



AJPA
Asian
Journal
of
Public
Affairs

Asian Journal of Public Affairs, VOL. 1, NO. 1

TABLE OF CONTENTS

<i>Notes from the Editors' Desk</i> Editorial Board	3
--	---

<i>Studying Public Policy in Singapore</i> Kishore Mahbubani	5
---	---

ARTICLES

<i>International Data Revision: Theory and Analysis</i> Giacomo Santangelo	7
---	---

<i>How to Use Australian Aid to Promote Peace in Timor-Leste</i> David Chick	20
---	----

<i>Of a Norwegian Summer and a Viking Intervention in Sri Lanka</i> Madhawa Palihapitiya	39
---	----

<i>Social Security for Single-Parent Families in Singapore: Using a Social Investment Strategy to Solve the Moral Hazard Dilemma</i> Wee Ming Ting	54
---	----

<i>Enterprise Licensing, Bribery, and the Tragedy of the Anti-Commons: The Case of China</i> Ying Qianwei and Zhang Guangnan	65
---	----

POLICY ANALYSIS EXERCISE ABSTRACT

<i>Measuring Performance in the Public Sector Using the Public Service Value Model: A Southeast Asian Case Study of a Government Agency for 2001-05</i> Ashish Varma, Garima Singh, Jeetendra Patil, & Mini S Verma	80
--	----

BOOK REVIEW

<i>Development: Not Only White and Not Only Burden</i> Thomas Jandl	83
--	----

ANNOTATED LIST OF BOOKS RECEIVED	86
----------------------------------	----

THE JOURNAL

The *Asian Journal of Public Affairs* is a web-based, academic publication regarding public affairs issues pertaining to Asia and the Oceania region. Spearheaded by graduate students and printed on a biannual basis, *AJPA* was established to analyse and influence policy-making within Asia through an interdisciplinary lens, including but not limited to Public Policy, Public Management, International Relations, International Political Economy, and Economics. Each edition features scholarly submissions, case studies, book reviews, and commentaries from distinguished figures. The Journal seeks an audience of scholars and practitioners and is published by the Lee Kuan Yew School of Public Policy (LKY SPP).

EDITORIAL TEAM

The Journal is run by Student Editors with the vital support of Senior Advisors, Professor Mukul Asher and Associate Professor Darryl Jarvis.

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CALL FOR SUBMISSIONS

Current graduate students and recent alumni are invited to submit papers, case studies, and book reviews for the second edition of the *Asian Journal of Public Affairs*.

Paper Guidelines: Please substantiate your analysis with tangible policy recommendations. Papers should not exceed 6,000 words excluding endnotes and bibliography. Submissions must include a one-page abstract of the paper with contact information. Citations must follow the social science author-date system in the Chicago Manual of Style. Authors are also encouraged to submit policy case studies (max. 6,000 words) and brief book reviews (max. 1,000 words).

Final Submissions Deadline (Vol. 1, No. 2: Fall 2007): September 15, 2007

NOTES FROM THE EDITORS' DESK

Dear Reader,

The *Asian Journal of Public Affairs* was founded to alleviate the perceived absence of publishing outlets for graduate students examining Asian-Pacific policy. Submissions from four continents and more than a dozen countries verified both this assumption and another: that Asian public policy is of global concern and not restricted to the classrooms or ministries of Asia alone. Likewise, *AJPA's* editorial board spans various continents, but its members still find common ground: both as public policy students in Singapore and as future leaders and decision-makers in the eight countries we represent.

Our inaugural issue opens with a commentary by Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy, on the advantages of studying policy in Singapore and the benefits of observing the city-state's policies firsthand. While the innovations and effectiveness of Singaporean policy-making have attracted significant interest worldwide, the exchange of best practices still travels both ways. This is illustrated in an article on the problems faced by Singaporean single-parent families in accessing social security. One recommendation offered therein is to identify policy successes and failures elsewhere, an exercise that is instructive in any country's domestic policy-making process.

Drawing upon the experiences and resources of other countries is a common *motif* throughout this issue. As experienced in February's brief but worrisome plummeting of global stock markets and the chronic, trans-boundary threats posed by climate change, the inter-connectedness of East and West is indisputable. These issues should prompt greater dialogue on how nations can better cooperate and benefit one another. Such was Norway's intention in its efforts to broker peace in Sri Lanka. A similar instance of an international attempt to resolve civil conflict appears in Australia's sending of humanitarian assistance in response to violence in newly-independent Timor-Leste.

And yet, success is never guaranteed: sometimes efforts fail and occasionally even backfire, underscoring the variance between expected and actual outcomes. Here, a review of William Easterly's *White Man's Burden* critiques the author's indictment of international aid. This review is quite timely, as Easterly's career spanned many years with the World Bank: an organisation that has recently spurred renewed calls for institutional reform. While demands have mainly targeted the selection process of the Bank's leadership, debates rage on in the development field between proponents of top-down policies and advocates of grassroots approaches.

Effective top-down strategies require accurate macroeconomic data, the reliability of which is questionable and discussed in an analysis of the theory and practice of international data revisions. While accepting that data will never be perfectly accurate, the article draws attention to pitfalls faced by policies constructed on faulty data.

Consequently, incomplete information or unreliable data does not yield inaction. Policies have to be made and policymakers must work with what is available, despite the constraints of uncertainty. Similarly, an article on enterprise licensing and bureaucratic bribery in China considers the potential tragedy of the anti-commons. The paper offers suggestions towards improving the administering of enterprise licenses, given the incomplete information each bureaucrat has in reviewing license requests.

While *AJPA's* mandate is to serve as a clearinghouse for the rich diversity of policy issues that students worldwide grapple with, the Journal also acts as a vehicle to publicise the primary research of graduate students attending the Lee Kuan Yew School of Public Policy. This issue's research abstract highlights the application of a public sector assessment model in the evaluation of an organisation's objectives and output, undertaken in an Asian context.

We therefore hope you will find the contributions herein both informative and useful. This inaugural issue would not have been possible without the effort and guidance of numerous individuals. We would particularly like to thank Dean Kishore Mahbubani, our faculty advisors, Prof. Mukul Asher and Assoc. Prof. Darryl Jarvis, Ruth Choe and her constant support, Stavros Yiannouka, the LKY SPP web team, Jiao Xi and Wang Xiao, and all those who have contributed either wisdom or inspiring words. And to Maciej Drozd, simply, *Kochający*.

Warm Regards,
The *AJPA* Editorial Team
June 2007

STUDYING PUBLIC POLICY IN SINGAPORE

Kishore Mahbubani

The advantages that a city-state like Singapore has as a strategic location for a school of public policy are numerous. It probably provides an ideal setting for operating a school of public policy, especially since the government has been remarkably innovative in its own public policies, combining philosophies of pragmatism, mercantilism, effective policy design and implementation, policy coherence, institutional support, and welfare-orientation. All these factors combine to form a powerful lever of competitive advantage to study public policy in Singapore.

The real impact of good public policy formulation in Singapore can be demonstrated most clearly by a statistic that has surprisingly not been used by any economist yet; Singapore has probably extracted more GNP per square mile than any other country in the world. Per capita income is regularly measured, but income per square mile is almost never measured. It is hard to imagine that any other public policy machinery could extract so much social benefit from such little land.

The success of Singapore is relatively well-known, yet the reasons for this are still little understood. In contemporary Western understanding, the success of Singapore is often attributed to an authoritarian style of governance. However, if this were the critical variable, it would not explain why many authoritarian styles of governance have failed. The real critical variable in Singapore's success that has not been noticed is the remarkably high level of innovation and bold imagination shown in the formulation of its public policies. More often than not, Singapore has gone against conventional wisdom.

Singapore was among the first in the developing world to discover the virtues of free market economics. It welcomed foreign investment when the rest of the Third World shunned it, yet it refused to be imprisoned by free market ideology. The government also allowed the growth of government-linked companies (GLCs), some which have become world-class. The story of Singapore Airlines is well-known, but few are aware that Singaporean GLCs such as Keppel Corporation and SembCorp Industries together produce nine out of ten oil rigs built around the world. Pragmatism is another key element in Singapore's approach to public policy formulation. We applied it long before Deng Xiaoping captured the essence of pragmatism with his famous phrase, "It doesn't matter if a cat is black or white, as long as it catches mice it is a good cat".

Professor Kishore Mahbubani is the Dean of the Lee Kuan Yew School of Public Policy, National University of Singapore. From 1971 to 2004 he served in the Singapore Foreign Service, holding posts in Cambodia, Malaysia, Washington, DC, and New York. He is the author of "Can Asians Think?" and "Beyond the Age of Innocence: Rebuilding Trust Between America and the World."

Another unique dimension of Singapore's public policies is how policies in different areas serve to reinforce each other: the simple but powerful notion of policy coherence. The economic policy of encouraging high saving (through large Central Provident Fund contributions) has reinforced social stability. Singaporeans are allowed to use their CPF savings to purchase their homes, eliminating the see-saw effect completely. This probably helps explain why Singapore has the highest level of home ownership in the world (although the use of CPF savings for housing has in turn raised a new challenge of whether there will be enough savings for retirement). Economic prosperity and social stability, coupled with well-executed public health policies, have in turn produced high health standards such as Singapore's infant mortality rate which is the lowest of any country in the world.

The real challenge for Singapore in developing this complex fabric of public policies (which intertwined policies such as savings, housing, health, education, and ethnic relations, among others) was to do so without replicating the social safety nets produced in many contemporary European social-democratic societies. These safety nets often create moral hazard, crippling the incentive to work and promoting a vicious rather than virtuous cycle of (un)employment and poverty.

However, to say that Singapore has solved all its problems in the public policy arena would be presumptuous. Like most states, it too has to balance the need to encourage competition while at the same time ensuring that there is enough compassion in public policy to take care of those at the bottom. Most societies have not resolved this dilemma well, and Singapore is no different. Maintaining a healthy balance between encouraging competition and leveling up the poorest members of society is probably an eternal challenge for all societies. In the early years of the state's existence, poverty in Singapore encouraged economic enterprise. Today it is unclear whether Singaporeans have that same entrepreneurial spirit.

The real long-term challenge for Singapore is that good governance is not an option for Singapore: it is a necessity. Maintaining good governance for one or two generations is possible, but maintaining it over several generations has been rare. Singapore therefore has to constantly beat the odds to do well. For the same reason, Singapore has a greater vested interest in developing sound public policy formulation processes than most nations. This explains why Singapore provides an ideal laboratory for nurturing and developing public policy education. In view of its limited resources, small size and economic and global political vulnerability, Singapore has to constantly study global best practices and, where possible, apply them to its own policy formulation process. This process of pragmatic application of best practices could provide insightful learning opportunities for all students of public policy.

INTERNATIONAL DATA REVISION: THEORY AND ANALYSIS

Giacomo Santangelo, Ph.D.

This paper examines the effects that data revision has on the ability to analyse and make policy decisions for a developing economy. Whether due to changes in variable definitions, overall changes in data collection, or deliberate misrepresentation, systemic revisions are a common yet problematic occurrence. Anyone attempting to analyse data over the last century has met with great difficulty due to these revisions.

The paper begins by examining literature on data revision through the lens of econometrics and international data comparisons. Results point to certain pitfalls of inaccurate data and methods to detect the difference between random errors and systematic revisions. After briefly presenting evidence that revision is a concern, this paper shows the effect data revision has on economic inference and policy by examining inflation and growth in a case study.

Introduction

Data revision is a concern that most social science or public policy researchers and analysts are faced with. Irrespective of the specific usage of the data collected, the accuracy, reliability and stability of researched data is imperative. Gauging the degree of error in the data, its reliability and accuracy can all have significant repercussions on the policy recommendations offered, as allowing for the margin of error is crucial.

This paper examines the effects that data revision has on the ability to analyse and make policy decisions for a developing economy. Whether due to changes in variable definitions, overall changes in data collection, or deliberate misrepresentation, systemic revisions are a common yet problematic occurrence. Anyone attempting to analyse data over the last century has met with great difficulty due to these revisions.

The paper begins by examining the literature on data revision and recent developments. After briefly presenting evidence that revision is a concern, this paper shows the effect of data revision. It does this by looking at a comparison between revisions of two data sets to illustrate their comparability. It then

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compares the impact of one data set over time in relation to four countries and the policy decisions adopted. Each points to certain pitfalls of inaccurate data and methods to detect the difference between random errors and systematic revisions.

The Debate: To Revise or Not to Revise

One would expect that international data available for analysis from multilateral organisations would be reliable. Be it the World Bank, the International Monetary Fund (IMF) or any other similar organisation, the data each of them obtains or cites should be comparatively the same. For this reason, one would expect that when it is time to revise their respective data sets, the revisions would be comparable with one another, thus making the use of a specific dataset irrelevant. Yet often, revisions are significantly different and can lead to problems when intertemporal data are being used. Reagle and Salvatore (2005) show how re-evaluation of one particular model in light of revised data can lead to significantly different results than previously attained.

For years, economists have been plagued by inaccuracy in data and have concerned themselves with circumventing it. Zvi Griliches (1986) charges the empirical economist with the responsibility of making the best of even '*lousy*' data. However, contrary to this position, Oskar Morgenstern (1963) discusses the many reasons why one should be deeply concerned with data accuracy and recommends caution about the difficulties of making policy decisions on the basis of unreliable data. Morgenstern, concluding that international data is among the most uncertain of statistics available, recommends that international data comparison should be stopped altogether, since no single or multiple sources of data can be proved accurate, even to a reasonable degree.

It can be seen that these distortions may stem from either the revisions themselves, the methodology of revision (e.g., introducing unit roots or serial correlation to the data) or a combination of both (Patterson and Heravi 1991; Santangelo 2004). In response to these concerns, the IMF set up a committee in October 1995 to set a standard for the dissemination of economic and financial data. The committee's recommendations concerning data standards were put into effect by December 1997. Interestingly, Santangelo (2004) shows through testing that the introduction of a new data standard in 1997 by the IMF had much more of an effect on IMF data than that for the World Bank.

Evidence of Revised Data: Two Data Sets Compared

To demonstrate and provide evidence of the problem, this article presents the results of a comparison of eight leading indicators from the World Bank's *World Development Indicators* (WDI) and seven of the leading indicators from the IMF's

International Financial Statistics (IFS).² This section examines descriptive and inferential statistics regarding the accuracy of a selection of these two data sets.

Tables 1 and 2 show the mean and standard deviation (or volatility) of the percent change for 191 countries over a 25-year period, between the 1997 and 2001 datasets. From Table 1 it can be seen that between the 1997 and 2001 datasets, the World Bank made major revisions to their data for only the most recent years. The mean of the percent change of the historical data reported in the 1997 and 2001 WDI datasets for the year 1975 is zero, or in other words, the data for 1975 was not revised between the two datasets. However, the mean percent change pertaining to the year 1993 is 153.73 percent between the two datasets, indicating substantial revisions.

Table 1—Mean of the Changes WDI 2001—1997, by Year

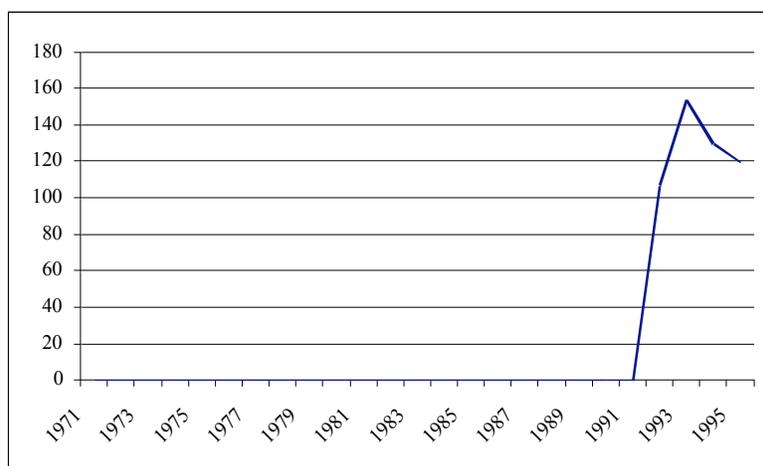
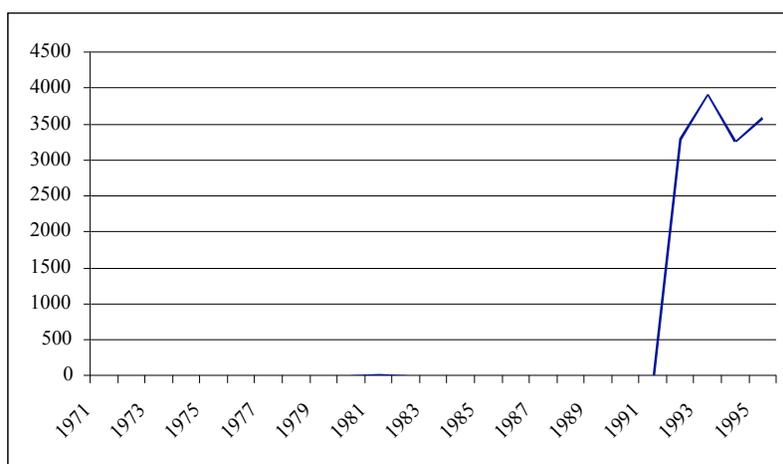


Table 2—Standard Deviation WDI 2001—1997, by Year



² For a more exhaustive discussion on the process used to measure revision, see Santangelo (2004).

When looking at the data provided by the IMF, one would expect to see a similar result. However, where the World Bank made large revisions for only the most recent years, the IMF completely overhauled their data for all years (see Tables 3 and 4). This raises the question over why the historical WDI data was not affected by the introduction of the data standard. This could either be because of the accuracy of their data or that the costs of revision did not merit the benefits. The conclusion therefore is that for research and recommendations, the choice of dataset is important.

Table 3 – Mean of Changes IFS 2001—1997, by Year

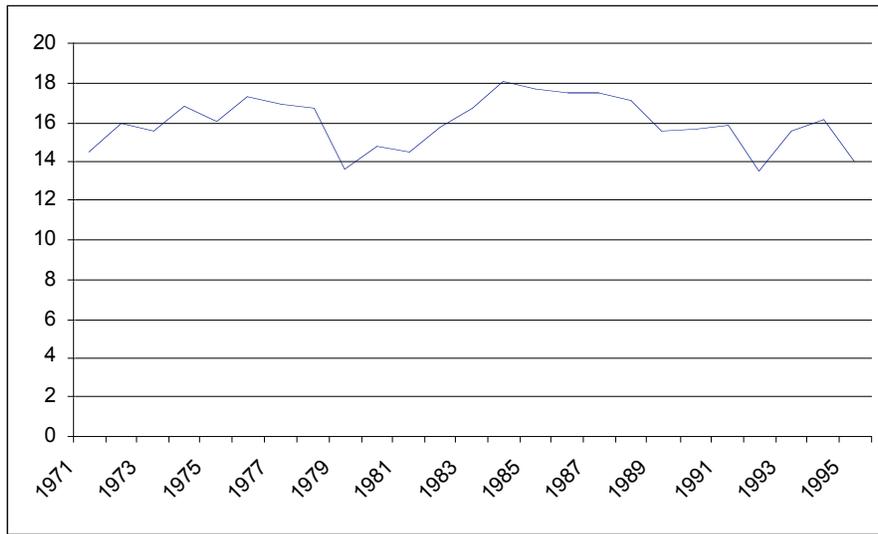
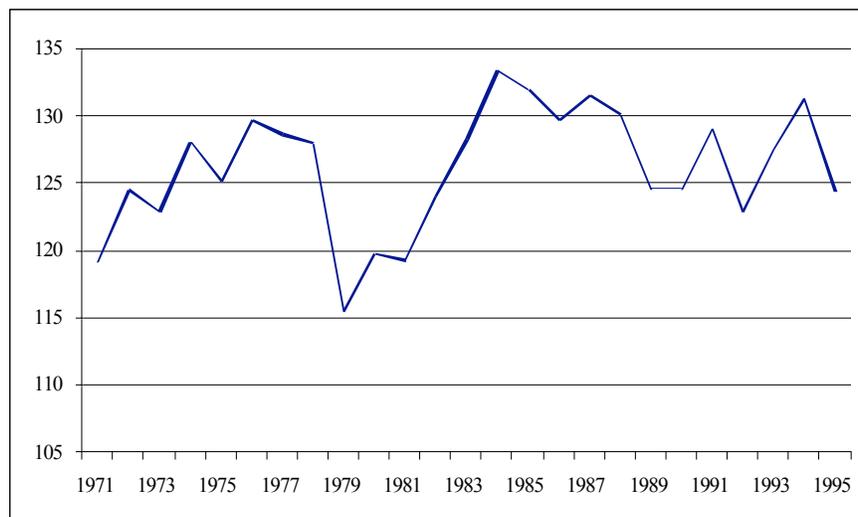


Table 4 – Standard Deviation of Changes IFS 2001—1997, by Year



Interestingly, and in contradiction to the above observation, statistical tests reveal that the World Bank manages their revisions more efficiently than the IFS. As seen in Santangelo (2004), when testing the data from two of the most widely used datasets, a lack of statistically significant revisions in the WDI data is noticed. Both the *Bowman-Shelton* and *Shapiro-Francia* tests for normality (i.e., whether the WDI revisions are random) are rejected. Thus, one conclusion is that the World Bank appears to be more reliable in their data collection than the IMF.

