improved markedly over the past seven years. The arrival of the Regional Assistance Mission to Solomon Islands (RAMSI) quickly ended a protracted civil conflict and laid the foundations for the restoration of law and order, macroeconomic stability, expansion of basic services, and reasonable rates of economic growth.<sup>2</sup>

But recent gains were possible only through international assistance, and could easily be reversed if such assistance was scaled back or withdrawn. Nearly 80 per cent of Solomon Islanders believe that law and order would break down or violence return if the international peacekeeping force were to leave (ANU Enterprises 2010:100). Current levels of basic service delivery depend heavily on aid funding and foreign technical assistance.<sup>3</sup> Economic growth has been driven by an unsustainable logging boom and expansion of government and donor expenditure. With more than US\$1 billion of aid spent since 2003 (around US\$2,000 for each Solomon Islander), Solomon Islands remains the poorest of the Pacific Island states, with Millennium Development Goals (MDG) progress and Human Development Indicators to match.<sup>4</sup> Endemic problems of inconsistent political leadership, poorly performing public services, limited private sector development, and ubiquitous misuse of public resources remain pressing. Overall, vast sums of donor money are being used to deliver stability and services with some reasonable success. But the broader ambitions of sustainable socioeconomic change and MDG-level living standards remain a distant dream.

### The Argument from Culture

In this section, I review culturally based explanations for the failure to embed a more sustainable model of development in Solomon Islands, advanced by proponents of the culture thesis, and now frequently reflected in the discourse of development practitioners working in the region. I examine these explanations in relation to three key development problems facing Solomon Islands: 1) weak political and policy cohesion, 2) poor public administration, and 3) limited private sector development.

Proponents of the culture thesis argue that the absence of political and policy cohesion in Solomon Islands is caused by *wantok* loyalties distorting electoral dynamics. Within the Solomon Islands Westminster democratic system, voters support candidates with whom they share common descent and hold high status within *wantok* groups, rather than on the basis of expected or past performance in providing improvements in policy or services. This weakens incentives for elected leaders to deliver such improvements. As important, it impedes the coagulation of elected representatives into political parties around ideological or political fissures. Instead, governments made up of individual MPs elected on the basis of their capacity to represent parochial *wantok* identities and interests, form temporary and opportunistic allegiances built around the sharing of rents. Very simply, because of the strength of the *wantok* system and because of a lack of a sense of national identity, the first-past-the-post system produces not a strong two-party system, but a highly unstable mixture of weak parties and independent parliamentarians, who then negotiate the creation of coalition government and divide the political spoils between them (Fukuyama 2008:5).

The primary goal of elected leaders is to 'raise or reinforce local political standing through the *wantok* system of kinship and allegiance' (ADB 2010). As a result, allegiances are short-lived, and political parties have neither the incentives nor the longevity required to deliver much-needed economic and governance reforms (Gay 2009:103).

Similar lines of reasoning have been adapted to explain poor performance within the Solomon Islands' bureaucracy.<sup>5</sup> Proponents of the culture thesis argue that, with 'indigenisation' of the civil service following independence in 1978, paramount loyalties to *wantok* interests came to trump any national interest considerations of civil servants. According to this argument, without a shared sense of national identity guiding the conduct of key officials, independence led to a 'decline in professional standards', with nepotism and political interference undermining the ability of the bureaucracy to deliver on government policy priorities (ADB 2009:i; Fukuyama 2008:5). Politically appointed positions

within central ministries came to be allocated in ways that maintain patronage networks, rather than serve the needs of the country. Officials and justice authorities now bend or break the rules for personal advantage, or to bring benefit to *wantok* members. Promotions are often based on personal connections and favor rather than performance. As a consequence, talented staff often leave the public service, exacerbating capacity gaps, and worsening morale. Proponents of the culture thesis see the consequences as ubiquitous. The administration of justice is a prime example, where ‘cultural pressure to look after relatives can lead to retribution against the Police Officers if they try to remain impartial’ (Fukuyama 2008:8). Similarly, within the utility sector, ‘weak governance due to wantokism ... is one of the major causes of poor SOE performance’ (Gay 2009:103).

