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IN BRIEF

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THE BRIEF PRACTICAL POLITICS OF

Public financial management in Melanesia

Melanesia's resources and strategic importance are bringing the money to the islands, fueling clientelism. Better PFM is needed, but instituting it goes against elite interests.

Melanesian nations are small in population – Vanuatu 344,000, Solomons 862,500, and Papua New Guinea somewhere between 11–17m people – but enormous in ocean resources and geo-strategic importance. After closing all its diplomatic posts in the Pacific bar Fiji in the late 1990s, the FCDO hurriedly reopened High Commissions in the three Melanesian countries in the late 2010s when it realised what was happening in the South Pacific and why it mattered to the UK.

The strategic significance of these three 'small' nations (they bridle at the term) comes from their location between Australia, Asia and the Pacific, as well as their fisheries, minerals and oceanic resources. Australia has been increasingly concerned with Chinese diplomatic, developmental and maritime activity in the region over the past decade. It is now seeking 'security pacts' with many countries in the region, including the three in Melanesia. The UK has small bilateral programmes in the three countries.

I. THE PROBLEM

Public financial management (PFM) reform has been a development priority in Papua New Guinea, Solomon Islands and Vanuatu for decades. Governments need budgets that preserve fiscal discipline, allocate resources among competing priorities, and convert public money into reliable services. They also need processes that strengthen integrity, transparency, accountability and fiduciary control. Advisers from Australia, the World Bank, the Asian Development Bank, New Zealand and the European Union continue to support needed PFM work across the three countries.

Yet over the last 40 years results have been poor. The conventional diagnosis is insufficient capacity: too few skilled or competent officials, too many weak organisations and unreliable systems. These constraints are real, but they are not the fundamental reason why technically sound reforms are rarely adopted. The deeper problem is political: *PFM reforms restrict the discretion leaders use to assemble, reward and preserve governing coalitions.*

Reform creates a misalignment between institutional discipline and political survival. PFM systems seek uniformity, predictability, transparency and accountability; Melanesian politics demands negotiation, flexibility, rapid allocation and visible benefits for particular constituencies. Technically sound PFM works against the political grain.

II. THE PLAYERS

The key players are political leaders, ministers, coalition partners and members of parliament. Their primary task is to remain in office. Where parties are fluid and coalitions vulnerable to defection or no-confidence votes, leaders must continually negotiate support. They use ministry budgets, constituency development funds, donor projects, contracts, appointments and discretionary spending to help hold coalitions together.

Public servants, finance ministries, auditors, procurement bodies and oversight institutions administer the formal system but remain embedded in politics. Rules may be enforced in some areas but not others, particularly procurement and contracting.

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Voters judge MPs on the basis of the visible benefits they deliver, not on national commitments. In societies organised across linguistic, geographic, clan, island and other identities, demands are fragmented, specific and sometimes mutually exclusive. Representatives are expected to use state resources to address local and communal needs, pay off clients and invest locally to ensure re-election.

Donors seek to influence reform design and the resources available through aid, technical assistance, security agreements and policy dialogue. Small wins are celebrated in an effort to demonstrate that 'progress is being made'.

Regional and international actors complete the picture. Australia, New Zealand, China, the USA, France, Japan, IFIs, contractors and regional bodies bring finance, security relationships, market access and expertise. Pacific fisheries agencies show cooperation can create collective capability. Yet external competition has strengthened clientelism. More money has flowed directly to political leaders without reinforcing budgets, institutions or accountability.

III. THE RULES OF THE GAME

The *formal* rules of PFM have been, and continue to be, technical and globally 'homogenised' by seeking to apply what looks from the outside like 'global best practice'. This is the result of decades of incremental revisions and updates to core components of the PFM system: accounting, audit, procurement, budgeting etc. The problem is that these formal rules are often overridden by the informal 'rules of the game' where private interests (supporting family, village and tribe) are privileged over any sense of broader public interest.

Political settlements analysis (understanding how groups share power and maintain political stability) provides a useful lens. Melanesian states combine dispersed political power with fragmented social formations. Elections and institutions matter. But parties are weakly institutionalised, policy differences are limited and alliances are fluid. Authority is personalised and negotiated, not channelled through stable, programmatic party organisations.

These conditions produce what is called competitive clientelism: a system in which leaders survive by maintaining reciprocal networks. This does not mean politics is irrational or institution-free. Formal rules – budgets, procurement procedures, commitment controls, audit requirements and reporting obligations – coexist with informal expectations about who benefits when leaders intervene.

Large and rising external income has raised the stakes over the past decade. Valuable security agreements, labour remittances and fisheries revenues (especially tuna licence fees) have reshaped incentives. Controlling the state has become more important as these flows have grown, and leaders construct 'provisioning pacts' that distribute benefits to coalition partners, local patrons and constituencies when they are in power. Some are formal, such as Constituency Development Funds. (CDFs are budgeted allocations for each individual MP to be used as they see fit with few if any restrictions, no oversight and no auditing). Others operate through appointments, contracts, projects or privileged access to ministries, usually against the formal rules of PFM. Discretion is not merely administrative weakness – it's a core part of the system's political logic.