However, it must be remembered that the revisions made by the World Bank were larger and added more volatility. Through examining the standard deviations, it is seen how the revisions change the volatility of the data, increasing standard errors, and thereby affecting analysis. The data revision can add a unit root where one previously did not exist. Each series has at least one year where the revisions add a unit root; this is especially true for “Exports” and “GDP” within the IFS - two series extensively used in Trade and Development research. As neither the World Bank nor the IMF have come forth with any explanation of these issues, one can best be mindful of these concerns when using the data. With this in mind, this paper now takes a look at a sample paper that uses this data to offer policy recommendations in order to see the effect the revisions have.

Inflation and Economic Growth: A Case Study of Four South Asian Countries

In comparing the impact of changes to one data set over time, this section examines the relationship between inflation and growth in Bangladesh, India, Pakistan, and Sri Lanka. It builds on the work of Mallik and Chowdhury (2001) who used annual CPI and real GDP data from the International Financial Statistics released by the International Monetary Fund. For the purposes of this paper’s analysis, the most recent IFS data available through the IMF webpage as of February 2005 is used. Growth and inflation rates are computed using log differences of real GDP and CPI for the aforementioned countries.

The motivation behind this examination stems from the ongoing monetarist/structuralist debate, which questions the existence and nature of the relationship between inflation and growth. Since these four countries have been the target of much international pressure to control inflation and growth, it is important to determine how best to handle this relationship, if such a relationship exists. In doing so, a number of tests are applied. Each is explained briefly below.

The Engle-Granger (1987) two-step procedure is used to test for cointegration using equations (1.1) and (1.2). If inflation and growth are shown to be integrated of the same order, one variable can be used to predict the other.

$$y_t = \alpha_{11} + \beta_{11}p_t + \mu_t \quad (1.1)$$

$$p_t = \alpha_{21} + \beta_{21}y_t + \eta_t \quad (1.2)$$

where y_t and p_t are the growth and inflation rates at time t
 μ_t and η_t are the residuals which measure how far out of
equilibrium y_t and p_t are.

In addition, the Johansen (1990) maximum-likelihood test procedure is used to test for the existence of an additional cointegrating vector.

To test the non-stationarity of the data, each series is tested using the DF and ADF tests (Dickey-Fuller, 1979 and 1981) with and without time trends (to allow for higher autocorrelation in the residuals).

$$\Delta X_t = \beta + \gamma X_{t-1} + \sum \delta_i \Delta X_{t-i} + e_{1t} \quad (2)$$

To ensure that the data does not falsely reject ADF due to high levels of autoregression, the Phillips-Perron test (Phillips and Perron 1988) is used.

$$\Delta X_t = \alpha + \gamma X_{t-1} + \phi(t - T/2) + \sum \phi_i \Delta X_{t-i} + e_{1t} \quad (3)$$

Equations (2) and (3) are utilised first by replacing ΔX_t with y_t and p_t and then μ_t and η_t from equations (1.1) and (1.2) to test for integration of the residuals.

Table 5 contains the basic summary statistics as computed by Mallik and Chowdhury (2001) and compares them with the same statistics computed with the revised data. Here it is seen that in three of the four countries – the exception being Pakistan - the mean of the revised inflation rates are smaller and the mean of the revised growth rates are larger. Putting this into perspective, a researcher examining the historical growth and inflation rates of these four countries today would get entirely different values than those they would have found had they done their research four years earlier. They may be confused as to why these countries were so concerned with growth and inflation since the problem may not appear to have been so serious. This is the same issue raised by Runkle (1998), highlighted in the introduction to this paper, when looking at historical growth and inflation data for the US in the 1970s. If the data no longer supports policy decisions undertaken in the past, no researcher can get an accurate picture of the economic climate of that period.

Table 5 – Summary of Inflation and Growth

	Bangladesh		India		Pakistan		Sri Lanka	
	Inf	Gr	Inf	Gr	Inf	Gr	Inf	Gr
MCMean	9.67	4.59	7.73	4.50	7.44	4.72	9.13	4.60
MCStDev	8.52	2.61	5.25	3.35	5.23	2.98	5.40	1.70
NewMean	5.78	6.11	7.37	5.41	7.44	5.39	7.41	6.54
NewStDev	2.37	6.20	5.11	1.62	5.24	1.58	5.82	2.23

Notes:

Inf = inflation; Gr = economic growth;

MCmean and MCStDev = Mean and Standard Deviation reported in Mallik and Chowdhury (2001)

NewMean and NewStDev = Mean and Standard Deviation of revised data

Period of Study: Bangladesh 1974-1997; India 1961-1997; Pakistan 1957-1997; Sri Lanka 1966-1997

In examining the results of the unit root tests, Table 6A shows the results from Mallik and Chowdhury (2001), while Table 6B tests the updated data. While the original data had all four countries integrated of order zero, the updated data shows that Bangladesh's inflation rate is integrated of order one when a time trend is included. Given that Bangladesh uses the shortest time period – only 23 years – perhaps questions exist over the stability of the data. Regardless, the lack of integration leads us to believe that for Bangladesh there may not be a meaningful relationship between inflation and growth. Despite this development, in India, Pakistan, and Sri Lanka both inflation and growth are I(0) and therefore Mallik and Chowdhury's findings as far as integration for three of the countries still holds.

Table 6A – Unit Root Tests (Mallik and Chowdhury, 2001)

Country	Var	DF		ADF		PP	
		(c)	(c & t)	(c)	(c & t)	(c)	(c & t)
Bangladesh (1974-1997)	y	-8.25*	-8.06*	-2.83*** (1)	-2.47 (1)	-3.82* (2)	-7.66* (2)
	p	-3.36**	-3.00	-4.02* (1)	-4.22** (1)	-3.48 (2)	-3.00 (2)
India (1961-1997)	y	-6.37*	-7.13*	-4.50* (1)	-5.47* (1)	-6.38* (3)	-7.59* (3)
	p	-4.50*	-4.58*	-5.02* (1)	-5.19* (1)	-4.43* (3)	-4.42* (3)
Pakistan (1957-1997)	y	-6.72*	-6.75*	-3.93** (1)	-3.94** (1)	-6.72* (3)	-6.74* (3)
	p	-2.90***	-3.32***	-3.04** (1)	-3.40*** (1)	-2.93*** (3)	-3.38*** (3)
Sri Lanka (1966-1997)	y	-3.65**	-3.62**	-2.82*** (1)	-2.84 (1)	-3.67* (3)	-3.62** (3)
	p	-3.52**	-3.86**	-2.81*** (1)	-3.16 (1)	-3.43** (3)	-3.80** (3)

Table 6B – Unit Root Tests (Updated Data)

Country	Var	DF		ADF		PP	
		(c)	(c & t)	(c)	(c & t)	(c)	(c & t)
Bangladesh (1974-1997)	y	-4.91*	-4.76*	-7.6* (1)	-7.41* (1)	-5.34* (2)	-5.1* (2)
	p	-3.38**	-3.26	-2.65 (1)	-2.51 (1)	-3.70** (2)	-3.44 (2)
India (1961-1997)	y	-5.54*	-6.09*	-3.92* (1)	-5.12* (1)	-5.53* (3)	-6.1* (3)
	p	-4.53*	-4.7*	-4.96* (1)	-5.31* (1)	-4.41* (3)	-4.55* (3)
Pakistan (1957-1997)	y	-3.07**	-3.47***	-3.05**(1)	-3.40***(1)	-3.08** (3)	-3.51***(3)
	p	-2.91***	-3.32***	-3.04**(1)	-3.40***(1)	-2.94***(3)	-3.38***(3)
Sri Lanka (1966-1997)	y	-3.00**	-3.86**	-2.46 (1)	-3.28***(1)	-2.86** (3)	-3.83** (3)
	p	-3.03**	-4.24*	-2.33 (1)	-2.44***(1)	-2.94** (3)	-4.23* (3)

DF, ADF and PP tests were all performed using Econometric Views Package.

Figures inside parentheses indicate lag lengths

*, ** and *** indicate significance at 1, 5 and 10 percent levels

c = y-intercept and c&t = intercept and the time trend

The next step in the analysis is estimating equations 1.1 and 1.2 to get a better idea for the cointegrating relationship between growth and inflation. The results of the cointegration tests and estimates of the parameters are shown in Tables 7A—7D. Looking at these tables, one finds that the coefficients are all still positive and therefore the updated data still supports a positive relationship between inflation and growth. Two things are to be noted: (1) for Bangladesh, inflation and growth are not cointegrated; and (2) in the revised data, coefficients of p are now larger and therefore growth is now more sensitive to changes in inflation. This contradicts the findings of Mallik and Chowdhury who found inflation and growth cointegrated for all four countries and found the sensitivity of inflation to changes in growth larger than that of growth to changes in inflation.

Table 7A – Unit Root Test for Residuals from (1.1)
From Mallik and Chowdhury

Country	Unit Root Test of μt			
	Coefficient of p	DF	ADF	PP
Bangladesh	0.1017	-7.50*	-2.48 (1)	-7.08* (2)
India	0.0095	-6.34*	-4.47* (1)	-6.35* (3)
Pakistan	0.0851	-6.63*	-3.78* (1)	-6.66* (3)
Sri Lanka	0.0903	-3.60**	-2.94*** (1)	-5.80** (3)

Table 7B – Unit Root Test for Residuals from (1.1)
Using Updated Data

Country	Unit Root Test of μt			
	Coefficient of p	DF	ADF	PP
Bangladesh	0.298	-3.41*	-2.22** (1)	-3.43* (2)
India	0.226	-7.30*	-4.94* (1)	-7.25* (3)
Pakistan	0.24	-4.55*	-3.23** (1)	-4.75* (3)
Sri Lanka	0.241	-5.76*	-3.53* (1)	-5.80* (3)

Table 7C – Unit Root Test for Residuals from (1.2)
From Mallik and Chowdhury

Country	Unit Root Test of ηt			
	Coefficient of y	DF	ADF	PP
Bangladesh	1.0867	-4.98*	-4.56* (1)	-4.92* (2)
India	0.0232	-4.60*	-5.16* (1)	-4.48* (3)
Pakistan	0.2627	-2.82***	-2.93*** (1)	-2.85*** (3)
Sri Lanka	0.9095	-3.68*	-3.17** (1)	-3.60** (3)

Table 7D – Unit Root Test for Residuals from (1.2)
Using Updated Data

Country	Unit Root Test of ηt			
	Coefficient of y	DF	ADF	PP
Bangladesh	0.0263	-3.25	-2.5 (1)	-3.43 (2)
India	0.03903	-7.50*	-5.75* (1)	-7.79* (3)
Pakistan	0.03982	-4.48*	-3.31*** (1)	-4.55* (3)
Sri Lanka	0.03941	-5.74*	-3.58** (1)	-5.78* (3)

DF, ADF and PP tests were all performed using Econometric Views Package.

Figures inside parentheses indicate lag lengths

*, ** and *** indicate significance at 1, 5 and 10 percent levels

Table 8A – Johansen’s Maximum-Likelihood Procedure from Mallik and Chowdhury

Country	Eigen Value	Likelihood-Ratio		
		Null	Alternative	Statistics
Bangladesh	0.52	K=0	k=1	15.36**
	0.20	K<=1	k=2	4.68
India	0.51	K=0	k=1	24.42*
	0.25	K<=1	k=2	9.91**
Pakistan	0.33	K=0	k=1	15.18**
	0.12	K<=1	k=2	4.75
Sri Lanka	0.38	K=0	k=1	14.01***
	0.22	K<=1	k=2	7.05***

Table 8B – Johansen’s Maximum-Likelihood Procedure Using Updated Data

Country	Eigen Value	Likelihood-Ratio		
		Null	Alternative	Statistics
Bangladesh	0.49	K=0	k=1	7.13
	0.05	K<=1	k=2	0.47
India	0.31	K=0	k=1	21.18*
	0.15	K<=1	k=2	6.47**
Pakistan	0.28	K=0	k=1	26.55*
	0.23	K<=1	k=2	10.03*
Sri Lanka	0.23	K=0	k=1	15.97**
	0.13	K<=1	k=2	5.54**

*, ** and *** indicate significance at 1, 5 and 10 percent levels

Tables 8A and 8B show the Johansen maximum-likelihood procedure for determining the number of cointegrating vectors, k. The results in table 8B show that the null of no cointegration fails to reject in three of the four countries. So, yet again, cointegration is seen in all countries except Bangladesh. Also, there might be a third integrating vector in the relationship between inflation and growth for India, Pakistan, and Sri Lanka. This also differs from Mallik and Chowdhury since they find evidence of cointegration in all four countries and evidence of a third integrating vector in only two countries.

Conclusion

The main objective of this paper was to show the effects that data revision has on the ability of policy makers to analyse and make decisions within the developing economy context. Whether due to changes in variable definitions, overall changes in data collection, or deliberate misrepresentation, systemic revisions are a common yet problematic occurrence. After briefly presenting evidence of the existence of revisions and finding out where it is occurring, the paper showed the

effect data revision has on economic inference and policy by examining inflation and growth.

Mallik and Chowdhury (2001), through testing for cointegration, seek to show that a definite, positive relationship between inflation and economic growth exists. This can be very helpful in guiding a developing country in choosing policies that not only allow for growth, but also prevent exposure to high levels of inflation. The problem that has been uncovered in this paper, though, casts serious doubt on the reliability of Mallik and Chowdhury's results due to revisions in the data. This is evident in the following ways:

1. The data available is not a true reflection of the prevailing economic climate of the time. Higher historical rates of growth with lower historical rates of inflation exist. A researcher analysing this data might be confused why these nations were so concerned with slow growth and high inflation since the data paint an inaccurate picture of the time. Thus, the very existence of the sacrifice ratio between growth and inflation is questionable. This is of particular interest and raises questions regarding research that hopes to get some idea of an economy's past performance. Depending on the vintage of the data used, the economy's macroeconomic indicators will be significantly different.
2. A meaningful relationship no longer exists between inflation and growth for Bangladesh.
3. Given the *revised* data, the relationship between inflation and growth is still positive, but a switch in sensitivity has occurred. Where inflation was more sensitive to changes in growth, the opposite is now true. This reveals that where it was once believed that inflation is helpful to growth and that growth that occurs too quickly leads to higher prices, such a recommendation in light of the revised data would be disastrous.

The final point speaks to the true nature of the problem of data revision. Here it is seen that the entire nature of the relationship has changed; where once growth led inflation, we now see the opposite occurring. This is where policy implications are affected. Mallik and Chowdhury (2001) use the results of their analysis to caution developing nations on the nature of the inflation-growth relationship. In light of the recent revisions in the data, the threat of overheating the economy by focusing on economic growth no longer seems the problem it once was. Their assertion that developing nations should focus on inflation, not growth, will not in fact lead to a more stable growth rate. Nor will a focus on growth lead to an accelerated rate of inflation.

In conclusion, we have seen additional evidence of how data revision can lead to trouble, not only for the analyst, but also for policy makers. Anyone attempting to analyse international data should keep in mind these issues and be mindful of the effects data revision has on econometric inference. Although this research

supports Morgenstern's assertion that international data comparisons are unreliable, it is not yet cause to throw all the data out. Taking proper precautions or approaching the data aware of its inherent shortcomings makes an analyst or policymaker that much more prepared for the perils of a revised data series. The economic community needs to stop using the Griliches (1986) mantra that bad data is better than no data, and instead come up with a meaningful solution. Only a small amount of research is being done to deal with the effects of inaccurate data. As of now, only Salvatore and Reagle (1995) have suggested the benefit of aggregate indicators over raw data as a possible solution. Until the international community finds a way to eliminate the harmful effects of systemic revision, we should all be more cautious when analysing or making policy decisions.

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HOW TO USE AUSTRALIAN AID TO PROMOTE PEACE IN TIMOR-LESTE

David Chick

In April and May 2006, Timor-Leste – one of the smallest countries in Southeast Asia – experienced the worst outbreak of violence in its brief five-year history since independence. During this time, 38 people were killed and 150,000 more were displaced. While the arrival of an Australian-led International Security Force (ISF) ended the violence, gang fighting, attacks against internally displaced persons (IDPs), and confrontations with the ISF remain daily problems in Dili, the capital. This violence has destabilised the country and hindered development efforts.

Australia is currently reviewing its aid program in Timor-Leste. It aims to double its overall level of international assistance between 2006 and 2010. Increased aid is considered a cost-effective means to deliver long-term stability. As one of its closest neighbours, Australia has played a significant and active role in promoting security and assisting development in Timor-Leste. Beyond humanitarian assistance, Australia also has a national interest in regional stability and has sought to promote both of these goals in Timor-Leste through military assistance and generous donor support.

This paper considers how Australia could extend its aid program to support peace in Timor-Leste. It examines the underlying causes of the recent conflict and suggests five policy options to complement and build on existing programs. These policy options specifically target the causes of conflict and support peace-building efforts using a sustainable approach coordinated with existing international assistance efforts, both military and humanitarian.

Introduction

Since independence, Timor-Leste has suffered from occasional acts of politically motivated violence. The worst violence in the country's brief five-year history occurred in April and May 2006. Thirty-eight people died and 150,000 more were displaced (UN Independent Special Commission of Inquiry for Timor-Leste 2006, 42). The initial wave of violence concluded at the end of May 2006 with the arrival of the International Security Forces (ISF). The ISF was invited by the

Timorese government to restore order between rival members of the military, police, and militia groups.

While the Timorese security forces no longer engage in conflict *per se*, violence remains a daily problem in the capital city of Dili. This period of lawlessness provides an opportunity for gangs of youths and other disaffected but disgruntled members of society to run amok. They burn homes and commercial buildings of their ethnic and other rivals. Gang fighting abounds, as do attacks against internally displaced persons (IDPs), resulting in occasional fatalities, besides confrontations with the ISF. IDPs are therefore unwilling to return to their homes (if they still exist) until the security situation improves.

The violence has demonstrated the fragility of peace in Timor-Leste. It has widened a latent rift between people from the east and west of the country, around which much of the violence continues to center. These historical tensions stem from a commercial rivalry and divisive perceptions of the resistance movement among those from the east and west. The violence has also hindered development, leading the government to request international assistance to respond with numerous initiatives to promote stability.

As one of Timor-Leste's closest neighbours, and one of the region's most developed countries, Australia has played a significant and active role in promoting security and assisting development. Beyond humanitarian concerns, Australia has a national interest in regional stability. It has sought to promote both of these goals in Timor-Leste through military assistance and generous donor support.

Australia is currently reviewing its aid program in Timor-Leste. It aims to double its overall level of international assistance between 2006 and 2010. Increased aid is considered to be a cost-effective means to deliver long-term stability. It is necessary for the Australian Agency for International Development (AusAID) to develop project options to assist the Agency's goal of securing the stability of the government and promoting economic opportunities (AusAID 2006c).

This paper considers how Australia could extend its aid program to support peace in Timor-Leste. It examines the underlying causes of the recent conflict and suggests five policy options to complement and build on existing programs. To do this, the paper first provides an analysis of the conflict in Timor-Leste. It identifies the root and proximate causes of the conflict as well as the supporting factors for peace and reconciliation. Based on this analysis, the paper outlines five capacity-building concepts for AusAID's consideration to help build a lasting peace. These project ideas are designed to address the causes of conflict and build peace in a feasible, effective, and sustainable manner.

Background to the Conflict: East Versus West

The April and May violence stemmed from a long-running dispute within the Falintil-Timor-Leste Defence Force (F-FDTL). Members of the F-FDTL, who are of western origin, alleged that they were discriminated against in the military, particularly in promotion opportunities. These members submitted a petition to defence forces commander Brigadier General Taur Matan Ruak, and President Xanana Gusmao, on 9 January 2006. On 17 February they abandoned their barracks and on refusing to return, the 591 petitioners were dismissed by Taur Matan Ruak in March.