Much has also been written about the negative impacts of *wantokism* on private sector development. Proponents of the culture thesis echo a well-travelled litany in singling out customary land ownership as the ‘primary reason for deprivation in rural Pacific communities’ (Hughes 2004:4). The collective ownership of land and natural resources by descent-based groups presents an insurmountable barrier to commercial agriculture and foreign investment, as there are multiple ‘claimants to a particular parcel of land, no strong tradition of delegated authority, and no statute of limitations with regards to customary claims’ (Fukuyama 2008:4). As a result, it is ‘extremely difficult’ for landowners to convert customary land into alienable property. Customary ownership within the *wantok* system therefore both denies potential investors secure tenure, and also inhibits entrepreneurialism by preventing the use of land for collateral to access loans.<sup>6</sup> Such views continue to motivate regular donor calls for ‘land reform’ despite more recent policy work pointing out the potential for private sector development in the context of customary tenure arrangements.<sup>7</sup>

*Wantokism* has also been accused of inhibiting private sector development in Melanesia in ways beyond its curtailment of the productive use of land and natural resources. Renzio (2000:22) cites the ‘common tale’ of an income-earning individual who finds it impossible to save or reinvest because

of the heavy demand that *wantoks* place on scarce earnings. Without individualised property rights, widespread social expectations that wealth and income will be shared within the social group reduce incentives for investment and entrepreneurial effort, and reduce the likelihood that established businesses will succeed. Dickson (1995:44) notes how *wantok* traits are a ‘very common problem’ in enterprise development, with many businesses closing due to the obligation to extend credit to *wantoks*.

### Standing the Culture Thesis on Its Head

While culture inevitably shapes some aspects of certain behaviours in any society, it is important to recognise that cultural norms and behaviours also evolve in response to broader economic and social realities.<sup>8</sup> Far from constraining the actions of individuals to timeless and mystified unalterable norms, *wantok* behaviours have historically been cherry-picked and adapted by Solomon Islanders, from a menu of traditions and customs from a plethora of specific group cultures, in response to changing material conditions and imperatives arising since colonialism (Brigg 2009). It seems unlikely that Solomon Islanders would insist on the maintenance of practices that doom them to failure within the modern global economy purely because they were elements of inherited cultural traditions.

In this section, I argue that the detrimental behaviours described above could more usefully be explained in terms of the material incentives facing individuals. While culture may influence behaviour, it is abundantly clear that the behaviours that development practitioners are most concerned about are strongly encouraged by pervading material incentives arising under current institutional and policy settings. This insight is helpful, as it allows us to understand slow progress in Solomon Islands without assigning culpability to Solomon Islands culture, while also illustrating a broader range of potential policy remedies. I make this point by further examining the three examples discussed above.

### The Political Economy of Electoral Politics

There is little doubt that short-term parochial or personal factors often have a determining influ-

ence on electoral outcomes in Solomon Islands and that this precludes the emergence of a stable party system capable of delivering strategic policy reform. But cultural factors such as *wantokism* and a lack of national identity are not the most intuitive explanations for voters' focus on short-term considerations.

Voter behaviour in Solomon Islands reflects the broader economic context. Most Solomon Islanders support themselves through subsistence production. Eighty-five per cent of Solomon Islanders live in rural areas. Cash-economy opportunities are limited, concentrated around a very small number of cash crops, and sensitive to changes in global commodity prices. Recent economic analyses have suggested that this is unlikely to change, with a World Bank report noting that 'few small countries' face as many disadvantages from geography, and concluding that 'Solomon Islands is unlikely to be able to provide a competitive business environment for manufacturing or service exports' (World Bank 2010:7). Reflecting this reality, most Solomon Islanders remain only partially integrated into the cash economy, and typically modulate their engagement — for example, through the extent of production of copra for wholesalers — depending on changes in prices and costs. Subsistence standards of living are fairly high, with very low levels of food poverty.

With little participation in the formal sector, and severe geographical constraints to the expansion of the private sector in the near future, interest in economic reform measures is limited for most Solomon Islanders. The impacts of economic reforms are weak, lagged, and mediated by a range of idiosyncratic factors. Any impacts that can be felt are dwarfed by other fluctuations in economic fortunes that are entirely beyond the control of government, including those arising from changes in global commodity prices and other economic shocks.

Most Solomon Islanders are similarly presented with few reasons to care deeply about central government decisions regarding public services and infrastructure. In most areas, the only manifestation of government is a network of rural clinics and schools which, while relatively successful in

providing basic access, are of highly uneven quality. Only a small proportion of Solomon Islanders have any access to economic infrastructure, and most businesses are in the informal sector, and seldom comply with formal regulatory requirements.