IV. THE STATE OF PLAY

Melanesian governments have adopted PFM reforms: new legislation, financial-management information systems, procurement rules, reporting frameworks, stronger audit provisions and tighter expenditure controls.[1] These are designed to show that budgets are becoming more credible and spending more transparent. Often progress is indeed made on the formal rules (PFM legislation, subsidiary regulations, procurement law etc), but implementation remains weak. The 2026 Public Expenditure and Financial Accountability (PEFA) conducted in one of the three Melanesian countries noted that stronger laws and systems have not consistently translated into effective implementation, with persistent weaknesses in budget credibility, treasury operations, payroll and arrears controls, financial reporting and external scrutiny.[2]

Donors continue to attribute these failings to 'weak capacity'. Capacity matters, but deeper constraints are weak accountability (across governments, ministries and individuals) and limited political authority. Governments can act decisively where elite incentives are strong: PNG's hosting of Asia-Pacific Economic Cooperation and Solomon Islands'

[1] All in the pursuit of 'isomorphic mimicry': ie making *form* resemble 'best practice' frameworks, but leaving actual operations little changed.

[2] PEFA is a standardised test of public financial management systems and processes now used globally by the IMF and the WB.

hosting of the South Pacific Games concentrated authority and delivered results. Elsewhere, controls remain porous and flexibility useful. Commitment controls delay transactions, procurement rules narrow choices, transparency exposes bargains, and scrutiny limits rewards to supporters. Administratively desirable measures can therefore be politically costly.

Growing external rents (profits or benefits gained because of privileged access, political connections or control over scarce resources, rather than through normal competition) continue to exacerbate this tension. Competition among global and regional powers raises the value of diplomatic, development, trade and security relationships. As resources accumulate at the political apex, incentives to control allocation intensify. Development partners may strengthen formal controls through one programme while expanding discretion through another, as foreign policy and development pull the same organisation in two different directions. The result is not reform versus no reform, but a continuing contest between institutional rules and the political uses of public money.

Rents concentrate power at the political apex. Prime ministers and ministerial allies can deploy public money to cement coalitions and finance patronage, while stronger PFM constrains this discretion. Where flows of rents are growing and political survival dominates, elites can use state resources to sustain provisioning pacts. The critical question is not only how to improve PFM, but what is politically possible.

V. PROPOSITIONS

Any of the following would represent progress.

Accept that PFM reforms are fundamentally political. Complement technical diagnostics with analysis of who benefits from the status quo – and thus who will lose out from PFM reforms that limit discretion and increase transparency and accountability. On the positive side, identify which coalitions could support reform. PFM reform concerns incentives, not an idealised, PEFA-perfect system. Ask who wants which elements, under what conditions and for what purpose. This reveals coalitions for change and areas of sustained resistance.

Distinguish essential discipline from politically negotiable discretion. Controls protecting macro-fiscal stability, debt sustainability and core fiduciary standards should remain firm. Elsewhere, bounded flexibility may be more realistic than rules routinely bypassed.

Pursue selective, problem-driven reforms. Islands of effectiveness can emerge where influential actors already recognise a need, and a 'win-win' can be carved out that benefits elite and citizens alike. Modest, institutionalised solutions to recognised problems may outperform comprehensive blueprints that are formally adopted but informally evaded. Protect and connect these islands, without assuming they can be mechanically replicated.

Invest in usable transparency. Disclosure matters when parliamentarians, citizens, businesses, provincial actors or civil society can use information to question decisions and demand action. Publishing data is insufficient; reform must strengthen the actors and forums that convert information into accountability. This can be extended to open access political analysis – like this note.

Choose reforms with both political and administrative value. Measures that release cash, improve revenue, reduce arrears, protect priority services or show visible results connect stronger controls to the benefits leaders value.

Distinguish formal adoption from practical use. Laws and information systems matter only if budgets become credible, procurement competitive, reports influential and sanctions enforceable.

Recognise regional public goods as a development strategy. Joint mechanisms for labour mobility, qualifications, fisheries, climate finance, maritime surveillance, health procurement and digital connectivity can achieve scale. But they must be co-produced with Melanesian institutions rather than delivered through parallel systems.

Redefine realism. Working with the grain does not mean tolerating corruption or abandoning accountability; it means recognising that institutions and incentives must move together. Durable gains in Melanesia are likely to be incremental, negotiated and tied to domestic interests. The practical questions are these: which elements of better PFM can enough influential actors support? Why would they? And for how long?

Working with the grain does not mean accepting poor governance or abandoning ambition. Stronger PFM can change who makes decisions, who benefits and how political agreements are maintained. Reform is more likely to endure when it protects essential public interests while giving domestic actors reasons to support the new rules.