The four-day demonstration in Dili that followed erupted into violence on 28 April. The violence spread through the capital as well as surrounding neighbourhoods and villages. The country came close to civil war, with westerners rallying against the Revolutionary Front for an Independent East Timor-controlled government (FRETILIN). There were two separate but related manifestations of the violence. First, central to the conflict in April and May 2006, was the violence within the security forces. Members of the F-FDTL and National Police of Timor-Leste (PNTL) fought amongst each other on grounds of identity (east/west) and support for the government (pro/anti). Second, in the weakened security situation, community-based violence rapidly proliferated. The heightened period of violence in Timor-Leste amounted to a 'level 3 crisis' (Heidelberg Institute for International Conflict Research 2006).²

Causes of Conflict: Why Did Timor-Leste Fall Into a Crisis?

The underlying factors behind the conflict can be attributed to root and proximate causes, as well as its immediate triggers.³ Although many of these causes of conflict were recognised by scholars before the outbreak of violence (Center for International Conflict Resolution 2004), these had not been adequately addressed by the time the crisis actually broke.

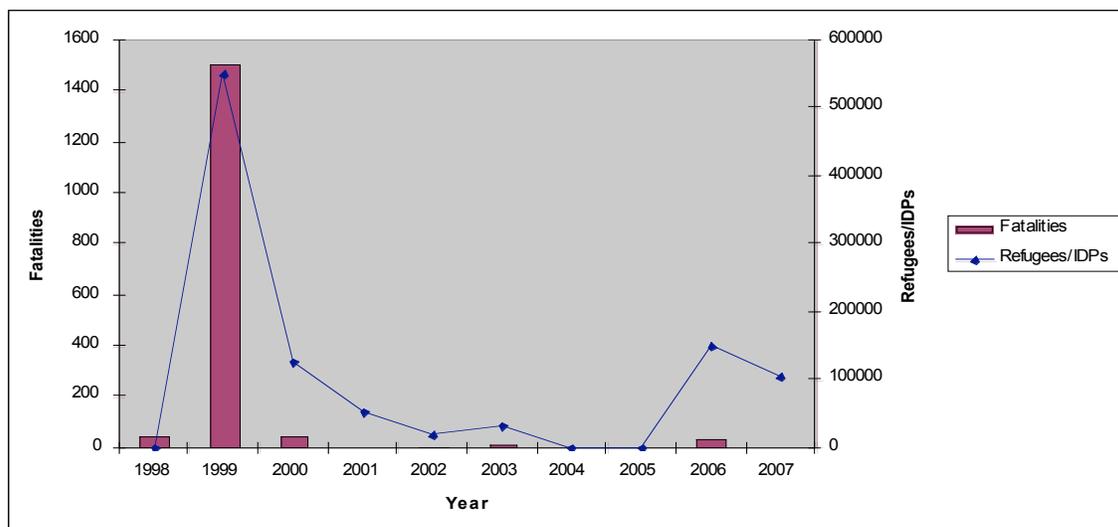
Root Causes. There are numerous root causes of the 2006 violence in Timor-Leste. First, Timor-Leste has suffered from occasional but significant acts of violence over its recent history (Figure 1). The worst violence occurred following the pro-independence referendum in 1999. In reaction to the referendum's outcome, the Indonesian military and militia destroyed 70 percent of the country's infrastructure. The violence led over half a million people to flee their homes and resulted in the loss of approximately 1,500 lives. Subsequent to the departure of Indonesian occupying forces, low-level violence has continued,

² The Heidelberg Institute for International Conflict Research uses a 5 point scale, with level 1 signifying 'latent conflict' and level 5 indicating 'war'.

³ Root causes underlie the conflict and are necessary, but not sufficient for the occurrence of violence. Proximate causes occur closer to the outbreak of violence and exacerbate the negative impacts of the root causes of conflict. Triggers for the conflict are those events or circumstances that occur immediately prior to the conflict to bring the violence to a head (Conflict Prevention and Post-Conflict Reconstruction Network 2005, 8).

including attacks on Indonesian ‘collaborators’ in 1999-2000 and street riots in 2002.

Figure 1: Numbers of Fatalities and Refugees/IDPs in Timor-Leste: 1998-2007



Sources: International Institute for Strategic Studies 2007; UN Independent Special Commission of Inquiry for Timor-Leste 2006; UNHCR 2004; UNHCR 2005; Caritas Australia 2006.

Second, Timor-Leste is often quoted as having been the poorest country in the world at the time of its independence in 2002. Much of this stems from the neglect of the country’s economy under both Portuguese and Indonesian rule. Now, although per capita GNI grew to US\$747 by 2005 (World Bank 2007), it still borders the ‘low income’ category of countries, thus making it more susceptible to violent conflict (Collier and Hoeffler 2002).

Third, Timor-Leste is highly dependent on primary commodities. Hope for self-sufficiency comes through the exploitation of its oil and gas reserves in the Timor Sea. Royalties from these reserves account for US\$350.9m of the country’s US\$394.5m 2005-2006 budget and this share is set to grow rapidly over the coming years (Economist Intelligence Unit 2006, 6). This dependency is a cause for concern as Collier and Hoeffler (2002) argue that countries dependent on primary commodities for their exports (between 16-48 percent of GDP) have a greater probability of violent conflict.

Fourth, poor governance has failed to ameliorate community tensions. The FRETILIN party dominates the democratic system, without effective opposition or checks and balances on power from the parliament or judiciary. The rule of law is weak and many people do not understand the judicial system, its procedures or its language as most of it is in Portuguese. A backlog of criminal cases and a lack of judicial and legal capacity also make it near impossible to enforce contracts or hear civil disputes. Uncertainty exists even regarding the

content of laws, including those relating to land ownership. Opportunistic land acquisitions in 1999, when buildings formerly occupied by Indonesians were being taken over, were a particular source of tension and has since led to individual acts of violence (Scamary 2006, 3).

The dominance of one ethnic group over another can increase the risk of violent conflict – a fifth root cause of violence. Prior to the crisis, the distinction between those from the east and west of the country was rarely mentioned. However, by early 2006, it was clear that western-born members of the military felt discriminated against by officers from the east. President Gusmao even directly addressed this issue in a speech in March 2006. The split has two sources. First, some easterners view themselves as more responsible for the resistance movement and the ultimate liberation of Timor-Leste. They view western Timorese as closely associated with the Indonesian occupying forces during the colonial period. Second, a commercial rivalry has traditionally existed between those of the east and west. This was particularly evident following the influx of easterners into the western markets of Dili following the end of World War II (Scamary 2006, 2).

Sixth, urban youth unemployment is particularly high. Sixty percent of Timor-Leste's population is under 18 years of age (UNICEF 2006). The World Bank estimates urban youth unemployment in Timor-Leste as 43 percent (USAID 2006, 11). Of the entire working population in 2001, 73.9 percent were involved in subsistence agriculture and 16.8 percent were openly unemployed (Government of Timor-Leste 2002, 76). Such high levels of unemployment lead to youth unrest, a significant source of potential conflict.

Lastly, the population of the capital Dili has increased rapidly over the last five years: from 120,000 in 2001 to 168,000 in 2006 (Economist Intelligence Unit 2006, 14). This increase is the result of migration to the capital for better employment opportunities as well as the rapid rise in fertility immediately after independence. Social tensions have accompanied this rapid population growth.

Proximate Causes. A number of factors have exacerbated underlying tensions leading to the crisis. Challenges in communication and information-dissemination permitted the spread of fallacious rumours throughout the country. Communication infrastructure and local reporting capacity, especially outside Dili, is poor. Low literacy rates make written communication difficult. Research suggests that the Timorese have traditionally relied on informal communication networks and may not trust alternative sources (USAID 2006, 10). Furthermore, communication between politicians and the community is limited, both in terms of information and consultation.

In addition, social jealousies and disillusionment with the government are rife in post-independent Timor-Leste. This has been in response to the appointment of certain individuals to well-remunerated jobs with foreign agencies, as well as the opportunistic seizure of property by individuals upon the exit of the Indonesian forces. Many people also feel disillusioned with the development process, which seems to have fallen short of public expectations. Within Dili alone, a number of

disaffected groups reject the legitimacy of the government. These groups are aligned with particular political factions and engage in politically-motivated criminal activity (Scambary 2006, 5-7). These include Colimau 2000, Sagrada Familia, CPD-RDTL, Orsnaco, as well as some popular martial art groups. Such groups had become more active in the lead up to the crisis.

Tensions between Timor-Leste's small political elite have also not been resolved. These tensions run deep, originating from the days of the resistance against the Indonesian armed forces. More recently, the political arena has become divided between government ministers, particularly President Gusmao and Prime Minister Alkatiri. During the early months of 2006, a deep political battle raged between the President and Prime Minister, with each having their own supporters, such as Minister Ramos Horta siding with the President and Minister Lobato supporting the Prime Minister.

These tensions and political maneuverings among the elite have also been subsequently absorbed into the fabric of the police and military forces. From 2002, Interior Minister Lobato enlisted members of the PNTL with personal allegiance to himself. The division intensified when Brigadier General Taur Matan Ruak sacked the 'western' petitioners of the military for continuing to refuse orders to return to their barracks. While Alkatiri supported the decision, Gusmao did not, broadcasting an emotional telecast to the nation on 23 March 2006 in which he called the dismissal incorrect. This led to a souring of relations between the President and the Brigadier General, contrary to their earlier association, which had been a significant stabilising relationship through the resistance. The President's rebuke also appeared to justify the cause of the petitioners, with westerners subsequently burning 17 easterners' homes by late March (International Crisis Group 2006, 8).

Triggering Events. The trigger for the violence in April and May was the bungled response of political leaders in managing the protest of the dismissed members of the F-FDTL. Minister Ramos Horta had apparently mistaken the timing of his meeting with the protesters and did not arrive in the morning as was originally expected. By midday, the crowd had started to throw stones and burn vehicles, with demonstrators then deciding to move through Dili on a rampage of destruction. After four days of protests in front of the Government Palace, tensions were high. Several other persons, including angry youth, had also joined the protests, venting frustrations over economic, political, and ethnic issues. The decision to use the F-FDTL to restore order – taken in a crisis cabinet meeting at 6 pm on the same day - brought the eastern and western elements of the military and police into direct conflict with each other. The move ignited the conflict, broke down law and order, and enabled ethnically motivated violence to spread throughout Dili and surrounding areas.

Factors Contributing to Peace

Communities are complex and dynamic and the advent of violence (such as that described above) does not indicate that peace-building factors were or are absent. At best, such a situation demonstrates that these factors were not able to dominate *at that point in time*. The presence of the ISF illustrates that law enforcement structures can effectively limit structural violence. Although the ISF has not ended community-based violence, it has effectively contained outbreaks when they occur. Similarly, the delivery of emergency humanitarian aid has also undoubtedly helped to build peace and a sense of normalcy among IDPs and the broader Timorese society.

Knowledge of government decision-making processes can alleviate concerns of corruption and discrimination, and potentially avert future security threats. The local community has generally welcomed information on the recent conflict (e.g., the recent release of the Report of the UN Special Commission of Inquiry for Timor-Leste). Lack of information only serves to fuel rumours and further violence. For instance, rumours that the F-FDTL had massacred 60 people in Taci Tolu in April 2006 heightened Timorese fears and may have encouraged further retributive violence.

In addition to transparency, contact with officials gives people a sense of 'being heard' and eases community frustrations. This is particularly important in the context of limited government capacity, such as Timor-Leste. Previous meetings between petitioners and politicians had, before April, helped mitigate violent conflict. In contrast, the failure of Minister Ramos Horta to address the petitioners and others on 28 May served as a direct trigger to violence.

It should also be noted that the outbreaks of violence within Dili were not uniform. While some *sucos* (village clusters) and *aldeias* (villages) were heavily damaged, others were not affected by the violence. Thus, it is possible that local leadership played a stabilising role in some communities.

Stakeholder Analysis of the Violence

To promote and support peace, aid should empower connectors and peace-makers while weakening the influence of those that encourage violence (Anderson 1999). Each stakeholder has their own interests, capacities and relationships. The following are considered to be key actors in Timorese society.

Suco Councils: There are approximately 500 popularly elected *Suco* Councils across Timor-Leste. Representation in the Councils is equally divided between men and women and, if desired, decision-making can be by consensus. The World Bank was instrumental in creating these local councils to represent village clusters and act as the vehicle for community-driven development. Each council can apply for funding grants from the World Bank. These local governance arrangements have provided stability

and leadership to many communities which escaped the recent violence in and around Dili. However, it is also argued that on occasion, the *Suco* Councils have themselves been a source of conflict between elected and traditional leaders in some areas (Rawski 2005, 947).

Catholic Church: Support for the Catholic Church has spread to approximately 90-95 percent of the population. Much of this occurred during the period of resistance against Indonesian occupation. The Church was the only institution that spoke out against the atrocities of the Indonesian occupation and also played a significant stabilising role in the communities (Center for International Conflict Resolution 2004, 32). It maintains a strong connection with the youth through the Scouts movement and acts as an important mediator within the community.

Community groups: These groups provide a possible vehicle for reaching and addressing anti-social behaviour through a peer-network. The goals of community groups include neighbourhood security, connections with other youth, and peace-building (Scambary 2006, 25-27). Community groups are generally peaceful, though they may include violent members.

Media: The media has a recognised role in conflict mitigation. However, the media sector in Timor-Leste remains weak. Radio is the most effective medium, with 17 stations providing broadcasting coverage to approximately 69 percent of the population (Center for International Conflict Resolution 2004, 32). Low levels of literacy limit the effectiveness of newspapers.

Extended families in districts/villages: Extended families ease the pressure on IDPs to return to unstable urban areas. Despite their own dire economic circumstances, they have met many of the basic needs - housing and food - of many of the IDPs.

In contrast, the following stakeholders are associated with conflict and division.

Political elite: The level of community support for politicians has waned as a result of their role in the crisis (see Proximate Causes above). The conflict led to the resignation in June 2006 of Prime Minister Alkatiri as well as Interior Minister Lobato and Defence Minister Rodrigues. The United Nations Independent Special Commission of Inquiry for Timor-Leste has recommended that criminal charges be brought against Ministers Lobato and Rodrigues as well as defence forces commander Brigadier General Taur Matan Ruak for their alleged role in the illegal distribution of weapons to civilians during the crisis (United Nations Independent Special Commission of Inquiry for Timor-Leste 2006, para 132 and 134). With public faith in government being so low, momentum for peace initiatives should ideally originate from alternative sources, although it cannot ignore the important role of the political elite in the future.

Security sector: The weak security sector has been a major source of tension and destabilisation in Timor-Leste. Divisions between F-FDTL members from the east and west of the country, exclusion of some FALINTIL fighters from active duty and politicisation of the PNTL are central to this sentiment. The government, assisted by the new United Nations Integrated Mission in Timor-Leste (UNMIT), continues to work on a comprehensive review of the security sector, including the Ministry of the Interior, Ministry of Defence, PNTL, and F-FDTL. In the interim, a Trilateral Coordination Forum between the government, UNMIT, and ISF coordinates ongoing security.

Foreign countries: There is growing local disillusionment with the development process and the international community. Some Timorese feel that foreign countries, such as Indonesia, Portugal, and Australia may be seeking to influence the government for their own political interests. Despite political support from the Timorese government and their vital role in stemming violent street conflict, even justified acts of self-defence by the ISF can further degrade relations between foreigners and locals and thereby limit their ability to act as neutral and credible peace-builders.

Australian Aid: Pathways to Peace-Building

Australia has a strong interest in a secure, stable, and prosperous Timor-Leste (Australian Department of Foreign Affairs and Trade 2003). It has taken an active role in the development of Timor-Leste ever since Timor's 1999 vote for independence. Assistance has been provided through a range of sources, including the Department of Defence and Australian Defence Forces, the Australian Federal Police, and AusAID. Australia has also provided vital security - first as the leader of INTERFET forces in 1999, and again in 2006 as the lead of the joint ISF from Australia, New Zealand, Portugal, and Malaysia. The Australian government has reportedly spent US\$2.4 billion since 1999 on defence operations to stabilise Timor-Leste (The Australian 2007).

The Australian-led ISF has been instrumental in restoring order to Dili and its surrounding neighbourhoods. As mentioned before, the new Trilateral Coordination Forum now coordinates ongoing security between the ISF, UNMIT and the Timorese government. As provided by its mandate and outlined above, UNMIT will also play a significant role in helping the Timorese government to implement more long-term security sector reforms. The immediate humanitarian response and support of IDP camps, coordinated through the Inter-Agency Humanitarian Coordination Group, has also been exceedingly important in bringing at least a modicum of normalcy to the country and helping to meet basic needs.

Australia is one of the top five donors to the country and aid from Australia is currently in a period of expansion. Their aid to Timor-Leste totaled approximately US\$335m between 1999 and mid-2006 (La'o Hamutuk 2005; AusAID 2006a, 81), which is one-seventh the overall Australian military

expenditure over the same period. In 2005-06, Australian aid totaled approximately US\$35m (AusAID 2007a), one-fifth of the total Official Development Assistance to Timor-Leste.⁴ The Australian government agreed in 2006 to double its aid budget by 2010. AusAID is developing a range of new initiatives through the piloting of new projects and greater engagement with Timorese institutions.

The overarching objective of the Australian aid program is “[t]o assist developing countries to reduce poverty and achieve sustainable development, in line with Australia’s national interest” (AusAID 2006b, 20). Through its work in Timor-Leste, AusAID seeks to “target the key drivers of stability, security and economic growth and address the causes of instability and conflict” (AusAID 2006c). The two main focus areas of AusAID are:

- (a) Securing stability of the government; and
- (b) Promoting economic opportunities and sustainable livelihoods.

More specifically it aims to provide support to the law and justice sector; improve public sector accountability and transparency through strengthened public sector management; build stronger electoral and parliamentary institutions and strengthen civil society; pursue job creation, economic development, as well as rural income-generation; improve food security; and enhance the delivery of services in health, water supply and sanitation, particularly to rural populations (AusAID 2006c).

To maximise its impact and success in achieving these goals, AusAID must not only consult with local politicians, organisations, and people about their needs, but must coordinate with local authorities and other donor partners. This is necessary to avoid program overlap and encourage a broad peace-building approach to address gaps and create synergies in different peace-building activities.

AusAID’s Existing Role in Timor Leste

AusAID’s coordinated and consultative approach has provided an admirable and valuable contribution to Timor-Leste’s early development. It has supported the formulation and implementation of the Timorese government-approved National Development Plan (NPD), establishing the country’s medium-term development priorities until 2020. These priorities relate to improved education and health, broad-based economic development, promoting stability, effective governance, and an active civil society. Aid is coordinated with the government and other development agencies through two forums: the biannual coordination meetings led by the Ministry of Planning and Finance as well as the Ministry of

⁴ Average collective ODA (which includes Australian ODA) is US\$181m for the period 2001-05. See OECD Development Co-operation Directive (2006b).

Foreign Affairs and Cooperation, and the annual Development Partners Meetings co-chaired by the Timorese government and the World Bank.

Anecdotal evidence supports the view that AusAID's involvement has been effective in the delivery of aid. However, some concerns have been expressed about Australian aid being too closely tied to Australia's political interests (La'o Hamutuk 2005).⁵ AusAID, like other donors, could increase its budget transparency and provide more information to local communities about its work (La'o Hamutuk 2002). While AusAID does contract out most of its project work, it no longer supports a policy of 'tied aid' to support only Australian businesses in Timor-Leste. Through its locally engaged staff, AusAID has the capacity to engage more closely with local recipient communities. Given this foundation, AusAID is well-placed to further partner with the Timorese community in peace-building initiatives.

Like other multilateral and bilateral aid programs in Timor-Leste, the existing AusAID program focuses on governance. A range of projects aim to build public sector management and institutional capacity throughout the Timorese government. These include projects within the national parliament, training of the police force and improving the efficiency and stability of the justice sector (See Figure 2). In addition, AusAID manages a number of health, rural development, and scholarship programs. Recent delays in rural development programs that exposed the aid program to criticism of becoming too Dili-centric are beginning to be addressed through a new six-year Community Water Supply and Sanitation Project that commenced in 2007. In response to the recent crisis, Australia has also donated approximately US\$8m in humanitarian assistance to the UN Flash Appeal, World Food Program, and Oxfam.