Further, central government control over services and infrastructure is heavily constrained. Community-level education authorities have a strong influence on day-to-day administrative arrangements in schools, and donor financing accounts for a large proportion of both the health and education expenditure, with co-financing requirements effectively insulating sectoral budgets from government allocation decisions (Porter et al. 2010:65; Pretorius et al. 2008). Community infrastructure and supplemental health and education services are often provided by bilateral or multilateral donors, or non-government organisations, with resource allocation deliberately insulated to varying degrees from central government discretion. Large donor projects, such as the World Bank's Rural Development Program and the United Nations Development Programme (UNDP)/United Nations Capital Development Fund (UNCDF) Provincial Government Strengthening Program, while working within government systems, leave actual project-selection decisions to community boards and provincial government respectively. Micro-project financing from bilateral donors and the European Community is allocated to specific projects on a contestable basis without any coordination with central government ministries.

Constituency funds are a potent addition to this mix. Through the constituency fund system, individual MPs are provided with SBD\$2 million per annum to deliver 'development projects' on a largely discretionary basis.<sup>9</sup> When considered relative to typical incomes in rural areas, these funds are very significant, especially in small isolated constituencies, and often represent the largest source of cash to a given community (far outstripping earnings from employment). There has never been any serious attempt to subject these funds to central government scrutiny or planning processes. While constituency funds are sometimes used to deliver vital infrastructure to underserved areas, they are

more often used simply to provide cash payments or private goods to important constituents around election time. A community or household may be promised a much-needed water-tank if they support a particular candidate. The practice of casting a vote for a certain candidate in exchange for cash or bags of rice is also ubiquitous.

In this context, it would take not just a very strong sense of national identity, but also an unusual preoccupation with long-term interests, a rarely overpowering altruism, and a similar faith in the altruism of others for any individual to base their voting behaviour on a candidate's national policy positions, rather than on the likelihood of a particular candidate providing direct benefits to the local community. It is not realistic to expect Solomon Islanders to give up substantial immediate benefits — in the form of social status, much-needed cash through handouts, or the benefits of constituency fund projects — in order to support a government committed to better services, when the majority of services are provided by other parties. It is not realistic to expect a voter to support reforms that enable higher rates of growth in the formal economy when their exposure to changes in the formal economy is weak, lagged, and dominated by idiosyncratic fluctuations of the global economy.

Even if an individual was inclined to make such a trade-off, they would only rationally expect to derive any benefits from that voting decision if a large proportion of Solomon Islanders were similarly inclined. A rational voter would only even consider foregoing direct benefit in the hope of broader improvement if they believed that a good proportion of other voters would make the same trade-off. Giving up personal benefit to support better policy is even less appealing if that vote would be wasted on a losing candidate in a first-past-the-post system.

Overall, the voting behaviour of Solomon Islanders is entirely consistent with pervading material incentives. The candidates who win are largely those best able to strategically distribute patronage to key constituents. The benefits of receiving patronage far exceed the likely benefits from improved policy when the lag between improved policy and potential improvements in

life quality, the limited exposure of most Solomon Islanders to the formal economy, and the limited impact of central government decision-making on basic service delivery, are taken into account.

### The Political Economy of Bureaucratic Performance

Some government employees in Solomon Islands use their official powers to benefit *wantok* members, either through favour in the provision of goods and services, or through hiring and remuneration decisions (ADB 2010).<sup>10</sup> Conveying such benefits enhances social status and establishes reciprocity obligations that can be expected to bring future benefits, informal social security insurance, and political support.

The incentive for government employees to use their official powers to benefit related individuals or groups is hardly unique to Solomon Islands, and such practices are observed around the world.<sup>11</sup> Solomon Islands may be unusual, however, in the extent to which institutional arrangements fail to mute or balance incentives towards kin-based loyalties.