Figure 2: Schedule of AusAID Projects in Timor-Leste

Category	Project Name	Description	Amount (in A\$m)	Effective Date	Closing Date
CURRENT (Feb 2007)					
Governance	Australia-East Timor Public Sector Management Capacity Development Program	Public sector management skills, including through scholarships	35	2006	2010
Governance	AusAID-UNDP Strengthening Parliamentary Democracy in East Timor	Develop institutional capacities of National Parliament	1	2006	2009
Governance	Australia-East Timor Police Development Program	Police training	32	2002	2009

⁵ La'o Hamutuk has alleged that AusAID withdrew financial support from a Timorese NGO in response to its support for the Timorese government in relation to negotiations concerning profit-sharing between Timor-Leste and Australia over profits from the oil and gas reserves in the Timor Sea.

Category	Project Name	Description	Amount (in A\$m)	Effective Date	Closing Date
Governance	Law and Justice Development Program	Improve efficiency and stability of justice sector	8	2003	2008
Health	Health Sector Support Program	Improve institutional health service delivery	4-6	2007	2012-17
Health	Health Seeking Behavior Study	Research causes of under-utilisation of health services	0.7	2007	NA
Health	Australia-Timor Leste Program of Assistance for Specialist Services	Placement of health professionals in Timor, and training local staff	8	2006	2011
Health	UNICEF Strengthening Immunisation	Universal immunisation – including Hepatitis B	1.5	2005	2007
Rural Development	Seeds of Life 2	Identifying higher yield varieties of staple crops	7.5	2001	2010
Water and Governance	Australia-East Timor Community Water Supply and Sanitation Project	Public sector capacity building and health and sanitation education	25	2007	2012
Education	Australia-East Timor Development Scholarship	Training in crucial areas for development	15	2000	2010
Emergency/Humanitarian	Response to Unrest	Support to UN Flash Appeal, WFP and Oxfam for humanitarian priorities	10	2006	2007
Emergency/Humanitarian	AusAID-World Bank Activity Communications and Leadership Capacity for National Renewal	Encourage skills for leadership and crisis management among formal and informal leaders	0.25	2006	2008

Category	Project Name	Description	Amount (in A\$m)	Effective Date	Closing Date
COMPLETED					
Governance	Ministry of Planning and Finance Capacity Building Project	Improve capacity of Budget and Revenue Office	12	2003	2006
Rural Development / Governance	Australia-East Timor Fisheries Project	Train in sustainable fishery management	2	2003	2006
Community Development	Small Grants Scheme	Various projects to promote improved standards of living	5	2001	2006
Emergency/Humanitarian	USAID-AusAID Conflict Vulnerability Assessment	Assess causes of conflict and opportunities for peace-building initiatives	Advice	Sept 2006	Nov 2006

Source: AusAID 2007b.

Policy Options: Possible Additional Roles for AusAID

The existing array of assistance programs in Timor-Leste - whether funded by Australia, the government of Timor-Leste or other donors - already addresses numerous causes of conflict and support local peace-building capacities. Efforts are being made to address economic development, security reform, gang activity, and many aspects related to governance. The youth and the Catholic Church have also received specifically targeted support.

However, there are additional ways to address conflict, build peace, and help stabilise Timor-Leste. Five capacity-building options for AusAID's consideration include strengthening local voice, the media, local governance, youth mental health, and rural development. The options deal with causes of conflict and aspects of peace-building that have not yet been fully addressed in the response to the 2006 crisis. They aim to improve communication, minimise social pressure from demographic change, and prevent political instability. The proposals engage local leadership, strengthen transparency and voice, and support extended families in a manner that meets basic needs – all of which contribute to peace. Furthermore, they are consistent with the NDP.

Option 1: A Local Voice Pilot Program to link community leaders and enable them to discuss different working styles and common problems. If successful, the pilot project could help develop a culture of innovation, as well as provide support in other capacities including conflict management and peace-building. The local government alliance could be modeled on the Australian Local Government Association which has been successful in this regard (Martin 2001).

To identify pilot neighbourhoods and facilitate the project, a review of existing assessments and, if necessary, a survey of other areas could be conducted. From

the results, AusAID could identify several neighbourhoods in Dili that have either experienced, or been spared from, violence during the last year. It is also necessary to identify both traditional and elected leaders to encourage a genuine and open discussion of their perspectives. This is particularly important given the existence of tension in some local communities between the traditional leadership and local *Suco* Councils (Rawski 2005).

As an initial step, the selected community leaders could explain their views on why they were or were not successful in promoting peace. The group could consider the likelihood of future threats to their neighbourhoods and any steps they could take to continue to provide security. Through the active engagement of community leaders in this manner, learning can spread throughout the community from a grassroots-based understanding of the issues involved.

This exercise could potentially build a better understanding of local conditions; strengthen bonds between local community leaders, as well as between local community leaders and Australian officials; and support local conflict resolution capacities. AusAID could extend its understanding of local community dynamics and leadership successes to the Timorese government and other development partners.

Option 2: Dialogue on Expanding Media Coverage with local media to enhance the reliability of news reporting and student media initiatives. Lack of reliable public information was a factor exacerbating tensions before and during the 2006 crisis. Such a dialogue would complement USAID's Strengthening Independent Media Program. However, strengthening media is not included as a separate recommendation in this paper.

The evaluation should take into account levels of literacy of the population, technical constraints such as broadcasting range and the distribution of newspapers. This would seek to understand and build on the existing local capacities and extend the media's reach in a manner that promotes local competition. AusAID should also investigate networking opportunities between media outlets.

In addition, support of student-led media initiatives would ensure expansion of future media capacity and involve youth in the process. AusAID should consider a university radio station and special scholarships in journalism studies under their existing ten-year \$15m scholarship program to complement this proposal. Any program adopted should have the involvement and support of the faculty and students of the National University of Timor-Leste.

Option 3: Strengthening Governance Through Consultation: Two programs could strengthen local voice, the rule of law, and respond to future crises. The first program is to promote communication between local and national leaders. Options could include the hosting of regular meetings to deliver rapid two-way communication, or the establishment of telephone hotlines for more urgent consultation. Ensuring that participation in such a program is extended to members of opposition parties will also provide incentives for government

participation. It will also empower weak members of the opposition and foster a greater culture of healthy competition between the government and opposition members.

In addition, during consultations with local leaders (option 1), AusAID could sample demand for feedback among government and opposition members of the national Constituent Assembly to identify possible future links. These would complement AusAID's existing program promoting good governance in Timor-Leste.

The UN Special Commission of Inquiry into Timor-Leste concluded that during the crisis, "governance structures and existing chains of command broke or were bypassed" (UN Independent Special Commission of Inquiry for Timor-Leste 2006, para 136). In addition to improved communication, AusAID could promote good governance by developing a ministerial training program to reinforce constitutional processes for crisis management. This would maximise the impact of governance training on stability and peace-building.⁶ Although training should normally be at least partially financed by beneficiaries to be effective (World Bank Institute 2006), the contribution of ministerial time and energy should provide sufficient ownership of the process to have a lasting positive impact.

To support this proposal, following the presidential and parliamentary elections in mid-2007, officials from AusAID could suggest to UNMIT that it arrange with incoming Ministers a simulated crisis situation. This would allow Ministers the opportunity to review constitutional processes in a safe but realistic way. Ministers of the Australian government undertake similar simulation exercises as part of their emergency preparedness training. If Timorese Ministers supported this initiative, officers of the Australian Attorney-General's Department may be able to assist UNMIT with the design of a locally-tailored simulation exercise.

Option 4: Support for Youth Mental Health Pilot. AusAID should consult with experienced providers of psychosocial support in Timor-Leste – such as the Program for Psychosocial Recovery and Development in East Timor - on the level of community demand for their services. Should sufficient demand exist, AusAID could sponsor a pilot project to offer a toll-free 'Kids Help Line' for the psychosocial support of Timorese youth. Should difficulties exist over telecommunication service provision – either for technological or cultural reasons – AusAID could fund alternative delivery structures. This could include confidential individual face-to-face counseling or counseling through peer-group workshops.

Option 5: Rural Development to limit the number of people who choose to return to volatile and crowded city centers. The existing burden upon extended families looking after IDPs from Dili and other parts of the country can exacerbate conflict. AusAID should seek to reduce the flow of IDPs to Dili and support voluntary integration of IDPs into regional communities. AusAID

⁶ For the benefits of a focused approach to governance reform, see Grindle (2004).

should consult with hosting families in relation to their needs and potentially adjust existing funded programs to better support service delivery to rural areas.

In designing and implementing this proposal, AusAID can draw lessons from its own successful experience with the Community Peace and Restoration Fund in the Solomon Islands. This US\$11m fund that operated between 2000 and 2003 provided assistance in all of the Solomon Islands' provinces, including remote areas that had previously not received help. It supported approximately 500 small-scale community projects in a variety of fields including health, education, community facilities, training, roads, women, youth, and agriculture.

In addition to consultation with rural communities, AusAID should coordinate with the World Bank, who has led rural development under a series of three agriculture rehabilitation projects. AusAID could also rely on its connections with USAID and the Timorese government to outline the possible linkages with the proposed rural infrastructure activities under the Millennium Challenge Corporation.

Recommendations

AusAID's growing aid program has the potential to make Australia the largest bilateral donor in Timor-Leste. Given recent events, it is appropriate that a significant portion of the increased aid expenditures address outstanding causes of the conflict. While there is no easy solution to current tensions, the options outlined above could combine with existing efforts to suppress incidents of violence and maximise peace-building opportunities. Each of the five capacity-building proposals outlined above can contribute to efforts in addressing conflict and building peace in a feasible, effective, and sustainable manner. These proposals, coordinated with existing donor strategies, would strengthen the fabric of peace, support the work of the ISF, and alleviate threats to Timorese people. These proposals therefore are important not just for Timor-Leste's prosperity, but also for Australia's regional stability. They have the potential to save billions of dollars in the deployment of peacekeeping forces. AusAID should consider the merits of all five proposals during the revision of its programs in Timor-Leste.

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OF A NORWEGIAN SUMMER AND A VIKING INTERVENTION IN SRI LANKA

Madhawa Palihapitiya

This paper attempts to shed light on the mediation effort by Norway in Sri Lanka's ethnic conflict, using mainstream theories of international mediation. It analyses Norway's interests, strategies, successes, and failures as a mediator in Sri Lanka. It discusses Norway's interest to establish a national identity through niche diplomacy in countries with volatile peace processes, and how its relatively small military and political muscle may have significantly affected its ability to shape peace in Sri Lanka. The different perceptions of Norway's role as a facilitator-cum-mediator and the lack of clarity that lies therein have also been examined. As well, this paper attempts to provide practical policy alternatives that could prove useful for Norway.

Introduction

Sri Lanka's 25 year-old civil war is popularly termed an ethnic conflict. Supporters of the Tamil cause consider it a self-determination struggle. Estimates suggest that over 65,000 people have been killed in the conflict so far, with 3,096 killed between November 2005 and February 2007 alone.¹ Military offensives by both sides have rendered a large number of people in the eastern and northern parts of the island homeless. The violence continues onto the present day. On 26 March 2007, the Liberation Tigers of Tamil Eelam (LTTE) carried out its first air-attack on the Sri Lanka Air Force, taking the conflict to a new and deadlier stage.

The conflict has elevated political and social issues like identity, ethnicity, minority rights, self-determination, and language rights. Linkages also exist to international security through issues like suicide bombings, transnational criminal networks, and international money-laundering. Yet, in its entire 25-year cycle of violence, Sri Lanka witnessed only one example of an international mediation effort - that of Norway's. The only other attempt at ending the conflict was by India in 1987, which fell far short of a proper mediation effort as explained below.

¹ Statistics of the Foundation for Co-Existence in Sri Lanka, available at <http://www.fceox.com>.

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The First Intervention: The Indo-Lanka Peace Accord

The Indo-Lanka Accord was primarily a bilateral agreement dealing with armed conflicts in the north and east of Sri Lanka. It signaled the first open engagement of the Indian government in resolving the conflict in Sri Lanka, after allegedly earlier having assisted and patronised LTTE and other Tamil militant groups (Rao 2000). The signatories to this conflict were then-President of Sri Lanka J.R. Jayewardene and then-Prime Minister of India Rajiv Gandhi (who was later assassinated by an LTTE suicide bomber).

The Accord acknowledged the ethnic conflict prevalent in Sri Lanka and the importance of upholding the rights of all communities. However, no mention of the LTTE as a party was made in the agreement. The emphasis was on bilateral relations between Sri Lanka and India and specifically in regards to military cooperation. Article 2.16 of the agreement provided a list of actions India would take on behalf of the Sri Lankan government in the event a still unnamed militant group(s) refused to agree to the terms and conditions of said agreement. The agreement was largely at the expense of non-state actors. However, it marked a reversal of previous Indian policy towards the conflict.

The agreement followed earlier attempts to reach a peaceful settlement in 1985. This attempt, held in Thimphu, Bhutan, brought Tamil groups and Sri Lankan government representatives together for negotiations facilitated by India. The Thimphu talks were the first 'negotiations' that the two sides ever engaged in under the facilitation of an outside party. It has been argued, though, that the Thimphu talks unnecessarily heightened the aspirations of the LTTE and the other Tamil groups by the "[crystallising] of a set of principles by the Tamil leaders representing political parties and extremist groups, with the right to self-determination emerging as a cardinal one" (Moolakkattu 2005, 389).

Barely two years after the Thimphu talks, the Indian army was forced to intervene in Sri Lanka to disarm the LTTE militant groups. Although India did manage to disarm a large section of the Tamil militant groups operating in the northeast, the LTTE held on to its military arsenal. The Indian Army, the fourth largest army in the world, also suffered terrible losses at the hands of a relatively undeveloped LTTE. In the aftermath that followed, India's losses were compounded following a deadly campaign launched by the Marxist rebel movement in the south, the People's Liberation Front (JVP), that demanded the immediate removal of the Indian Peace Keeping Force (IPKF).

Norway's Entrance

The first Norwegian delegation to Sri Lanka on the subject of mediation in the ethnic conflict was on 16 February 2000. The Sri Lankan Foreign Ministry announced it as an attempt to explore "the possibility of Norway assisting discussions to take place between the Sri Lanka government and the Liberation Tigers of Tamil Eelam (LTTE) aimed at resolving the ethnic problem" (Jeyaraj

2000). The statement further read, “Norway was willing to accept the task of initiating a dialogue between the Sri Lanka government and the LTTE aimed at resolving the ethnic problem” (Jeyaraj 2000).

These initial discussions, led by then-Norwegian Foreign Minister Knut Vollebaek, resulted in a general acceptance. Norway’s engagement was by no means a surprise for either the Sri Lankan government or the LTTE, as the Norwegians had been approached by both the Sri Lankan government and the LTTE in 1999 (Jeyaraj 2000). Its choice as mediator was also influenced by its access to the LTTE. “These contacts certainly contributed to the country being identified as an acceptable mediator” (Moolakkattu 2005, 390).

Mediator’s Experience, Identity, Credibility, and Interests

Norway’s contribution to world peace is noteworthy. The 1993 Oslo Accord between Israel and Palestine brought it to the forefront of international mediation. The highly skilled, confident, and confidential handling of the Oslo Accord brought it great credibility and international recognition.

Norway proved an ideal intermediary in the Israeli-Palestinian back-channel talks because of its credibility, impartiality, consistency, and confidentiality - attributes not so very different from those aspired to by third parties in other contexts of mediation practice. Nor does Norway bear much baggage in the eyes of countries with colonial histories (Lieberfeld 1995, 203).

Since 1993, Norway has continued to expand its commitment to international mediation and has contributed tremendously to an understanding of the role of small states in international mediation. Intertwined with this credibility is Norway’s interest as a Humanitarian Force, giving it access to superpowers and crucial political currency. Peace has been among Norway’s top ‘signature exports’ (Bruni 2002). In an interview, Deputy Foreign Minister of Norway Vedar Helgesen acknowledged that Norway’s interests were similar to that of a “social worker, which the country saw as a privileged task and the results as constituting a rewarding experience” (Moolakkattu 2005, 390).

But why would a country choose to become a social worker on the international stage? Norway’s engagement in peace-building has emerged out of a need for a more distinct national identity (Leonard and Small 2003). Unlike many developed countries, Norway does not possess a powerful national identity. A country’s national identity can “create an enabling or disabling backdrop for each situation in the international political and economic realms” (Leonard and Small 2003).

Although it shares a Scandinavian heritage, Norway pales in comparison with the global political and economic achievements of its Nordic neighbors. Sweden, for example, is a powerful industrialised country and has powerful brand-names like Volvo. In order to overcome this reality, Norway has developed a strategy termed “niche diplomacy:” to wage not war, but peace.

Niche diplomacy is the “ability of a nation’s diplomacy to ‘generate returns,’ primarily for the country itself” (Henrikson 2005). Based on a political-economic model, niche diplomacy considers peace policy a commodity that can be traded based on “market forces” for peace. It provides Norway with “a voice and a presence on the international stage out of proportion to its modest position and assets,” through a “ruthless prioritisation of its target audiences and its concentration on a single message: Norway as a force for peace” (Moolakkattu 2005, 387).

The returns on this investment come in the form of “international prestige,” and in even more practical expressions of others’ appreciation. A country can become known, admired, and also rewarded for its ‘goodness’—which becomes a kind of niche in itself (Henrikson 2005). Norway is not alone in its approach. Algeria has also demonstrated the potential benefit from an increased role and impact in humanitarian action through its involvement in the 1979-1981 Iran hostage crisis. Few though have pursued it to the same extent of Norway, host of the Nobel Peace Prize since 1901, where peace is one of the country’s top “signature exports” (Bruni 2002).

Norway as a Small-State Mediator in the Sri Lankan Conflict

An assessment of small-state mediators is often based on the credibility and access enjoyed by such mediators. While Norway is argued to have a “small stick and a small carrot,” it has enjoyed a tremendous degree of trust from the parties to the conflict (Lieberfeld 1995, 201). Being small can be an advantage. “For the powerful party, a small state can provide a face-saver for whom capitulations can be made without threatening the public bargaining posture of the powerful party. For the weaker party, a small state can provide a sympathetic ally who can understand what it means to negotiate from weakness” (Slim 1992, 207).

Norway’s appeal to the conflicting parties in Sri Lanka most likely stemmed from India’s hegemonic interests in the region. The “Indira doctrine,” named after former Indian Prime Minister Indira Gandhi, has advocated resistance to great-power mediation and deemed their interference in South Asia as detrimental to India’s interests. A potential mediation effort by Britain had to be turned down by the Sri Lankan government as the “President was aware of the Indian displeasure...at mediation undertaken by Liam Fox, the Deputy Foreign Secretary of Britain in 1997” (Moolakkattu 2005, 394). This view, shared by some political analysts, argues that India must change relations with its smaller neighbours.

India needs to modernise its political relations with the smaller neighbours in order to dispel existing deep anxieties about Indian hegemony...India should

shed the Indira doctrine's emphasis on bilateralism and reciprocity in solving problems with its neighbours...India can openly pursue a strategy of positive unilateralism in which New Delhi takes the lead and goes more than halfway in trying to find solutions to long-standing problems (Mohan 2001).

Thus, Norway's size and soft power were not the only deciding factors in its engagement. The move reflected the broader geo-politics of the region, specifically that of Sri Lanka's larger neighbour to the west. The Indian approach to the conflict is a mixture of caution and commitment towards a political solution for Sri Lankan Tamils: the former, based on fears of growing armed rebellions in several of her states and the latter, an assertion of the need for minority rights and a diplomatic approach to relations with Sri Lanka. This is manifested by her support to counter-terrorism arms for the Sri Lankan state.

Failure to Negotiate Peace

The Norwegians did not succeed in mediating the conflict and secure peace and Sri Lanka gradually slipped back into all-out war in 2004. Their efforts could not slow the mobilisation of fighters, open alternative policy windows, provide a signaling mechanism to trigger reciprocal action, nor build trust among the opponents. Both sides accused each other of reneging upon the spirit of the cease-fire agreement. Amnesty International and Human Rights Watch have charged both sides of human rights violations. The Sri Lanka Monitoring Mission, led by Norway, has not been able to restrict this return to violence despite its many rulings and appeals.

Three observations emerge in examining Norway's role in the Sri Lankan peace process. First, a difference in opinion over the role of Norway existed between the Sri Lankan actors. Second, Norway's lack of military and political muscle. Both gave rise to manipulation by both the Sri Lankan government and LTTE and contributed to the resumption of conflict. Third, however, was the absence of a mutually hurting stalemate and drive for resolution. Finally, is the question of whether civil wars are actually amenable to settlement.

While both the LTTE and Sri Lankan government preferred Norway's involvement, they differed on the exact role it should play. The Sri Lankan government wanted Norway to be a facilitator, while the LTTE insisted on it being a mediator (Jeyaraj 2000). These positions can be understood on the basis of the individual interests of each party. The government's intention were that Norway serve as a facilitator, which also satisfied its own interests (Spangler 2003). A facilitating role is better aligned with the government's interest to maintain its sovereignty (Brahm 2004). As the democratically elected leadership it could then bargain from a position of relative strength. It also provided the government, with the least amount of commitment, a final outcome of "Tamil self-determination."

The LTTE, on the other hand, insisted that Norway play a mediating role. The involvement of an international mediator would give them greater credibility, a

position that it did not enjoy during the Indian intervention in 1987. The LTTE's position has always been that of "principles of equal rights and self-determination" (Balasingham 2004, 100). Their argument during the six rounds of talks focused on federalism, and internal and external self-determination. In his 2002 Heroes Day Speech, LTTE leader Pirapaharan stated, "[t]he objective of our struggle is based on the concept of self-determination...The right to self-determination has two aspects, external and internal" (Balasingham 2004, 100). The Norwegians could also become a critical ally to gain international recognition for an independent homeland, Tamil Eelam. The LTTE embarked on several European tours and took great offense when they were not selected to take part in the donor summit in Tokyo and then in Washington, DC in 2004.

However, the Norwegians were not successful in integrating the differing stances of each of these parties. As a result, multiple stalemates have been reached in the mediation process which was resolved only through the Sri Lankan government's waging of mini-wars against the LTTE. Norway's roles tended to "vary between facilitation and mediation, but emphasise[d] the former" (Lieberfeld 1995, 204). This ambiguity provided the Sri Lankan government the chance to wage war without facing potentially damaging rulings, as would have been the case in arbitration proceedings.

Under this backdrop, Norway's ambiguous role and lack of military and political muscle is ideal for manipulation by both sides as the parties shift from war to peace and back to war again, depending on their personal interests at a given point in time. In international mediation theory, "parties accept intervention because they, like mediators, expect it to work in favor of their interests" (Zartman and Touval 1996, 450). As in this case, these interests are often veiled by positional bargaining.

From the time Norway's facilitation started, little work has been done to address these interests of the warring parties, which are often created by suspicions and fears. These suspicions and fears were, interestingly, the very ones that led to the engagement of a small-state actor like Norway over a more powerful-state one.

Key Sri Lankan constituencies like the Sinhala South have demonstrated that they resent "give-ins" by the state. At the same time, by electing Ranil Wickremesinghe as Prime Minister in 2001, who campaigned on a platform of peace, they indicated that they are also in favor of a peaceful resolution to the conflict. Without the southern vote, governments have little chance of being re-elected.

For the past 25 years, the interests of successive governments have been to remain in power for as long as possible, to minimise or eliminate the threat of the LTTE, and therefore to ensure national security. The LTTE's interests have been to attain self-determination and to obtain international recognition for a state of Tamil Eelam by weakening the state - militarily, politically, and economically.

Yet, the LTTE and all governments have realised each time they have gone to war that they must accommodate the interests of the opposing party. But this

realisation usually vanishes as peace becomes costlier than war. Stalemates are soon replaced by the mobilisation of troops. The Norwegian facilitators/mediators could not prove that the costs of war were higher than the costs of peace, nor could they encourage the parties to engage in 'mobilisation slowing.' Mobilisation slowing can "decrease the ability of opposing forces to mobilise against each other [to] leave open alternative policy options and provide a signaling mechanism that can trigger reciprocal action, thereby building trust among opponents that mobilisation efforts have not surpassed a particular threshold of inevitable conflict" (Smith 2003).

No Mutually Hurting Stalemate in Sight

A stalemate is "when alternative, usually unilateral, means of achieving a satisfactory result are blocked and the parties feel that they are in an uncomfortable and costly predicament. At that 'ripe' moment, they seek or are amenable to proposals that offer a way out" (Zartman 2003).

No mobilisation slowing can take effect unless both parties understand that the cost of war is higher than the cost of peace, especially in the long run. For this realisation to dawn, there must be a mutually hurting stalemate.³ Only at this point do the parties genuinely pursue a negotiated settlement to the conflict. Norway could not impress upon the parties the existence of such a stalemate, which possibly may have come and gone already. If such a 'ripe moment' has indeed come and gone, then the mediator is at fault for not exploring such an option, because it is precisely at such a point that the primary parties seriously require the intervention of a non-conflicting third party. "At the point of stalemate, neither party can or will escalate the conflict further, though neither is yet able or willing to take the actions that will eventually generate an agreement" (Rubin, Pruitt, and Kim 1994, 127).

In order for a mutually hurting stalemate to take effect, four changes need to take place within the parties to the conflict. These are "failed tactics, depletion of available resources to fuel the conflict, a reduction in support of the conflict by group members or allies, or the costs becoming too high to continue" (Rubin, Pruitt, and Kim 1994, 127). In the four instances where the two sides have agreed to a ceasefire, there has been at least one or two of these changes taking place on the ground, but very seldom have *all* these factors affected the two combative parties in Sri Lanka. In 2002, when the last ceasefire was brokered, the LTTE crippled the state's economy with a devastating attack on the Colombo airport. It changed tracks in 2001, when the LTTE declared a unilateral ceasefire, potentially to negotiate from a position of relative strength over the government. Simultaneously, the LTTE suffered from alleged Deep Penetration attacks by the Sri Lanka Army. By March 2004, the LTTE's Eastern Commander 'Colonel Karuna' had defected, and the government gained the upper-hand. By 2005, the

³ A "mutually hurting stalemate" in a conflict or negotiation between two parties is defined as "the point where parties no longer feel they can use force to gain unilateral advantage and become willing to consider other options" (Zartman 2000).

government and the LTTE were engaged in a proxy war. By August 2006, the conflict had escalated to a limited war. By February 2007, the limited war was showing signs of all-out war.

Both parties used successful tactics, increased resources for conflict, increased support from allies and group members, and raised enough funds to continue fighting. Yet the Norwegians could not convince the parties of the existence of a mutually hurting stalemate. The reality is that both the government and the LTTE have traditionally considered negotiations as a means to 'buy time' until each reaches a position of strength, enabling them to end the mutually hurting stalemate.

According to William Zartman, "a mutually hurting stalemate existed, although, in some cases, it was short-lived. Yet, in all three cases, negotiations failed, because the government saw the cost as being greater than the cost of continuing conflict. That perception was mirrored by the rebellions. The mediators, who might have brought these two perceptions into harmony, were worn out by their previous failures" (Zartman 1995, 33).

Although it is not clear as to which previous failures Zartman was referring to, it is clear that Norway was and is not fully capable of bringing the parties to agreement at the cost of mutual destruction. This leaves the issue of Norway's ability to leverage open and questionable.

Does Norway Lack Leverage?

Being the second-largest exporter of crude oil in the world and a key contributor for humanitarian action and development, Norway has much to offer in terms of economic muscle. However, Norway is not a considerably prominent mediator with leverage. William Zartman and Saadia Touval have identified "five sources of leverage" a mediator could benefit from:

persuasion, the ability to portray an alternative future as more favourable than the continuing conflict...extraction, the ability to produce an attractive position from each party...termination, the ability to withdraw from the mediation...deprivation, the ability to withhold resources from one side or to shift them to the other...and gratification, the ability to add resources to the outcome (Zartman and Touval 1996, 455).

According to this theory, Norway possesses only the fifth source of leverage: gratification. Norway has failed to persuade the parties from returning to war by presenting alternatives more attractive to them than war. It has also been unable to extract positions considered attractive to either party. And yet, Norway is not in a position to withdraw. Withdrawal would leave the conflict spiraling out of hand since all communication channels would break down between the parties. Norway would also appear as a 'loser' to both internal and external actors. While this could be advantageous for spoilers as 'spoiler dynamics' could take effect, this is certainly not what Norway would wish for.

The Norwegians also do not possess sufficient powers to withhold resources from one side in order to shift them to the other, although they could gratify both parties by adding considerable resources to a final outcome. But what Norway is capable of offering the parties in terms of gratification is considerable. “The key to Norway’s success in forming useful as well as durable relationships has been that it has something to offer, and it can offer it quickly, quietly, and, if in financial or material form, unconditionally and in significant quantity. It also is able to coordinate with others” (Henrikson 2005).

However, gratification alone is not leverage and this limitation has plagued Norway’s mediation in Sri Lanka. Norway must therefore seek a possible partner with adequate leverage over the two parties. In this context, India presents itself as an obvious choice. It not only has considerable leverage over both the Sri Lanka government and the LTTE, but India also has historical associations with the LTTE in the late seventies and early eighties. The south Indian state of Tamil Nadu is where the LTTE engages in economic, political, and international relations activities. The Indian government also arguably has considerable influence over the government of Sri Lanka given its considerable economic and military strength in the region. India has trained much of the Sri Lankan military, including many Generals of the Sri Lanka Army. Although a *direct* intervention by India is ruled out,⁴ India can still provide considerable leverage through a low-level yet official role alongside the main Norwegian facilitation/mediation.

Ambiguity in Norway’s Role

Norway appears to lack clarity about its role and motives, especially at crucial times of intervention. Its role, which dangles between facilitation and mediation, has been analysed and discussed to some extent earlier, and Norwegian mediators have repeatedly claimed that they are only facilitators.⁵ Hard-line ultra-nationalist parties like the People’s Liberation Front (JVP) claim that Norway is biased towards the LTTE. In an interview, a JVP leader claimed that “there is conclusive proof that Norwegian representatives, including Eric Solheim have taken part in LTTE fund-raising events. So where’s the impartiality? The LTTE and Norway are not two, but one.”⁶ Although Norway is not required to respond to such allegations there has been no attempt to dispel these conspiracy theories. Allegations of a powerful European state actor colluding with the LTTE have raised a security dilemma (Posen 1993, 27) for the Sinhalese. The constant out-bidding and out-flanking of moderate elites in the

⁴ “The Indian State had long ago, following the assassination of its young Prime Minister, refused to interfere in the Lankan conflict. In fact, president Kumaratunge reportedly sought Prime Minister Narasimha Rao’s intervention during Eelam War III, but the latter declined reminding the Lankan leader of the unsavoury experiences of the IPKF in the past” (Rao 2000).

⁵ “The Norwegian Foreign Minister underlined that Norway was no part (sic) in the conflict, but only a facilitator for negotiations” (Solholm 2006).

⁶ Available at http://www.jvpsrilanka.com/interview/interview_with_siri_thenation.htm.

Sinhala polity has “heavily circumscribed” the Norwegian mediation (Moolakkattu 2005, 396).

It is not clear whether the Norwegians themselves are certain about their role in Sri Lanka. Some official statements suggest the mediator is more an arbitrator than otherwise. Former President Chandrika Kumaratunga in a letter to former Prime Minister Ranil Wickremesinghe observed that Norway’s role was beyond that of a facilitator. In a highly disturbing statement, Kumaratunga called Norway’s involvement “the first time in the history of post-independent Sri Lanka that a foreign government is being authorised to draw demarcation lines on the soil of Sri Lanka” (Moolakkattu 2005, 393).

Norway’s chief negotiators and heads of government are on record for this lack of clarity as well. Deputy Foreign Minister of Norway, Vidar Helgesen, who chaired six rounds of talks between the LTTE and the Sri Lankan government, clarified that he was not “entirely sure of the reason for Norway being asked to assist in the peace process” (Moolakkattu 2005, 392). Helgesen’s explanation of the role of the Norwegians seemed like intervention, but it was still unclear as to the specifics of this intervention. When asked to describe its functions, Helgesen claimed that Norway was assisting the parties to “communicate with each other, clarifying the implications of media reports for the parties and helping to bridge the gap between the positions of the parties” (Moolakkattu 2005, 387).

This unmistakable vagueness about its goals as a mediator makes Norway a suspicious third-party to the people who are mobilised by power-hungry elites. An article published by prominent investigative journalist Frederica Jansz, which received wide publicity on pro-nationalist websites, accused Norway of assisting LTTE fundraising. Jansz claims that “there are Tamils in Norway who will propagate the cause of Tamil Eelam in Sri Lanka.” The reporter was told that such work, however, needs to fall within the purview of Norwegian law. “We pride ourselves on the freedom of expression and hope, and we pride ourselves on the freedom to be able to fight within the laws of our country for causes of the individual he or she think are important,” Ambassador Jon Westborg said (Jansz 1998).

In 2002, the Norwegian Ambassador and negotiators were accused of assisting the LTTE in purchasing highly priced communications and broadcast equipment. No clear response to this was made by the Norwegians. On 3 December 2002, the University Teachers for Human Rights (UTHR) also leveled serious allegations against the Norwegians for failing to maintain impartiality by ignoring forcible recruitment of children by the LTTE.

For a country like Norway, which portrays itself as a front-runner in human rights and child rights, legitimising repression in the interests of making peace could cause enormous problems in the future. There are grave implications for the entire region. One hopes that before it is too late, Norway will see that the road to real peace lies in demanding accountability from all the actors, especially the Sri Lankan state and the LTTE, and not in strategic appeasement (UTHR 2002).

Are Civil Wars Amenable to Mediated Settlement?

Another school of thought is to question the possibility of a negotiated settlement to resolve civil wars. “[They] are the most difficult of wars to settle through negotiation. In the twentieth century, only about 15 percent of civil wars have ended through negotiation; the rest have ended through the unconditional surrender or elimination of one of the parties” (Stedman 1999, 16). Stedman’s analysis is based on five principles: civil wars entail a security dimension; they center on strong principles with difficult compromises; parties mobilise under the rhetoric of eliminating their rivals; their objectives are beyond rhetoric; and they are sustained by power-hungry elites.

A number of these principles help to explain the ongoing conflict in Sri Lanka. The conflict concerns two historically different homogeneous identities, the Tamils and the Sinhalese. As the debate over the country’s history demonstrates, it is extremely difficult to reach a compromise over the nation’s politics of ethnic identity. The LTTE, representing the Tamil cause, has explicitly defined its objective as self-determination and cessation from Sri Lanka. The Sri Lankan government, on the other hand, is determined to retain power as well as safeguard the nation’s sovereignty and territorial integrity. Both sides harbor deep-rooted feelings and antagonism for the other. However, disarmament and decommissioning of the LTTE’s armies – a pre-requisite for peaceful settlement – would place the LTTE at the mercy of the Sri Lankan Security Forces. In this respect, one must question if any actor can impress a ceasefire between the Sri Lankan government and LTTE.

Obstacles and Challenges

Military Operations, Human Rights Violations, and Breakdown in the CFA

Sri Lanka has slipped back to all-out war. What started as random assassination of security forces military intelligence operatives in 2003 has now increased to limited or full-scale military operations by both sides in the country’s northern and eastern districts. The military reversals suffered by the LTTE indicate a shift in the balance of military power, which is now in the government’s favour. This is largely due to the disbanding of former LTTE leader “Colonel” Karuna (Vinayagamorthy Muralidharan) and his cadres from the east in 2003 that have now formed the Thamil Makkal Viduthalai Puligal (TMVP). Amnesty International and Human Rights Watch have charged both sides of human rights violations. Both sides accuse each other of violating the spirit of the ceasefire agreement. The Sri Lanka Monitoring Mission, whose leadership was held by Norway for many years, has not been able to restrict this return to violence despite its many rulings and appeals.

Bala's Death and the Ultra-Nationalist Challenge

The LTTE's chief negotiator and theoretician, Anton Balasingham, passed away on 14 December 2006. He died of renal cancer and diabetes at his home in London and his death will be felt in the mediation effort. Balasingham "was a veteran of most negotiations between the LTTE and government of Sri Lanka, so he brought wide experience and expertise to the negotiating table...Balasingham's demise is going to be a gap in the LTTE's ability with regards to negotiations" (Reuters 2006).

It is not immediately clear as to who would succeed Bala, but a likely candidate is Ilanthirayan (*nom de guerre* Martial). However, whoever it is, he or she will most likely lack the leverage that Bala enjoyed over Prabhakaran. The Sri Lankan government has also lost its point of convergence.

The Marxist JVP (People's Liberation Front) offers a strong critique of Norway's mediation, which it refers to as "interference" in the country's sovereignty and territorial integrity. This stems from the JVP's deep mistrust in anything "neo-colonialist" or western. Although Norway does not have a colonial past and it is geographically detached from Western Europe, its appeal as a mediator among western powers is, for the same reasons, unappealing to the JVP.

Conclusion and Recommendations

The Norwegians have played the difficult role of peace-brokering in Sri Lanka. Mediating a protracted civil war is a serious challenge and Norway's ambiguous role as a facilitator-*cum*-mediator has not helped. This, combined with its lack of capacity to leverage and its inability to get to the interests of the parties, have made Norway's mediation efforts lengthier and less effective. To its credit, Norway has concealed and also managed its weariness. It has won respect from the international community for its unfaltering and uninterrupted engagement in the Sri Lankan conflict despite many challenges.

Norway's approach has been more facilitation than mediation, and yet, at times, it has donned the functions of a negotiator and/or an arbiter. It has also put its international reputation for problem-solving to good use. Most importantly, Norway has won the respect of India. The regional power's involvement in the conflict and the possibilities of Indian support for the Norwegian facilitation has been under-explored. At least in terms of obtaining leverage over parties, India could be a crucial ally. Since protracted conflicts require protracted solutions, Norway could look more towards a long-term mediation/facilitation in Sri Lanka by entering into crucial partnerships with regional and global powers and organisations. This would provide credibility and ensure greater commitment from the two parties to a negotiated solution. In the meantime, Norway must improve its public image and review the successes and failures of its actions.

Norway must review the applicability of niche diplomacy in the furtherance of the country's national identity and interests. A great deal of animosity leveled against Norway in Sri Lanka is due to the ambiguity of its role. If Norway wishes to remain a facilitator, the limited responsibilities and limitations of its role must be communicated to stakeholders and spoilers alike. The facilitation process must be transparent. It should also be an all-inclusive process. On the other hand, if it wishes to become a mediator, it must then seek greater leverage over the parties.

Norway must ensure that the government of Sri Lanka and the LTTE respect the original spirit in which both sides invited Norwegian facilitation of the conflict resolution. The expectations placed on Norway's mediation are far greater than the actual leverage available to the facilitator. The implied or misconceived notion that it is the sole responsibility of Norway to resolve the conflict is disadvantageous to the mediator. The two main parties to the conflict must accept greater responsibility for their failure to reach a negotiated settlement.

Norway must effectively eliminate the security dilemma faced by the Sinhalese, Tamils, and Muslims. This requires greater emphasis on mobilisation slowing and confidence-building measures. Norway, along with other friendly countries, must limit the space available for political out-bidding and out-flanking of moderate elites in domestic politics. Appropriate rewards and sanctions must be made available for the elites seeking to mobilise the masses on the ethnic question in Sri Lanka. Moderate elites who attempt to make significant changes towards peace in democratic states must be rewarded since they risk losing popular support due to political out-bidding and out-flanking (de Figueiredo and Weingast 1999, 261).

The Norwegians must also be prepared to face the reality of prolonged mediation in the conflict. The LTTE's struggle in Sri Lanka has exceeded the goal of attaining mere minority rights and is fringing on separation. Political jargon used for ethnic conflict resolution such as power-sharing, self-determination, or decentralisation of power is not a concrete solution towards ending ethnic conflicts.

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SOCIAL SECURITY FOR SINGLE-PARENT FAMILIES IN SINGAPORE: USING A SOCIAL INVESTMENT STRATEGY TO SOLVE THE MORAL HAZARD DILEMMA

Wee Ming Ting

This paper highlights the dilemma faced by the Singapore government regarding social security for single-parent families. Evidence indicates that the number of single-parent families in Singapore will increase in the near future and that current remedial policies are woefully inadequate to address this issue. Ignoring the magnitude of this issue and pursuing current policy will have dire social consequences, affecting the opportunities of children in such families. On the other hand, a specific social security policy for single parents may create a moral hazard that encourages welfare dependency and the growth of “undesired” alternative households resulting from divorces and pregnancy out of wedlock. Moreover, the government is also concerned about the erosion of “Asian values” and the “family foundation of nationhood,” as expressed by Minister Mentor Lee Kuan Yew, under such targeted policies. These contradictory forces present a policy “dilemma” for the government of Singapore.