Incentives for strong bureaucratic performance in Solomon Islands are weak. At the highest levels of government, there is an almost complete absence of clarity regarding what is to be achieved and who is to achieve it. Ministers, often new to government and provided with little information by a stretched and politicised bureaucracy, seldom have explicit objectives for their departments to achieve or good knowledge of what their departments currently deliver. Mandates of various departments are often unclear, and outputs are not listed in any centralised documentation. Planning documents are of variable quality, often drafted for or by donors, and seldom implemented. Ministry corporate plans are mandated for all departments, but not always prepared. Those that exist typically contain an unrealistically large number of goals, with very few goals accompanied by performance measures. Very few planning documents, ranging from the National Development Strategy to the corporate plans of individual ministries, are costed, preventing any linkage between policy goals and resource allocation. The national budget is prepared on an inputs basis, and does not align to the

goals or objectives of the government or individual ministries. Ministries do not report on the use of funds by activity, and performance audits are not carried out. While some progress in improving public finance systems and accountability arrangements is currently being achieved, overall, there remains little clarity in terms of what resources are being provided to which ministry to achieve which objective. There is even less clarity as to what has been achieved.

Weaknesses at the institutional level influence the incentives facing individual bureaucrats. Performance management systems are either weak or non-existent in most government departments. Measurement of performance is not adequate to consistently inform performance-based progression, and — with remuneration and benefit schemes highly distorted by inconsistent non-salary allowances — incentives for progression are weak. Disciplinary procedures are outdated, complex, and inconsistent, with managers reporting an inability to discipline staff performing inadequately or engaging in inappropriate behaviour.

Financial audit and accountability systems are also weak. Recent progress in strengthening the Office of the Auditor General (OAG) and bringing the audited accounts of government departments up to date has revealed severe weaknesses in processes, and many incidences of corruption across government. In 2007, the OAG released the 'Auditor General's Insights into Corruption', which summarised the main findings and recommendations from all previous work, including fifteen special investigations of irregularities involving several instances where MPs were implicated. The Public Accounts Committee was presented with the summary findings, and has held 'deliberative meetings' but has yet to formally implement any plan of action to address findings systematically. OAG referrals to the Public Prosecutor are seldom acted upon.

The ultimate cause of much of this dysfunction is the absence of institutional structures ensuring ministers' accountability for the operational performance of departments within their portfolios, or across government as a whole. The Westminster model of bureaucratic accountability to a minister,

and ministerial accountability to the public for service delivery and good policy simply does not work. The problem is not just that the systems are broken, but that those in positions of power have no incentive to see them changed. While many ministers have championed reform and the longer term interests of Solomon Islands, they have done so despite, rather than because of, the institutional incentives that they face. The political economy of electoral politics permeates down to the political economy of bureaucratic performance, with management of constituency funds and political allegiances squeezing out, and frequently conflicting with, ministers' ministry and policy oversight roles. Ministers are not held accountable for service delivery by their electorates, and therefore do not hold bureaucrats accountable for performance in the delivery of services. Over time, this absence of accountability has weakened administrative systems to the point where ministers lack the information required to demand and measure improved performance.

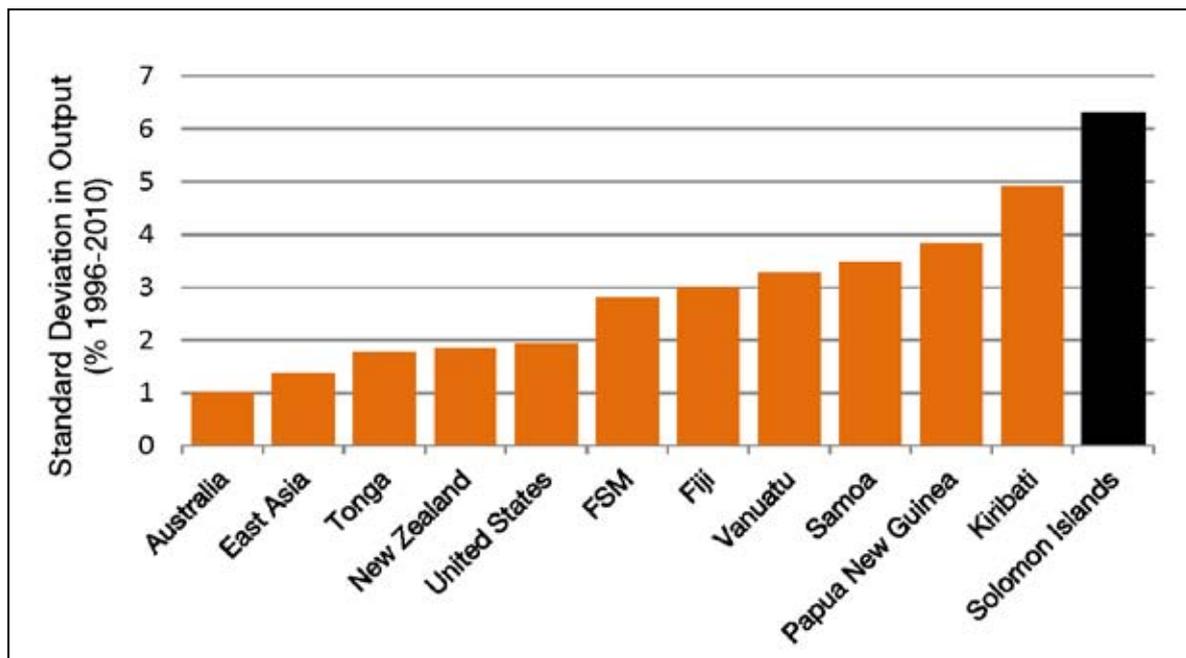
Many officials within the Solomon Islands Government are highly performing and motivated by a desire to contribute to national welfare. But the institutional incentives encouraging such behaviour are weak or non-existent. It is not realistic to expect Solomon Islands public servants to spontaneously adopt the professional behaviours associated with developed-world bureaucracies when such behaviours are not systematically rewarded, and where deviations from such behaviour are not systematically sanctioned.