This paper proposes the adoption of a universal social investment strategy to solve Singapore’s dilemma, comprising of employment-activation, women-friendly, child-centred, and income assurance policies. It suggests both short-term and long-term measures in order to make social assistance programs non-discriminatory, and to allow greater program access for single-parent families in poverty. It also highlights ways in which both single-parent and two-parent families can benefit from the strategy.

Finally, this paper evaluates why this new policy package can expect to generate popular support as well as improve the chances of policy adoption. It is preventive, rather than remedial, and can generate better long-term outcomes. In addition, social investment has the added advantage of improving social justice and complementing other government efforts in pro-natal policies, elderly care, and nation-building.

Introduction

Single-parent families are not specifically targeted by social security policies in Singapore. When poverty-stricken, these families have to compete with other vulnerable groups for means-tested social assistance. Even then, some

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assistance programs have eligibility conditions that disqualify such families. In many aspects of public policy and discourse, single-parent families are looked upon as undesirable alternative household entities that are to be discouraged and are thus excluded from some social services that are available to “normal” two-parent families (Wong et al. 2004; Orloff 2002).

The position of the Singapore government is premised on the belief that specific social security programs for single-parent families will create moral hazard that encourages welfare dependency as well as the growth of undesired alternative households resulting from divorces and pregnancy out of wedlock. These not only undermine its “Asian values” and erode “the family foundation of nationhood” (Wong et al. 2004), but also drain state resources. The lack of popular support for such designated programs also raises questions of social legitimacy and political viability (Van Oorschot 2002).

However, the government also realises that the number of these family structures is on the rise. They are also increasingly vulnerable to poverty. If the government fails to assist single parents, there would potentially be dire social consequences that would affect the opportunities of their children. In response to these challenges, this paper proposes the adoption of a package of social investment programs. It places emphasis on the economic consequences and impacts on children, and suggests making social assistance programs non-discriminatory to benefit both single-parent and two-parent families in Singapore.

In considering appropriate policy solutions, the paper draws on the experience of the UK, USA, and Canada. These countries are chosen as examples as they have similar ideologies of governance, and/or records of success (Rose 2001, 7). Lessons drawn from these countries’ residual welfare regimes and flexible labour markets are most useful for the Singapore case.

The paper briefly outlines the major components of a social investment strategy as a solution to Singapore’s problem. Such a program includes employment-activation, women-friendly, child-centred, and income assurance social policies. Finally, it concludes with an evaluation of why this strategy can be expected to generate greater popular support, which would improve the chances of policy adoption. A preventive approach is recommended over a remedial one to generate better long-term outcomes. It also has the added advantage of improving social justice and complements the government’s other pro-natal, elderly care, and nation-building policies.

Existing Policies for Single-Parent Families

Singapore’s social policies have the characteristics of a liberal welfare regime (Esping-Andersen 2002c; Arts and Gelissen 2002) while simultaneously espousing strong “Asian values” (Croissant 2004). Its liberal ideology promotes private welfare provision through market mechanisms, limiting the government’s role to provide for the demonstrably needy. Its Asian, or Confucian, values place emphasis on traditional family structures and self-reliance (Wong et al. 2004). In both cases, there is a low degree of

decommodification of social services (Arts and Gelissen 2002, 141). Under this system, society's overall good generally takes precedence over individual rights.

Also, single-parent families in Singapore are not accorded the same social status as dual-parent families. Similar to what Orloff (2002, 71) depicted for many other countries, they are not considered as autonomous households in the government discourse and are excluded from the same social rights and privileges available to dual-parent families. For example, public housing applicants in Singapore must be a proper "family nucleus" – comprised of a married couple - in order to be eligible for a government-subsidised apartment. This excludes unmarried single-parent families by default and has significantly disadvantaged such families in a country where over 85 percent of the population lives in subsidised public apartments (Wong et al. 2004). Another example is the pro-natal Baby Bonus, a government cash grant for newborns of married couples, for subsequent use towards childcare purposes. Disadvantages are also found in tax policies. For instance, tax relief granted to married parents to employ domestic maids is unavailable to single-parent households. Thus, instead of being helped, single-parent families are often discriminated or disadvantaged by government policies.

Most notably, single-parent families living in relative poverty are not specifically targeted by any state assistance program in Singapore. Assistance programs that *are* designated for them are deliberately designed to influence behaviour and promote the government's model of normal families (Sainsbury 1999; McKay and Rowlingson 1999). Public discourse defines a "normal" family as a married dual-parent family. It is viewed as an important part of Singapore's Asian values, crucial for securing the long-term stability and prosperity of the nation (Wong et al. 2004). Divorcees and unwed mothers are viewed as blemishes in achieving the ideal of the family as the foundation of the nation.

Although some state assistance schemes do exist in Singapore, assistance for single-parent families is often limited because of competition with other vulnerable groups and their exclusions from other programs. State assistance is usually targeted at poverty alleviation in general. Single-parent families in poverty must therefore compete with other vulnerable groups, such as the needy, elderly, and disabled, for means-tested public assistance that is available on a case-by-case basis.¹ ComCare-funded subsistence grants provide for people with disabilities or severe illnesses; childcare grants address the developmental needs of poor families' children; and work assistance programs encourage self-reliance. Other public assistance programs, such as Home Ownership Plus Education (HOPE), are only available to married-couple or widowed families and thus exclude divorced and unwed families.

¹ See the Community Development Council for more information: <http://www.cdc.org.sg>.

Singapore's Policy Dilemma

The key issue at stake in light of Singapore's values regarding social security is how to respond to a projected rise in single-parent families in the future. Recent population census data show the number of single-parent families increased from 13,000 to 18,000 households between 1990 and 2000. In addition, the "State of the Families" report (MCYS 2004) highlights that the number of divorces per year increased from 3,150 in 1999 to 6,293 in 2003. General divorce rates, while low compared to other developed nations, have also increased from 3.8 to 8 per thousand marriages over the same period. In 2003 alone, 5,900 children under the age of 18 witnessed their parents' divorces. A survey of younger cohorts also exhibited less stigma associated with having children out of wedlock.

Single-parent households are generally at a higher risk of poverty than two-parent households. A survey of 20 countries confirms this belief even after factoring in social security benefits and direct taxation (Bradshaw and Chen 1997). This risk is higher in liberal welfare countries such as the UK, USA, and Canada. Indeed, their experience demonstrates that poverty among single mothers is likely to be more persistent than the national average (Esping-Andersen 2002a, 36). Data for Singapore in 1990 illustrated that about half of single-parent households earned less than 50 percent of the national average monthly household income (Wong et al. 2004, 47).

The scenario is more troubling when intergenerational dynamics are considered, i.e., the effect of such limited social assistance upon the children from such families. Esping-Andersen (2002a) illustrates how opportunities in later life are rooted in social inheritance. Childhood poverty negatively affects cultural, social and cognitive-capital development, influencing a child's later years. A high probability of poverty being passed from parent to child creates an intergenerational poverty trap. Moreover, the failure to develop human capital to its full potential may seriously impede Singapore's development in the new knowledge economy, a sector that it increasingly relies upon. Therefore, it is not simply a question of higher social security costs but the opportunity costs for ignoring the issue.

On the other hand, the government has a valid concern about having specific programs for single-parent families. Similar to what Sainsbury (1999, 44) described for the UK, the Singapore government is reluctant to create moral hazard and dependency culture surrounding welfare. In his 2005 National Day Rally speech, Prime Minister Lee Hsien Loong commented that Singapore's basic approach in social security is to "go for workfare, not welfare." Specific targeting of single-parent families might encourage other vulnerable groups to demand similar welfare treatment. The high associated welfare expenditure will be a drain on state resources.

The government is also afraid that its Asian values, focusing on strong familial ties, may be eroded. Hamilton (2002) points out that social security policy highlights both desirable and undesirable social behaviour. Experiences from other countries, such as the UK and USA, show that financial incentives in favour of single parents may potentially discourage marriage and even encourage couples to separate (Brewer 2001, 68; McKay

and Rowlingson 1999, 16). The Singapore government believes that these “alternative” households resulting from divorces and pregnancy out of wedlock can erode the “family foundation of nationhood” and should be discouraged (Wong et al. 2004).

That social security policies are by their very nature political (Sainsbury 1999, 35) makes social legitimacy particularly important (Van Oorschot 2002). Singaporean society still embraces traditional Asian notions of family-centredness. Targeted policies for single-parent families can be expected to receive and generate low popular support and make the political-economy of their implementation difficult. Consequently, the Singapore government faces the dilemma of not being able to use targeted policies to address a specific, and potentially large, social issue. At the same time, the status quo is also not an option. The current remedial strategy, with reliance upon social assistance and family support networks, is clearly inadequate (Esping-Andersen 2002a).

Towards a “Non-Discriminatory” Social Investment Strategy

In resolving the policy challenge faced by the government, a two-pronged strategy is necessary. First, it requires the introduction of universal social investment programs that will benefit *both* single-parent and two-parent families. Second, it must include complementary policies of employment activation, child-centred, women-friendly, and income assurance.

The greatest challenge, however, is the elimination of intentional or unintentional discrimination against single-parent families under prevailing social assistance programs, due to social perception issues. Single-parent families are still viewed as “undesirable” within Singapore’s societal norms. This must be addressed, and long-term policies should create an environment of understanding and support for children from such families. This needs to replace Singapore’s previous preoccupation with upholding “normal family” structures. This is not to undermine the foundation of traditional families, nor to overly support single-parent families, but to allow all members of society equal opportunity for growth and prosperity. While public education can be shaped through government discourse, some funding will be required for private education and research. Similarly, while it will take time for general public acceptance to be achieved, the government must take action now. Only then will society’s perceptions change and broader support for future programs be achievable.

In the short-term, however, policymakers can make a more conscious effort to design programs that are inclusive of single-parent families. Social and tax policies can be ‘individualised’ rather than constructed in family-terms (Kvist 2002, 203). For example, Workfare Bonus’ current means-testing are structured around family income rather than individual income. This automatically excludes single-parent families since they are not “legitimate” families under the government’s definition. Eligibility criteria for other programs can also be modified. For example, the Baby Bonus scheme can be based on the age and eligibility of the child rather than the parent’s status. Safeguards limiting the number of children eligible for this scheme under an unmarried parent could then prevent abuse of the system. Five explicit

examples are described below.

Employment Activation and Skills Development. Lifelong learning and upgrading of skills is necessary to improve the quality and stability of employment. Lone mothers are likely to be occupied in part-time and low-wage jobs (Esping-Andersen 2002a). Such “low-quality” employment provides limited scope for skills development and is more vulnerable to redundancy in times of economic restructuring or downturn (Gallie 2002). In Singapore, the Skills Development Fund (SDF) subsidises employers substantially to engage their employees in job relevant training. Single parents generally have access to these development programs because the eligibility criteria are solely based on whether participants are employed. As a whole, the help rendered by employment activation programs in Singapore is able to reach single-parent families. Nor is this surprising given “workfare” is the major focus of Singaporean social security policies.

However, the most decisive factor for alleviating poverty of single-parent families is the parent’s employment (Esping-Andersen 2002a, 36). Studies done by Morris et al. (2001) and Hamilton (2002) on American single-parent families show that providing employment services do help these families to find employment. Singapore has put in place employment services under the Work Assistance Program (WAP) for the unemployed to retrain and find jobs, though not specifically for single-parent families. If the eligibility criterion is specifically the “unemployed” and not based on a rigid definition of “family,” single parents can be expected to benefit from established employment services programs.

Child-Care Policies. Affordable and quality childcare service should be made accessible to single-parent families. The time obligations of single-parents, especially single mothers, can be supported through childcare subsidies to ensure that they will be able to take up employment (Orloff 2002; Hamilton 2002; Kvist 2002). This is especially the case in Singapore where self-reliance is emphasised and lone parents are expected to work and support their own families (Wong et al. 2004). Within Singapore’s social security structure, lone mothers are treated more as “workers” than as “mothers”. Even within two-parent families, mothers are increasingly required to work since single-earner families are unable to bring home the same benefits to themselves and their children with the prevailing standards of living in Singapore (Bradshaw 1999; Gallie 2002). This implies that such childcare subsidies will also benefit two-parent families by enabling mothers in low-income families to seek employment.

Unaffordable childcare can also be a serious poverty trap (Esping-Andersen 2002a). If childcare service is too expensive, women with low education and low-income will not be able to afford them and may stay unemployed. This may trap the families in poverty especially since social security systems in Singapore rely heavily on employment activation policies and have few transfer elements. Hence, childcare services have to be made affordable, both in terms of timing and cost, so that low-income parents are empowered to do well in their employment.

Esping-Andersen (2002a, 62) made a strong argument for universal childcare

services subsidies. First, it is pro-natal since it reduces the penalties incurred by mothers for interrupting their career to have children. Second, female labour, whether from two-parent or single-parent families, needs to be fully tapped into in order to maximise Singapore's economic growth and prosperity. Third, with the help of childcare services, "undisrupted" women employment will generate higher lifetime earnings and hence higher tax receipts. These receipts can co-finance the subsidy provided. Fourth, making quality childcare available from an early stage enables children to achieve higher cognitive abilities and education outcomes (Patel et al. 2002, 7).

In Singapore, childcare services are mainly provided through private companies and religious organisations. The PAP Foundation, a foundation under the ruling political party, also operates affordable kindergarten services at moderate prices. However, while the cost of childcare services is kept affordable, the timing is still inflexible and may restrict employment choices for mothers engaged in the workforce. To resolve this, the Singapore government can highlight the need for more flexible-timing childcare services and encourage private operators to meet this demand through market forces. Should the market continue to be unable to optimally supply this service, the government could then consider providing incentives through direct subsidies or tax relief for childcare operators to do so. Singapore's Baby Bonus scheme, discussed earlier, is another scheme that can be aligned with childcare services. However, the eligibility criteria of the scheme should be relaxed and based on children rather than family type. Only then will the children of divorced and unwed parents not be excluded.

Women-Friendly Policies. Besides affordable childcare services, paid maternity-leave and provision for work absenteeism during a children's illness can help harmonise incentives for female participation in the workforce and motherhood (Esping-Andersen 2002b). While the private sector may provide some exceptions, these benefits have usually been more of a privilege rather than an entitlement. The negative perception and "illegitimate" status bestowed upon single parents within Singapore render maternity-leave (and related childcare leave) unavailable to single parents. Furthermore, if employers were required to bear the entire cost of interruptions such as maternity leave, an inevitable gender bias will arise in recruitment and promotion (Esping-Andersen 2002b).

Women-friendly policies do help single-parent families albeit sometimes indirectly. The Singapore government recently took a step towards subsidising a portion of paid maternity leave. This targets improving of the position of women workers, including single parents. Investment in women enhances not only the relative position of women in the workforce, but also the conditions of children (Orloff 2002, 83). Even modest allowances for mothers are effective in channelling resources to children. Morris et al. (2001) showed that increased earnings to low-income mothers in US welfare-to-work programs resulted in improved school achievement for their children. Thus, policies targeting low-income mothers, without discrimination based on family type, can be helpful to lone parent families.

Income Assurance. While promoting the employment of single parents is effective in ensuring stability and healthy development of the children, it may

not be sufficient. Morris et al. (2001, 63-64) and Esping-Andersen (2002a) emphasise the need to combine it with income guarantees or earning-supplements. Families with only one income earner can still be in poverty, even if they work (Gallie 2002). Furthermore, evidence from the US shows that single-parent families in welfare-to-work programs did not have an increase in total family resources even with the new employment (Hamilton 2002; Morris et al. 2001). A similar study should also be conducted in Singapore to determine if the government needs to do more to ensure sufficient income for single-parent families.

Nevertheless, employment-pay is an important element of any workfare program. It enables the consideration of tax credit policies, such as US' Earned Income Tax Credit (EITC) and UK's Working Families Tax Credit (WFTC) (Brewer 2001), to encourage work and affect household incomes. Another method is through direct in-work cash benefits. The Singapore government recently proposed a new Workfare Bonus Scheme to supplement the earnings of low-income workers (Ministerial Committee 2006). Were the scheme to be made permanent and based on individual income, single-parent families could benefit from it too.

A Viable Social Policy Solution

Social investment strategies can be evaluated according to a range of criteria. These include their impact on long-term social outcomes and social justice, as well as the likelihood of its adoption and complementarity with other government policies. Based on this criterion, the proposed strategy is considered as a viable solution and the risks of moral hazard dilemma and single-parent family problem could be acceptable.

The social investment strategy is preventive rather than remedial and enhances social justice. Heckman and Lochner argue that remedial policies for adults are limited in effectiveness and costly substitutes vis-à-vis preventive interventions at childhood (cited in Esping-Andersen 2002a, 49). While social investments in women and children may be expensive at the current point in time, they form the basis for solving social exclusion problems of tomorrow. Improved human capital also provides single-parent families a better chance to break out of the vicious cycle of poverty. It helps to reduce the disadvantages experienced by single-parent families and establishes preconditions for future opportunities that are more equal for all (Esping-Andersen 2002a, 31). It thus reinforces their families' life chances for success and improves social justice and solidarity. Future returns of reduced social security expenditures and improved human capital thus compensate for current costs.

These in turn complement other government policies. Child-centred and women-friendly policies ease pressure on families by harmonising employment and motherhood. Poor care services have traditionally been associated with low fertility (Orloff 2002, 79). Hence, by providing much needed support to working mothers, it enhances pro-natal policies. By improving the life chances of children of single-parent families, it also tackles the potential problem of future poverty and increases childrens' abilities to

care for their parents. Therefore, social investment strategy can reduce the probability of intergenerational poverty and enhance the family values the Singapore government is keen to preserve. Furthermore, the universality of the social investment programs has the potential to improve social solidarity and will boost Singapore's effort to build a stronger national identity.

Such policies will also improve the likelihood of social legitimacy and successful implementation. Van Oorschot (2002, 48) found that the "comprehensive nature seems to have generated its own legitimacy" for Dutch welfare programs. Arts and Gelissen (2002, 155) also cited that social policy characterised by universalism would generate stronger popular support. The recommended social investments benefit both two-parent families and single-parent families and are thus likely to find better popular support than targeted policies that apply only to single-parents. With better popular support, they will thus have a higher degree of political viability in Singapore.

Conclusion

Help for single-parent families in Singapore is currently restricted to social assistance programs. Even within these programs, they have to face competition from other vulnerable groups. Their predicament is rooted in the government's view of single-parent families as undesired alternative households. Such policies were developed by the government to mitigate the moral hazard risk arising from perverse incentives to draw upon public social security and welfare dependency. They also reflected the government's preference to avoid the proliferation of "undesired" alternative household structures. These values have, over time, become inculcated in society and are now reflected in peoples' attitudes and the social illegitimacy of designated programs for single-parent families. Yet, the government understands that single-parent families are highly at risk and signs show that their number is increasing and will continue to do so. The current remedial policies, relying only on social assistance, will not be able to cope with the impending social challenge.

This paper proposes the adoption of a social investment strategy and the ultimate removal of discrimination in social assistance programs as part of the solution. Employment activation and investment in lifelong learning is the most important tool to alleviate poverty of single parents. Investment in child-centred policies opens up opportunities for such parents to take up employment and improves the cognitive abilities and education attainment of children. Investment in women-friendly policies enhances the position of single mothers in the job market. Supplementing the earnings of low-income workers through Workfare will "make work pay" for single-parent families. The design of some social and tax policies can also be individualised and made non-discriminatory towards such families. Public education that emphasises understanding will help to remove longer-term discrimination. The social investment strategy is deliberately universal so that both two-parent and single-parent families will benefit from it. This helps to ensure that a better chance of the policy being adopted and the program's ultimate success in achieving better long-term social outcomes. It is also a preventive

strategy rather than a remedial one, and is therefore more effective. The strategy has the added advantages of enhancing social justice and complementing government's elderly care, pro-family, pro-natal, and nation-building efforts.

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ENTERPRISE LICENSING, BRIBERY, AND THE TRAGEDY OF THE ANTI-COMMONS: THE CASE OF CHINA*

Ying Qianwei and Zhang Guangnan

This paper shows that the “multi-bureaucrats” enterprise licensing regime in China may easily lead to the tragedy of the anti-commons and encourage bribery to be a second-best choice for society. To achieve both higher economic efficiency and lower corruption, the current enterprise licensing regime must be reformed. This must be done by reducing the extent of fragmentation of licensing rights while simultaneously improving the transparency of information. Pure anti-corruption measures under highly fragmented licensing rights, or pure reduction in the extent of fragmentation of licensing rights without information transparency, may both hurt economic efficiency, albeit counter-intuitively.

Introduction

As a developing country in the process of transition, China has inherited a complicated bureaucratic system of regulation from its past as a centralised planned economy. For several decades (which continues on today), almost all areas of business have been more or less under tight regulation. Routine enterprise licensing procedures involved multiple sign-offs and approvals, each with an independent right to reject any application. It is not an exaggeration that entrepreneurs have spent months, or even years, to obtain the necessary approvals to start their investment projects.

Bribery and corruption are increasingly prevalent in China’s enterprise licensing procedures. This has been the subject of countless articles and discussions to date. However, most are a verbal description and lack substantive theoretical bases. Few articles build a formal theoretical model and, even then, tend to focus on the problem of corruption in the licensing procedure rather than the *procedure* itself (see Manion 1996a; Manion 1998b; Yavas 1998; Yang 2005; Lambert-Mogiliansky et al. 2007).

The problem of “multi-bureaucratic” enterprise licensing has not been analysed with strong theoretical support or proof. Are multi-bureaucratic

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** This paper has been made possible through financial support from the China Scholarship Council.*

enterprise licensing regimes without corruption *necessarily* more efficient than ones with corruption? Is corruption the underlying source of the problem in application delays and rejections, or is it an optimal second-best solution? How can the enterprise licensing regime be reformed to improve social efficiency? The existing literature on enterprise licensing has not provided satisfactory answers to any of these questions.

The recent theory of the anti-commons, first introduced by Heller (1998a; 1999b), is a suitable tool to provide more insight into the inherent problem of a multi-bureaucratic enterprise licensing regime. The “tragedy of the anti-commons” is a mirror-image of the well known “tragedy of the commons.” When multiple individuals are endowed with the privilege to use a given resource without an effective way to monitor and constrain each other’s use, the resource is vulnerable to overuse: a problem known as the tragedy of the commons (Hardin 1968). Conversely, when multiple owners hold rights to exclude others from a scarce resource and no one exercises an effective privilege to use it, the resource might be prone to under-use: a problem known as the tragedy of the anti-commons (Heller 1998a).

In mirroring the model of the commons, Buchanan and Yoon (2000) built up the first formal economic model of the anti-commons. In developing a more general model, Schultz, Parisi and Depoorter (2003) suggest that the results of underutilisation of joint property increase monotonically with the extent of fragmentation, as do the foregone synergies and complementarities between the property fragments. Other papers have applied the anti-commons theory to patents (Heller and Eisenberg 1998), intellectual property rights (Murray and Stern 2005), and cyberspace (Hunter 2003). Stewart and Bjornstad (2002) conducted experimental investigation into the forecasting of the tragedy of the anti-commons.

This paper discusses the case when the victims of the anti-commons (i.e., enterprises) may interact and bargain with their excluding agents (i.e., licensing bureaucrats). It goes beyond earlier models that have focused on the interactive relationship among excluding agents and neglected the strategic behaviour of the victims of the anti-commons. In addition, it will consider cases of incomplete information where both the enterprise and the licensing bureaucrats are unsure of each other’s reservation price. This is in contrast to the existing research that is premised on an axiom of perfect information. A thorough analysis of the negative effects of corruption is beyond the scope of this paper.

We find that China’s multi-bureaucratic enterprise licensing regime is a second-best choice in order for society to meet the interests of both the entrepreneur and the bureaucrats. To achieve higher economic efficiency and lower corruption, policymakers should reduce the extent of fragmentation of licensing rights while simultaneously improving transparency.

The Basic Model: No Corruption

Proposition 1: Under a multi-bureaucratic enterprise licensing procedure, if each bureaucrat can only get a fixed share of the licensing fee without bribes, then the

fragmentation of licensing rights will lead to a tragedy of the anti-commons. There exists only one Nash Equilibrium and all bureaucrats will choose to veto the project. This is especially the case when licensing rights are exercised separately by three or more bureaucrats.

Assume an entrepreneur has an investment project with a discounted present value, V , and no externalities. Under a multi-bureaucratic enterprise licensing regime, the entrepreneur must apply to a “track” of bureaucrats and get approvals from each of them in order to start a project. Suppose there are M bureaucrats in the whole licensing procedure and each one has an independent right to veto the project. Similar to Shleifer and Vishny (1993), we assume that the objective of each bureaucrat is to maximise his/her profit from the licensing process.¹

There are two different modes for licensing bureaucrats to obtain a profit. Under the first mode, without any corruption, each bureaucrat receives a fixed proportion of the licensing fee. For simplicity, each bureaucrat is entitled to an identical share of the total licensing fee from the project. In the second, with corruption, each bureaucrat may receive an additional bribe through negotiation with the entrepreneur. To get the project approved, the entrepreneur must establish a network of “guanxi,” that is s/he must offer a bribe to each bureaucrat in the track.

However, while discussing licensing costs, bureaucrats usually bear a larger workload and higher screening costs to approve, rather than “veto” a project. The model normalises bureaucrat i 's cost of exercising veto power to be zero, and assumes the relative approval cost to be W_i , which is strictly positive, i.e., $W_i > 0$. Thus, when bureaucrat i chooses to approve the project, his/her profit function is:

$$P_i = tF(x)/M - W_i$$

where, t represents the total licensing fee, $0 < t < 1$; $F(x)$ is:

$$F(x) = \begin{cases} V & , \text{ if all } x_j = 1 \\ 0 & , \text{ otherwise;} \end{cases}$$

The binary variable x_j is bureaucrat j 's strategy, where $x_j = 1$ implies that bureaucrat j approves the project and $x_j = 0$ signifies that bureaucrat j vetoes the project. If bureaucrat j exercises his/her veto power, then his/her profit function is $P_j = 0$.

To examine the effect of fragmentation in licensing approval, we assume that the total approval costs remain the same regardless of the number of bureaucrats, i.e., $\sum_{i=1}^M W_i = W$. Subsequently, if the licensing right is totally controlled by one bureaucrat, then the project will be approved under the condition,

$$tV > W \tag{1}$$

¹ Shleifer and Vishny (1993) assume that the objective function of bureaucratic agents or agencies is to maximize the benefit from providing government goods.

In other words, the product of the total licensing fee and the discounted present value of the investment project must be greater than the approval cost.

If the licensing right is held by two bureaucrats, or fragmented, then the payoff matrix is as follows:

		Bureaucrat 2	
		Approve	Veto
Bureaucrat 1	Approve	$tV/2 - W_1, tV/2 - W_2$	$-W_1, 0$
	Veto	$0, -W_2$	$0, 0$

In this situation both bureaucrats will approve the project, i.e. $(x_1, x_2) = (1,1)$, and it will be a Nash Equilibrium if and only if,

$$\begin{aligned}
 &tV/2 - W_1 \geq 0 \text{ and } tV/2 - W_2 \geq 0 \\
 &\text{i.e., } tV > 2, \max \{W_1, W_2\}
 \end{aligned}
 \tag{2}$$

Compared with (1), inequality (2) is harder to satisfy,

$$\sum_{i=1}^2 W_i = W, W_1 \neq W_2$$

Another pure strategy Nash equilibrium exists in which both bureaucrats veto the project, i.e., $(x_1, x_2) = (0, 0)$. Even if inequality (2) is satisfied, it is hard to tell which equilibrium would actually occur. Thus, when licensing rights are fragmented, it will be more difficult for the project to be approved even when the total expected approval costs are kept the same, leading to the tragedy of the anti-commons.

If the licensing right is even more fragmented, held by three or more bureaucrats, $M \geq 3$, we can prove that there is only one perfect Nash equilibrium; all bureaucrats will veto the project.² Moreover, that all bureaucrats approve the project, i.e., $(x_1, x_2, x_3, \dots) = (1,1,1, \dots)$, is even more unlikely because it must fulfill the condition:

$$tV > M \max \{W_i, i = 1, \dots, M\}
 \tag{3}$$

Similar to the discussion regarding the case of two bureaucrats, condition (3) is much stricter than the condition under the case of one “integrated” bureaucrat, condition (1), even if the total expected approval costs remain the same, i.e., $\sum_{i=1}^M W_i = W$.

Our results confirm the first proposition and reiterate the results of previous studies. Even where each bureaucrat gets a fixed share of the licensing fee without any bribes, fragmentation of excluding rights can lead to the tragedy

² See the proof in the Appendix I.

of the anti-commons (Heller 1998; Buchanan and Yoon 2000; Schultz, Parisi and Depoorter 2003). A socially efficient outcome would be to approve all investment projects with a value $V \geq W$ at probability 1. However, under fragmented licensing approval, even if the government can impose a 100 percent licensing fee on the entrepreneur, i.e., the total licensing fee is as high as the project value V , the project might still be rejected, causing deadweight efficiency loss.

In this situation, the policy response could be one of three options to mitigate or prevent the tragedy of the anti-commons; first, to decrease the extent of fragmentation of licensing rights; second, to reduce the approval cost relative to veto cost; third, to increase the veto cost relative to approval cost.

Symmetric Bargaining Model: Corruption Under Complete Information

The previous section illustrated that a multi-bureaucratic enterprise licensing regime can easily lead to the tragedy of the anti-commons even if each bureaucrat only gets a fixed licensing fee. However, it is commonly seen that bureaucrats receive an “implicit income” or bribes from entrepreneurs to facilitate the licensing process. According to an official report, 17,084 cases of commercial bribe worth a total of 4.5 billion RMB were detected between August 2005 and December 2006. The inclusion of undiscovered cases could increase this estimate much further. The following model might contribute to the discussion on the causes and consequences of these commercial bribes.

Proposition 2: If the entrepreneur can bribe each bureaucrat by negotiation under complete information, then the extent of fragmentation of licensing rights will not lead to the tragedy of the anti-commons or net loss of economic efficiency. It will, however, influence the distribution of total economic surplus between the entrepreneur and the bureaucrats. A higher degree of fragmentation will lead to a lower share for the entrepreneur, but higher bribes to bureaucrats.

Now suppose that the entrepreneur can bargain with each bureaucrat in the track to fix the price of each individual bribe. Assuming that the reservation prices of both the bureaucrats and the entrepreneur are public information for all participants in the deal, then, in entering the approval process the entrepreneur makes a commitment to each bureaucrat to pay. If the project is finally approved by the whole track of bureaucrats, the entrepreneur must pay each bureaucrat the full bribe that he committed to. It is also assumed that there are no costs associated with the time to negotiate with the track of bureaucrats.

However, if the project is rejected by any one of the bureaucrats, then the entrepreneur pays nothing and the game ends. Thus, each bureaucrat has to take the asking prices of other bureaucrats into consideration when he/she is bargaining with the entrepreneur independently. Furthermore, assume that all the other bureaucrats know the entrepreneur’s commitment to each bureaucrat. For simplicity, we further assume that each bureaucrat has the same bargaining power, β , where $0 < \beta < 1$. We also do not consider the transaction delay costs, but assume that both the entrepreneur and the

bureaucrats are patient enough to push the project through.

Following the above assumptions, the entrepreneur's commitment to each bureaucrat must satisfy the following equation system:

$$P_i = W_i + \beta(V - \sum_{j=1}^M P_j - W_i), \text{ for } \forall_i \quad (4)$$

As there are M equations and M unknown variables in the equation group (4), only one solution exists:³

$$P_i = [\beta(V - \sum W_i)] / [1 + \beta(M - 1)] + W_i, M \geq 2 \quad (5)$$

The sum of equation (5) or the total promised bribes to all bureaucrats can be represented as:

$$\sum P_i = [\beta MV + (1 - \beta)\sum W_i] / [1 + \beta(M - 1)] \quad (6)$$

The project will be approved and the entrepreneur realises his/her commitments where,

$$V \geq \sum P_i \quad (7)$$

Substituting equation (6) into (7), we get,

$$[(1 - \beta)(V - \sum W_i)] / [1 + \beta(M - 1)] \quad (8)$$

And, since $0 < \beta < 1$ and $M \geq 2$, condition (8) holds true if and only if

$$V - \sum W_i \geq 0 \quad (9)$$

Equation (9) shows that if an entrepreneur can negotiate with each bureaucrat under complete information, and with no cost for delay, then all the projects with the value $V \geq \sum W_i$ will be approved. This is socially efficient regardless of the extent of fragmentation of licensing approval. The fragmentation serves to redistribute the total surplus among the entrepreneur and the bureaucrats. If the M bureaucrats are combined into one, while keeping the total expected approval cost the same as $\sum W_i$, then the entrepreneur's bribe to the integrated bureaucrat would be:

$$P = \sum W_i + \beta(V - \sum W_i) \quad (10)$$

Subtracting equation (6) from equation (10) yields:

$$\sum P_i - P = [\beta(1 - \beta)(M - 1)(V - \sum W_i)] / [1 + \beta(M - 1)] > 0 \quad (11)$$

From equation (11), we can see that when the licensing rights are fragmented, the bureaucrats gain a larger share of the total surplus, while the entrepreneur obtains less compared to the case when the bureaucrats are combined into

³ See Appendix II for details.

one. Besides, the larger the value of M , the larger is the value of $\sum P_i - P$, which means the larger is the share that the bureaucrats obtain. From equation (6) particularly, we know that if $M \rightarrow \infty$, then $\sum P \rightarrow V$, which means that the bureaucrats tend to receive all the surplus if the number of bureaucrats is extremely large.

Proposition 2 implies that the degree of fragmentation of excluding rights will not necessarily lead to the tragedy of the anti-commons if the user of the anti-commons can negotiate with every agency holding veto rights. This result differs from the conclusion of earlier research (Heller 1998; Buchanan and Yoon 2000; Schultz, Parisi and Depoorter 2003). The main reason for this divergence is that the existing literature considered the strategic interactions among excluding agencies (e.g., bureaucrats) but neglected the strategic role of the user of the anti-commons (e.g., entrepreneurs). It does, however, support Leff (1964) on the point that corruption can increase efficiency in some situations.

It must be kept in mind that the above discussion does not consider the delays and related costs associated with bargaining. In reality, it takes time and therefore may incur a significant cost to achieve the final equilibrium. Taking the delay costs into account, there might be a social efficiency loss through the bargaining procedure. Under proposition 2, the cost of bribes and time for negotiation will be positively correlated to the level of fragmentation of licensing approval. However, in comparison to the almost certain tragedy of the anti-commons in the basic model, this situation may be a Pareto-improvement.

Nevertheless, the above results should be interpreted carefully. This paper does not argue that corruption is socially desirable. Corruption is never a first-best choice; it undermines the concept of social justice and may distort market competition and resource allocation. What it *does* argue is that corruption may be a second-best solution to the multi-agent examination and approval system in China. Therefore, any anti-corruption measures must be accompanied by de-fragmentation of licensing approval procedures (e.g., cutting the number of bureaucrats or coordinating different bureaucrats). Otherwise, anti-corruption may be undermined. De-fragmentation of licensing approval is actually complementary to anti-corruption efforts by, at the very least, reducing the required number of bribes.

Asymmetric Bargaining Model: Corruption Under Incomplete Information

The assumption of complete information in the previous section is unrealistic in many cases. Sometimes neither the entrepreneur nor the bureaucrat are completely certain of the other's reservation price, especially when there are a number of bureaucrats. The following analysis shows that incomplete information may lead to deadweight efficiency loss, even if the entrepreneur can bribe each bureaucrat through costless negotiation. Further, it may change the effect of reducing the fragmentation of licensing rights.

Proposition 3: If the entrepreneur and the bureaucrats are both unsure about each other's reservation prices, then the negotiation between them cannot completely avoid net economic efficiency loss, and a decrease in the extent of fragmentation of licensing rights might reduce efficiency further.

As with the complete full information scenario, we keep the assumption that the total approval cost remains the same regardless of the number of bureaucrats and the way the licensing right is fragmented. For simplicity, the total approval cost is normalised to be one. ie. $\sum W_i = 1$. Suppose each bureaucrat estimates that the entrepreneur's reservation price V is located in the range $[0,2]$, while the entrepreneur estimates that bureaucrat i 's reservation price W_i is located in the range $[0,2/M]$

For simplicity, we suppose the entrepreneur and bureaucrat i have equal bargaining power $\beta = 1/2$ in the bargaining process. The entrepreneur bids a price P_b^i while the bureaucrat i asks a price P_s^i . If $P_s^i > P_b^i$, then the bargaining fails, otherwise the price is determined as $P = \frac{1}{2}(P_s^i + P_b^i)$. According to the above assumptions, bureaucrats i 's maximisation problem is as below:

$$Max_{P_b^i} \left\{ \frac{1}{2} (P_s^i + E[P_b^i(V) | P_b^i(V) \geq P_s^i]) - W_i \right\} Prob[P_b^i(V) \geq P_s^i] \quad (12)$$

Where $E[P_b^i(V) | P_b^i(V) \geq P_s^i]$ is bureaucrat i 's expectation of the entrepreneur's bidding price. The entrepreneur's maximisation problem is as below:

$$Max_{\{P_b^i: i=1,2,\dots,M\}} \left[V - \frac{1}{2} \left(\sum P_b^i + \sum E[P_s^i(W_i) | P_b^i \geq P_s^i(W_i)] \right) \right] \prod_{i=1}^M Prob\{P_b^i \geq P_s^i(W_i)\} \quad (13)$$

There may be multiple Bayesian equilibriums in the above bargaining, but Myerson and Satterthwaite (1983) have proved that in the case of uniform distribution, the surplus of a linear strategy is higher than the surplus of other Bayesian equilibriums. Therefore, our discussion below will only be limited to the situation of linear strategy. Suppose that both the bureaucrats and the entrepreneur adopt a linear strategy as follows:

$$P_s^i(W_i) = \alpha_s^i + \beta_s^i W_i \quad (14)$$

$$P_b^i(V) = \alpha_b^i + \beta_b^i V \quad (15)$$

Since V is subject to a uniform distribution at $[0,1]$, then P_b follows a uniform distribution at $[\alpha_b^i, \alpha_b^i + \beta_b^i]$. The probability that bureaucrat i expects the entrepreneur's bidding price to be higher than his asking price is as below:

$$\begin{aligned} \text{Prob}\{P_b^i(V) \geq P_s^i\} &= \text{Prob}\{\alpha_b^i + \beta_b^i V \geq P_s^i\} \\ &= \text{Prob}\left\{V \geq \frac{P_s^i - \alpha_b^i}{\beta_b^i}\right\} = \frac{\alpha_b^i + 2\beta_b^i - P_s^i}{2\beta_b^i} \end{aligned} \quad (16)$$

The conditional expectation of bureaucrat i of the entrepreneur's bidding price is as follows:

$$E[P_b^i(V) | P_b^i(V) \geq P_s^i] = \frac{\frac{1}{2\beta_b^i} \int_{P_s^i}^{\alpha_b^i + 2\beta_b^i} x dx}{\text{Prob}\{P_b^i(V) \geq P_s^i\}} = \frac{1}{2}(P_s^i + \alpha_b^i + 2\beta_b^i) \quad (17)$$

Substituting (16) and (17) into bureaucrat i 's objective function (12), the maximisation problem can be seen as follows:

$$\text{Max}_{P_s^i} \left\{ \frac{1}{2} \left[P_s^i + \frac{1}{2}(P_s^i + \alpha_b^i + 2\beta_b^i) \right] - W_i \right\} \frac{\alpha_b^i + 2\beta_b^i - P_s^i}{2\beta_b^i} \quad (18)$$

The first order condition is:

$$\text{F.O.C. } P_s^i = \frac{1}{3}(\alpha_b^i + 2\beta_b^i) + \frac{2}{3}W_i \quad (19)$$

Similarly, the probability that the entrepreneur expects his/her bidding price to be higher than the asking price of bureaucrat i is as below:

$$\text{Prob}\{P_b^i \geq P_s^i(W_i)\} = \text{Prob}\{P_b^i \geq \alpha_s^i + \beta_s^i W_i\} = \frac{M}{2} \frac{P_b^i - \alpha_s^i}{\beta_s^i} \quad (20)$$

Thus, the entrepreneur's conditional expectation of bureaucrat i 's asking price is as below:

$$E[P_s^i(W_i) | P_b^i \geq P_s^i(W_i)] = \frac{1}{2}(\alpha_s^i + P_b^i) \quad (21)$$

Substituting (20) and (21) into the entrepreneur's objective function (13), it is seen:

$$\text{Max}_{\{P_b^i: i=1, \dots, M\}} \left\{ V - \frac{1}{2} \left[\sum_{i=1}^M P_b^i + \frac{1}{2} \sum_{i=1}^M \alpha_s^i + \frac{1}{2} \sum_{i=1}^M P_b^i \right] \right\} \prod_{i=1}^M \frac{P_b^i - \alpha_s^i}{\beta_s^i} \quad (22)$$

First order condition is as below:

$$\text{F.O.C. } P_b^i = \frac{2}{3}V + \frac{1}{3}\alpha_s^i - \frac{1}{2} \sum_{j \neq i}^M P_b^j - \frac{1}{6} \sum_{j \neq i}^M \alpha_s^j \quad (\text{for } \forall_i = 1, \dots, M) \quad (23)$$

Summing up equation (23) for I and simplifying reveals that:

$$P_b^i = \frac{4}{3(M+1)}V + \frac{3M-1}{3(M+1)}\alpha_s^i - \frac{4}{3(M+1)}\sum_{j \neq i} \alpha_s^j \quad (24)$$

From (14), (15), (19), and (24):

$$\beta_b^i = \frac{4}{3(M+1)}, \beta_s^i = \frac{2}{3} \quad (25)$$

and

$$\begin{cases} \frac{1}{3}\left[\alpha_b^i + \frac{8}{3(M+1)}\right] = \alpha_s^i \\ \frac{3M-1}{3(M+1)}\alpha_s^i - \frac{4}{3(M+1)}\sum_{j \neq i} \alpha_s^j = \alpha_b^i \end{cases} \quad (26)$$

The solution of equation (26) is as below:

$$\begin{cases} \alpha_s^i = \frac{4}{5M+3} \\ \alpha_b^i = \frac{12-4M}{3(M+1)(5M+3)} \end{cases} \quad (27)$$

From equation (25) and (27), the linear strategies of the entrepreneur and bureaucrat i are seen to be as follows:

$$P_s^i = \frac{4}{5M+3} + \frac{2}{3}W_i \quad (28)$$

$$P_b^i = \frac{4}{3(M+1)}V + \frac{12-4M}{3(M+1)(5M+3)} \quad (29)$$

The conditions under which the entrepreneur and the bureaucrats negotiate successfully is as follows:

For any i , $P_b^i \geq P_s^i$, i.e., $\frac{4}{3(M+1)}V \geq \frac{2}{3}W_i + \frac{16M}{3(M+1)(5M+3)}$, i.e.,

$$V \geq \frac{4M}{5M+3} + \frac{M+1}{2} \text{Max}\{W_i\} \quad (30)$$

If the total approval cost is distributed equally among the bureaucrats, i.e., $W_i = \frac{1}{M}$ for any i , then (30) becomes:

$$V \geq \frac{4M}{5M+3} + \frac{M+1}{2M} \quad (31)$$

It is easy to verify that the right side of inequality decreases with M . This implicates that a higher extent of fragmentation will make the negotiation easier which in turn increases economic efficiency.