### The Political Economy of Private Sector Development

Collective ownership of resources and compulsion of individuals to socialise the returns from investment and entrepreneurial activity inevitably reduces incentives to engage in such behaviours. It seems reasonable to expect that Solomon Islanders are less likely to engage in entrepreneurialism and investment if they are compelled to share profits with free-riders. Ascribing the tendency to share profits to unavoidable cultural imperatives is problematic, however, for several reasons.

Firstly, there are many examples of such pressures being avoided by particular individuals and

Figure 1: Volatility in Output—Solomon Islands and Comparators



Source: International Monetary Fund and World Bank data

ventures when viable investment projects exist. Recent research has emphasised successes in productive management of land under customary ownership, and resolving issues associated with development of land under customary tenure through creative contracting and benefit-sharing arrangements (Fingleton 2005; IKI 2010). Others have demonstrated that Solomon Island entrepreneurs, themselves, do not consider *wantok* pressures to be either insurmountable, or even the largest barrier to doing business (Haque and Greig 2010). Successful business people have adopted strategies for managing *wantok* pressures, including: locating business ventures in areas away from where such pressures were most strongly felt, distributing only a predetermined and affordable portion of profits to *wantok* members, and incorporating reciprocity into social arrangements, with those sharing in entrepreneurs' profits expected to contribute labor or other assistance.

More importantly, the observed tendencies towards socialisation of wealth often seem to reflect rational and, arguably, efficient individual responses to the inherent volatility and limited global integration of the Solomon Islands economy.

Reliant on natural forest log exports and small-holder cash-cropping of commodities subject to high levels of price volatility, Solomon Islands has experienced some of the greatest variation in output across Pacific island nations and other comparator countries since 1996, in the context of conflict and subsequent resource-driven recovery. The absence of viable projects under existing models of market-led development may be a more important constraint than social pressures towards the socialisation of returns.

Pooling of risk through informal reciprocity networks can be understood as a rational response to economic risk and limits to growth. Particular individuals utilise this strategy to greater and lesser extents, depending on personal risk tolerances and access to opportunities. Continued servicing of kinship obligations ensures ongoing membership in the kin group, and therefore access to a basic social insurance mechanism and land within the village for themselves and their descendents. This represents a good option for many Solomon Islanders. Other Solomon Islanders, having achieved more secure positions within the formal economy have proven themselves capable of being insulated from

pressures towards wealth socialisation — at least to the extent necessary to maintain the profitability of their businesses.

### Policy Implications

It is easy to see that people act in various ways in Solomon Islands that are not always in the best interests of the country, or well aligned to classical development goals. But to explain these behaviours solely as the result of culture is incomplete and also heavily constraining from a policy perspective. Explaining such behaviours as the result of perverse material incentives is more fruitful, avoiding the vilification of local traditions and values, and providing a practical framework for identifying reform priorities.

I outline here some policy implications arising from the incentives-based analysis presented above. I emphasise implications for donor agencies because they are — at least to a greater extent than many Solomon Island policy-makers — not benefitting from the existing perverse incentives and, therefore, more likely to be motivated to instigate change. Potential policy recommendations can be divided into two sets: those concerned with correcting existing perverse incentives within the Solomon Islands electoral system, and those concerned with enhancing incentives for broader private-sector development.

### Making Electoral Politics Matter

The most significant challenge facing Solomon Islands is to better align the incentives of individual MPs with the broader public interest, rather than the parochial interests of their electorates and *wantok* members. Without this change, it is difficult to imagine sustainable improvements in either national policy, or the emergence of a performance and results focus within the bureaucracy. Electoral reform would provide the most effective channel for achieving this alignment. But even in the absence of a fundamental restructuring of electoral politics, donors could support several actions to strengthen accountability on MPs for service delivery and good policy.

The greatest weakness of the current electoral system is its tendency to focus the attention

of parliamentarians on the interests of small, geographically concentrated constituencies, at the expense of broader, national interests. The small size of constituencies in Solomon Islands, and the huge influence that MPs can command through access to and control over even relatively limited resources within these constituencies creates ideal conditions for patronage-based politics. During the 2006 election, only two MPs secured a majority within their constituency (Fraenkel 2008:160). The average candidate secured their seat by winning support from 30 per cent of constituents, or just over 1,000 votes, a substantial decline on previous years reflecting increases in the number of candidates standing for election in each seat.<sup>12</sup> MPs have become accountable solely for their success in distributing political rents to a very small group of individuals. Issues of national interest — including economic policy and government service delivery — are largely ignored during elections.

While detailed recommendations for electoral reform are beyond the scope of this paper and the expertise of its author, a key priority for long-term development in Solomon Islands must be the introduction of a reformed electoral system that broadens accountability of MPs to a larger and more geographically dispersed range of constituents. Dilution of patronage over a larger base of constituents can change the relative payoffs that voters can expect from maintaining a patronage-based relationship, rather than supporting a candidate with the best policies. Such concerns have motivated electoral reforms in other parts of Melanesia and there is scope to learn from the mixed success of these experiences.<sup>13</sup>

Even in the absence of fundamental electoral reforms, donors could take several steps to weaken existing avenues of patronage and increase accountability of MPs for service delivery. The first of these is to reduce current reliance on parallel financing of development projects. In 2008, only US\$16 million, or around seven per cent of a total US\$229 million in overseas development assistance was formally appropriated through the Solomon Islands' budget. Across Solomon Islands Government, donors account for more than 125 vertical projects in 26

ministries, many of which are executed through project management units.<sup>14</sup> Most donor financing — with the partial exception of New Zealand education sector spending and recently provided direct budget support from Australia, the European Community, and the Asian Development Bank (ADB) — has vertical controls and execution arrangements that are designed to limit administrative discretion. These controls have the effect of limiting the ways in which elected politicians can, and can be seen to, influence project implementation (Porter, Haque, and Bottrill, 2010:65). Citizens therefore routinely perceive that responsibility (and accountability) for service delivery resides with donors rather than government. MPs cannot be held accountable by citizens for service delivery if MPs do not have control over service delivery. With important aspects of public service provision beyond the control of MPs, electoral attention inevitably focuses more closely on the things that MPs have indisputable control over: the allocation of constituency funds and other forms of patronage.

By channelling greater resources through government administrative systems, accountability links between citizens and representative can be strengthened, and the relative importance of patronage politics diminished. A key challenge for donors is to increase their use of central government systems in the distribution and administration of support to service delivery and livelihoods.

The constituency fund system must also be reformed. Constituency funds represent the most visible manifestation of government in many areas. Fifty per cent funded by Taiwan, these funds are used with perfunctory planning processes, little monitoring of project quality, and often inadequate accounting for use of funds. It may prove politically unfeasible for constituency funds to be abolished. Processes, however, could be improved to see such funds integrated into allocation mechanisms less susceptible to patronage — for example, by channeling constituency funds into existing community infrastructure funds where they would be subject to transparent and well-governed allocation processes, involving widespread community participation. Such

changes could be encouraged by donors through offering co-financing inducements — effectively offering MPs a political payoff from channeling constituency fund resources through good processes by increasing the amount of infrastructure that they could be seen to be contributing. Folding constituency funds into more transparent and participatory allocation processes would reduce the capacity of MPs to use constituency funds for patronage. With constituency funds less politicised, there would be scope for greater political attention to be paid to broader issues of service delivery and policy.

Finally, dysfunction in subnational government must be addressed. Roles and responsibilities of provincial government are not clear, and provincial government responsibilities overlap with central government mandates (Cox and Morrison 2004). Unclear and overlapping mandates between provincial and central government led to a lack of accountability for service delivery, with central government and provincial administrations able to blame one another for service gaps. The current lack of resourcing for subnational delivery of services also magnifies the importance of constituency funds — without access to effective local-level administration, discretionary expenditure of constituency fund resources by MPs becomes a vital lifeline for services and basic infrastructure in many rural areas.

Continued iterative efforts to clarify the respective roles and responsibilities of provincial and local government and ensure the provision of commensurate resourcing, through the current UNDP-supported program, need to be sustained. But a key step is a first-principles assessment of the appropriate representational and service-delivery functions of provincial governments in the Solomon Islands context.

### Supporting Economic Participation

Observed tendencies towards collective management of resources and socialisation of profit may constrain growth in some instances. But these behaviours also reflect a rational and internationally common adaptation to a context in which there are high risks and low returns from participation in the cash economy. Improving returns and reducing

risk on private entrepreneurial activity may represent the best opportunity for changing behaviour. As in nearly all countries at Solomon Islands' level of development, a key requirement for better returns to private investment is to improve the provision of the public goods that underpin productive activity.

Strengthening transport, telecommunications, and energy infrastructure, and investing in the human capital required for enhanced participation in the global economy is core business for donors and governments. In the absence of basic public services such as education, roads, electricity, and a functional legal and contracting environment, businesses face higher costs in production and accessing markets, eroding returns and discouraging private investment.

But, given immutable geographic barriers inevitably limiting the feasible nature and scale of private sector activity, across-the-board investments in the broad range of public services and institutions underpinning market activity in developed countries is unlikely to be either within the means of the Solomon Islands Government, or cost-effective.<sup>15</sup> There are simply not enough viable business opportunities to make investment in market-enabling services and institutions economical across all areas of Solomon Islands.

But more can still be done to enhance incentives for private entrepreneurship. Recent economic analysis has highlighted the importance of a more targeted approach to investment in public services and infrastructure to support economic development, emphasising the likelihood that economic growth will continue to be concentrated in certain sectors, and geographic regions of the country. In this context, it makes sense for public investment to be similarly concentrated around centres of economic activity, with transport investments carefully planned to maximise access between centres of economic concentration, and areas where people live. This approach has the potential to open new business opportunities (World Bank 2010).

But the costs of doing business in Solomon Islands will remain high, and prospects for competitive exporting in manufacturing and

services are likely to be fundamentally constrained (World Bank 2010).<sup>16</sup> If donors wish to spur private sector activity, another important priority is therefore to expand reliance on private provision in the delivery of government and donor-financed social services and infrastructure. Ensuring that a greater proportion of aid is spent locally can dramatically increase opportunities for entrepreneurship within the economy, encouraging the development of businesses supplying donor contracts or the large community of international aid workers. Opportunities for private participation in service delivery can both improve efficiency and prime the pump for broader private sector growth by encouraging the development of entrepreneurial skills, and the achievement of a critical mass in the number of operational businesses (Haque and Greig 2010; Peace Dividend Trust 2009).<sup>17</sup>

Internationally, the establishment of conditions in which entrepreneurial activity is possible has quickly led to the emergence of such activity and the erosion of cultural expectations and behaviours that excessively impede it. It is difficult to see why this would not be the case in Solomon Islands.

## Conclusions

Certain commonly observed behaviours impede the economic and social development of Solomon Islands. These behaviours include parliamentarians' excessive focus on the short-term, parochial interests of a small number of constituents, bureaucrats' proclivity to nepotism and corruption, and the exertion of social pressure towards the socialisation of the wealth and income of successful business people. These behaviours have consistently been explained through a cultural narrative: Solomon Islanders behave the way they do because of their culture.

Analysis of pervading material incentives within electoral politics, the public service, and the private sector provides an alternative lens for understanding these behaviours. Solomon Islanders, like most people, are strongly influenced by material incentives. Existing institutional and economic conditions in Solomon Islands create strong material incentives for individuals to behave in ways that impede broader development progress. Applying this framework is useful, because it

avoids vilification of Solomon Islands culture, and shows how — by doing things differently — the international community can begin to reverse some of the perverse incentives it has unwittingly contributed to creating.

Elected parliamentarians will not be held accountable for their success in improving services and policy until a far greater proportion of service delivery is controlled, and perceived to be controlled, by central government. Donors must begin to make greater use of budget support modalities and central government systems in providing services. Flows of discretionary resources to MPs, which currently fuel patronage-based politics, must be better managed. Options for electoral reform, to reduce incentives to focus on the short-term, parochial interests of small constituencies, must be considered. Only when there is an accountable political leadership can an effective and accountable public service be expected to emerge.

Donors can also play a role in strengthening incentives for entrepreneurialism and participation in the cash economy. By moving towards a more geographically targeted approach to infrastructure and service provision, the critical public services and infrastructure for private sector activity can be provided to the required scale in at least some areas. Donors can also do more to ensure that a greater proportion of aid expenditure flows into the local economy, creating opportunities for entrepreneurship and private sector development that might otherwise be fundamentally constrained in a context with such limited potential for export competitiveness. The presence of secure private sector opportunities will reduce Solomon Islanders' reliance on the informal risk-sharing and reciprocity arrangements that are currently accused of hindering economic development.

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### Author Notes

Tobias Haque is an economist with the World Bank. He lived and worked in Solomon Islands during 2009 and 2010. The views expressed in this article are solely those of the author and do not necessarily reflect the views of the World Bank Group, its partner organisations or its member states.

### Endnotes

- 1 For more nuanced discussions of the interplay between culture and development in Solomon Islands from other disciplines see, for example, Steeves (1996), Bennett (2000), Fraenkel (2004) and Kabutaulaka (2000, 2006).
- 2 According to World Bank data, the Solomon Islands economy has grown at an average rate of 5.3 per cent per annum since 2003.
- 3 Official aid flows to Solomon Islands were equivalent to 43 per cent of gross national income in 2009. In that year, aid flows accounted for more than 30 per cent of recurrent expenditure on health, and more than 10 per cent of recurrent expenditure on education.
- 4 According to a recent UNDP assessment (Ministry of Development Planning and Aid Coordination 2010), Solomon Islands is on track to achieve just three of the eight MDGs.
- 5 The ADB (2010:107) has noted with alarm the 'killer risk' of 'well-resourced sectional interests to exercise undue influence over the government, thus corrupting government business'.
- 6 See, for one of many examples, a recent assessment of the financial services sector in several Pacific island countries commissioned by the UNDP and the UNCDF (Flaming and Mathison 2007:4) which states that 'traditional forms of land ownership present the single most significant challenge to financial service providers'.
- 7 See, for example, AusAID (2008).
- 8 See the preface to Marx (1993) for a fuller elaboration of this argument.
- 9 The 'constituency fund' label is currently applied to four funding channels providing discretionary financing to MPs: the Rural Livelihood Development Fund, the Rural Constituency Development Fund, the Millennium Development Fund, and the Constituency Micro-Projects Fund.

- 10 See various reports of the Office of the Auditor General for extensive documentation of corruption and inappropriate use of public funds, available from <<http://www.oag.gov.sb/publications.html>>.
- 11 North, Wallis, and Weingast (2009:xii) identify the extraction of Weberian institutionalised, impersonal, professional loyalties from broader kin-based social loyalties as a defining feature of 'open access' states, and one that is shared by only about 25 countries.
- 12 Author's calculations based on Solomon Islands electoral commission data.
- 13 See Trawen (2006) for a discussion of similar motivations for electoral reform in Papua New Guinea and May, Wheen, and Haley (2011) for a discussion of the impact of the new preferential voting system. So far, these reforms seem to have done little to reduce the number of candidates standing for election or increased the share of votes won by successful candidates.
- 14 All figures from Solomon Islands Government budget documents available at <<http://www.mof.gov.sb>>.
- 15 Mushtaq Khan (2009) identifies this as a core problem of traditional 'market enabling' economic development reform strategies.
- 16 Winters and Martin (2004) have shown that geographical factors fundamentally undermine manufacturing and service export competitiveness of countries of Solomon Islands' size and distance from major markets.
- 17 See Haque and Greig (2010:18–22) for a more complete elaboration of this argument.

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