If at least one of the true W_i reaches the maximum possible value of $\frac{2}{M}$, ($M \geq 2$), then (30) becomes:

$$V \geq \frac{4M}{5M+3} + \frac{M+1}{M} \quad (32)$$

Again, it is easy to verify that a higher M will make trade easier and increase economic efficiency. Therefore, whether the total approval cost is distributed among bureaucrats equally or not, a higher extent of fragmentation in licensing rights might increase economic efficiency if the entrepreneur and the bureaucrats are bargaining under incomplete information. This result challenges the conclusion of previous studies (e.g., Schultz, Parisi, and Depoorter) that suggest that higher fragmentation of excluding rights will reduce economic efficiency. However, comparing this scenario to that of complete information, it can be seen that the incomplete information itself causes efficiency loss. To see this, recall that the condition for successful negotiation under complete and symmetrical information is:

$$V \geq \sum W_i = 1 \quad (33)$$

It is obvious that irrespective of the value of M , inequalities (31) and (32) are both stricter than (33). Some negotiations that can successfully occur under complete information cannot be realised under incomplete information, causing the loss of economic efficiency. Besides, as proved above, when the entrepreneur and the licensing bureaucrats are bargaining under incomplete information, a reduction in the extent of fragmentation of licensing rights will, counter-intuitively, worsen economic efficiency.

Proposition 3 implies that in the reform process of enterprise licensing regimes, the reduction in extent of fragmentation of licensing rights (e.g., reducing the number of bureaucrats) must be accompanied by improving information transparency. Otherwise, the reduction in the fragmentation of licensing rights might cause more net efficiency loss.

Conclusions and Policy Implications

Drawing upon the newly-developed theory of the anti-commons, this paper reveals the inherent problem of multi-bureaucratic examination and approval regimes for enterprise licensing procedures in China. With theoretical modeling and proof, this paper demonstrates that if each bureaucrat only receives a fixed share of the licensing fee without any corruption, then a multi-bureaucratic approval in enterprise licensing may easily reject socially beneficial projects, leading to under-utilisation and economic inefficiency: a tragedy of the anti-commons. Such a regime encourages corruption as a

second-best solution to improve economic efficiency by aligning the interests of entrepreneurs and bureaucrats.

The higher the fragmentation of licensing rights, the more extensive corruption is within the system. According to the analysis of this paper, pure anti-corruption measures might cause more deadweight efficiency loss if they are not accompanied by reform of the enterprise licensing regime with “multi-bureaucrats.” This explains, at least in part, why corruption has been so pervasive in China during the current transition. Imposing disincentives among bureaucrats who typically receive bribes to facilitate the processing (or mitigate the risk of rejections) of applications by itself is insufficient. Non-value adding procedures in licensing process should be eliminated so as to mitigate the risk of corruption and the tragedy of the anti-commons.

However, the paper does not argue that enterprise licensing is altogether undesirable. Some regulations and licensing procedures provide necessary safeguards against socially undesirable projects that emerge in imperfect markets or that cause negative social externalities. The extent of the current bureaucratic intervention in enterprise licensing, which cover almost all areas of business, should be examined. Indeed, this paper outlines the inherent problem of multi-bureaucratic enterprise licensing approval.

Transparency, however, is also required to improve efficiency. If information is incomplete, the net efficiency loss cannot be avoided even under cost-less negotiation between entrepreneurs and bureaucrats. In this case, the decrease in extent of fragmentation of licensing rights might reduce the efficiency further, which would be contrary to the government’s original reform objectives.

Fortunately, policy makers in China are gradually becoming aware of the problem and reforms have been proposed. Some project approval procedures will be replaced by “single-windows” or “one-stop shops.” Meanwhile, unnecessary and multiplicative project approval procedures should be cut off. Our paper provides theoretical support for such reforms and advocates that similar reforms should be stepped up in other areas of the public administration. Reduced fragmentation and streamlining of licensing procedures can improve economic efficiency and simultaneously mitigate problems of corruption. The sequencing of any reforms, though, remains an important issue. A reform of the enterprise licensing regime needs to be undertaken before a strengthening of anti-corruption measures proceeds. Failure to do so may result in adverse consequences.

Nevertheless, this paper is still far from a complete or comprehensive discussion on real-world interactions surrounding licensing procedures and approval in China. Still, it does capture some key points and provides a framework for future research. An important aspect is the consideration of the costs of negotiations in facilitating license approvals. This paper focuses more on the weaknesses of multi-bureaucratic approval regime in enterprise licensing than an analysis of the detailed costs. Future research may take these costs into account.

Appendix I

We can easily prove that the only “trembling hand” equilibrium is that all bureaucrats veto the project when there are more than three bureaucrats ($M \geq 3$). We use $M=3$ to demonstrate the sole “trembling hand” perfect Nash equilibrium is for all bureaucrats to veto, i.e., $x = (0,0,0)$.

The proof is as follows:

Suppose the original state is $x=(0,0,0)$, i.e., all the bureaucrats choose to veto. Then without loss of generality, assume bureaucrat 3 deviates from his/her strategy by “trembling hand,” which means s/he chooses to approve the project. Then the strategy combination becomes $x = (0,0,1)$.

Given that bureaucrat 2 decides to veto ($x_2 = 0$) and 3 decides not to veto, ($x_3 = 1$) the best response for bureaucrat 1 is to veto the project ($x_1 = 0$). This will save the expected approval cost since the project would be rejected regardless of his/her decision. This is identical for bureaucrat 2.

In reverse, the optimal strategy for bureaucrat 3 is to alter his/her strategy and veto the project since both bureaucrat 1 and 2 will reject it. So we can make a conclusion that $x = (0,0,0)$ is a “trembling hand” perfect Nash Equilibrium.

There can be one other Nash Equilibrium, i.e., $x = (1,1,1)$, though it is not a “trembling hand” equilibrium. The game may move to the new equilibrium $x = (0,0,0)$ when any one bureaucrat alters his/her strategy due to “trembling hand” effects.

For example, if bureaucrat 3 alters his/her strategy to become a veto ($x_3=0$), then bureaucrat 1 and 2's best responses are to veto ($x_1=x_2=0$). Given this condition, bureaucrat 3's best response remains to veto ($x_3=0$), so the equilibrium will become $(0,0,0)$ and remain at that outcome.

Appendix II:

$$P_i = W_i + \beta \left(V - \sum_{j \neq i} P_j - W_i \right), \text{ for } \forall_i \quad (\text{A1})$$

$$\begin{aligned} \Rightarrow \sum_{j \neq i} P_i &= \sum_{j \neq i} W_j + \beta \left[(M-1)V - (M-2) \sum_{j \neq i} P_j - (M-1)P_i - \sum_{j \neq i} W_j \right] \\ \Rightarrow \sum_{j \neq i} P_j &= \frac{\beta(M-1)V + (1-\beta) \sum_{j \neq i} W_j - \beta(M-1)P_i}{1 + \beta(M-2)} \end{aligned} \quad (\text{A2})$$

Substituting (A2) into (A1), we have:

$$\begin{aligned} P_i &= W_i + \beta \left[V - \frac{\beta(M-1)V + (1-\beta) \sum_{j \neq i} W_j - \beta(M-1)P_i}{1 + \beta(M-2)} - W_i \right] \\ \Rightarrow P_i &= \frac{\beta(1-\beta)(V - \sum W_i) + (1-\beta)[1 + \beta(M-1)]W_i}{(1-\beta)[1 + \beta(M-1)]} \\ &= \frac{\beta(V - \sum W_i)}{1 + \beta(M-1)} + W_i \end{aligned}$$

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MEASURING PERFORMANCE IN THE PUBLIC SECTOR USING THE PUBLIC SERVICE VALUE MODEL: A SOUTHEAST ASIAN CASE STUDY OF A GOVERNMENT AGENCY FOR 2001-05

Ashish Varma, Garima Singh, Jeetendra Patil, & Mini S Verma

The Policy Analysis Exercise (PAE) is a public policy or management study completed as part of the Lee Kuan Yew School of Public Policy's Master in Public Policy curriculum. PAEs are usually undertaken for a client and provide an in-depth look at an issue affecting the client's organisation that is particularly problematic, which may require outside expertise, or which the organisation does not have the time or resources to address itself.

Performance Management and the Public Service Value Model

Performance measurement is no longer restricted to the private sector. The public sector cannot afford to be seen lacking accountability or demonstrate negligence in the use of public resources. Recent trends in public sector reform have focused on improving ways to fund, manage, and deliver public services. Governments are now committed to transforming citizens' experiences of state-funded services as a way of responding to public demands for accountable and responsive programs, customised to citizens' needs.

Emphasis on the delivery of public services acknowledges user- or citizen-satisfaction as central to the public sector. The ultimate goal or 'value' that public sector organisations seek to achieve is not simply sustained profitability, but to realise the social ambitions outlined in their mission. At the same time, all government organisations work under resource constraints. Thus, performance appraisal of the public sector is based on two levers: (a) the achievement of predefined outcomes - mandated goals to produce valuable social or economic results; and, (b) demonstrated cost-effectiveness - the efficient use of resources in the production of public goods. Feedback systems are already being built-in to improve the "productivity, quality, timeliness, responsiveness and effectiveness" of government performance.

The Public Service Value (PSV) model – one tool for enhanced public sector governance - charts the *public value* profile of government organisations over time. It aims to focus strategic direction, assess frontline efficacy and identify

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drivers of performance. It reflects the view that a public sector organisation's prime objective is to achieve the social ambitions outlined within their mission under a budget resource constraint. This model has largely been applied only to public sector organisations in the USA and UK. However, this study applies the model to a sports development agency – hereafter referred to as XYZ - in the Southeast Asian context. The results of the analysis contribute to an evaluation of the effectiveness of PSV and its benefits and limitations in other developing country contexts.

The Case Study: XYZ

The key mission of XYZ is to promote the sports industry, participation in sports, and national sporting excellence. The performance of XYZ in 2001-05 reveals that it is increasingly value-driven and generates public benefit against its allocated resources. Its prime performance drivers have been its success in enrolling sports volunteers and in increased spectator turnout at sporting events. Although the overall performance of XYZ is largely driven by outcomes rather than cost, it has also managed to contain costs with a reasonable degree of success. However, while it has been cost-effective, XYZ has been unable to generate own-source resources and is heavily reliant on government funding, potentially curbing its long-run performance.

The challenge before XYZ is the sustainability of the recent developments, and ensuring continued improvements in outcomes and cost-effectiveness. These are critical in making significant headway and involving the broader population - its major constituency - to achieve "sports for all." Concerns are that the recent improvements appear to have stemmed directly from an influx of additional funds in 2001 and positive synergies from recent restructuring – a set of circumstances that is difficult to replicate.

Findings from a Southeast Asia Case Study

This paper and the application of the PSV to the Southeast Asian context reiterate the results of earlier work on the use of the model. PSV excels in projecting the holistic performance of an organisation through examining its achievements against its larger mission. It provides an excellent outlook for high-level functionaries interested in charting broad trends. The model also allows the identification of the broad drivers of achievement. Thus, its use as a tool for strategy formation and resource allocation is sound. However, the model is data dependent. It relies on longitudinal performance data to establish average performance through which annual performance can be interpreted.

While PSV is a progressive and rational attempt to assess performance in the public sector by focusing on public value creation, it does not replace more traditional methods of performance measurement. It primarily concentrates on "course correction" through its focus on broad trends in performance. Unless it

can evolve to a form where performance measurement requirements of all employees are addressed, the model is unable to sufficiently incorporate both *accountability* and *learning*. Thus, it is essentially complementary to traditional models in the understanding it provides.

At a more operational level, the model helps identify challenges for management, who are its targeted users. It pegs the measurement to the commanding mission even though there may be difficulties in actualising the vision and mission into the work goals of each functionary of the organisation. Additionally, the issues surrounding accountability and learning limit sufficient micro-process analyses to understand factors contributing to the success or failure of programs. However, the model has scope to incorporate these provisions as it is still in the process of evolution.

DEVELOPMENT: NOT ONLY WHITE AND NOT ONLY BURDEN

A Review of William Easterly's *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good.*

Thomas Jandl

William Easterly is a man with opinions and he is not shy to voice them. His latest book, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, provides plenty of criticism of his former employer, the World Bank. And Easterly knows of what he speaks; he has worked at the Bank for 16 years himself and has been a part of the problem, as he now freely admits. Not surprisingly, his book is full of interesting case studies and anecdotes that elucidate the problems Easterly sees in the international aid industry.

As Easterly sees it, aid has become a utopia, with "the planners" in boardrooms designing grand schemes to help "the poor." However, "the poor" are not some unitary mass; they live in dissimilar environments under distinct governments. With these various local and contextual idiosyncrasies, what development needs is "the searchers." These individuals are willing to get their hands and feet dirty in search of what works on the ground. Why, Easterly asks, has the West applauded the end of centrally planned communism when it now imposes the same large-scale plans upon developing countries?

It is not by coincidence that the title of the book invokes the spirit of colonialism. *White Man's Burden* brings to life a feeling of superiority and arrogance. The colonisers' mission of bringing civilisation to the uncivilised has been replaced with the mission of the rich to bring a decent living to the poor. Yet the book is not an attempt to question the meaning of development or the existence of poverty. It simply argues against the strategies employed to bring about what Easterly continues to see as a laudable goal.

The flaw lies in the reasoning employed by the author while putting forward his views. Easterly, in his zeal to drill holes in the policies of Western development agencies, engages at times in overly simplistic, counterfactual, or even methodologically flawed arguments. While this may have been done to attract a broader, non-scholarly audience, it leaves development scholars and practitioners uncomfortable at the lack of logical or conclusive proof to support the hypotheses.

For one, Easterly claims that aid has not worked. The success stories, he writes, do well without much aid. Botswana, for example, is doing so well *because* it does not find itself in the tight screws of donor conditionality. But this is hardly fair.

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Botswana receives no aid because it *is* doing well and not the other way around (decent governance and ample supplies of diamonds do help). In fact, aid can work, as success stories have shown elsewhere. South Korea and Taiwan were aid recipients in their early days of economic take-off. Western Europe too is a remarkable success story of American aid after World War II.

Easterly also falls victim to a sample bias. He shows a negative correlation between structural adjustment loans (SALs) and economic growth rates, arguing thus that SALs do not work, and instead make countries poorer. This may indeed be the case, but the evidence presented is inconclusive. Structural adjustment, *by definition*, is administered to the worst cases. It is thus to be expected that the success ratio is low. One would hardly close a cancer ward because many patients were not cured. SALs may be unsuitable for many countries, but cannot be attributed in a limited fashion to a statistical correlation between growth and the number of adjustment loans. The reasons run far deeper. While most SALs might not (indeed, do not) lead to sustained growth, some do, because in their cases the conditions and the recipient government's attitude are right for them. One can easily turn Easterly's argument on its head and ask instead; who is this white man to dictate that a certain success ratio is too low and that therefore all SALs should be stopped? How would South Korea or Thailand, two successful recipients of SALs, react on knowing that they might not have received the opportunity to bring their collapsing economic houses in order simply because some other cases did not work out as intended?

On occasions, Easterly's evidence is counterfactual. He writes that SALs do not help, as evidenced by the anaemic and sometimes negative growth rates of (mostly) African countries, post-SAL. Given the often dramatic state of economies that receive SALs, it would appear difficult to argue that a specified growth rate represents failure, particularly when compared to the potentially worse situation of not receiving a SAL. Surely, one cannot conclusively state that an economy would *not* have emerged even worse-off without the intervention.

One crucial demand in the *White Man's Burden* is accountability. This is certainly an issue worth considering, which Easterly appropriately highlights. However, in some of the cases discussed, holding the World Bank staff solely accountable for their projects could backfire because the success and failure of a program could very likely be determined elsewhere. If a program officer is tasked with vaccinating 50 percent of all children in a mismanaged country, that person may be better off quitting before failing, rather than waiting until the tally is in and getting fired over a bad performance review. One is aware of the fact that in some parts of the world, failure to meet goals is almost inevitable due to poor governance, corruption, and active political opposition to foreign assistance programs. But this also leaves some questions unanswered. For example, what are the ethical repercussions of not vaccinating *any* children in a misgoverned country because it is known that the program cannot reach all those who can be funded?

Despite its perceptible flaws, *White Man's Burden* does add a strong and well-illustrated voice to the chorus of those who suggest a humbler approach to the poor. Following in the footsteps of development giants like Robert Chambers (author of *Putting the Last First*), Easterly recognises the tenacity and talent in humanity and rejects claims that the poor are solely to blame for their condition. Rather than applying grand designs from London or Washington, we should let the poor decide what they want. Easterly also details possible approaches for a bottom-up, 'searcher'-based approach to development, offering hope for alternative policies where traditional routes have not worked.

Some of these alternatives, of course, are already in place, but do not always guarantee success. Every development scholar or practitioner knows of the ravages of coordination failure. Individual optima are frequently not in line with social optima, leading people to make perfectly rational choices that nonetheless keep them poor. Easterly has recognised this problem, as shown in his eloquent discourse in an earlier book, *The Elusive Quest for Growth*, published in 2001.

Remittances also provide funds to poor households with no strings attached. For some nations, remittances are the largest hard currency earners. And because they are sent person-to-person, the recipient decides what to do with the cash, similar to the development vouchers Easterly proposes. Yet the results are mixed; remittances into poor, underdeveloped areas appear to provide less downstream economic development than remittances into already wealthier places. In Vietnam, for example, an estimated US\$6 billion flows back into the country each year. Recipients in Ho Chi Minh City and surrounding provinces translate remittances into business and economic booms. However, remittances received by people in less developed regions, like the mountainous Central Highlands, appear to have fewer downstream effects and are generally used for immediate consumption. The same was true for regions of the former Yugoslavia. Guest worker remittances into Slovenia did better than those into Kosovo in terms of sustainable growth creation. This implies that the existing economic conditions determine how the poor use the money they receive.

It is worth reading *White Man's Burden* for its challenge to rethink bottom-up approaches to development, although it is unfortunate that Easterly seems committed to tearing the development house down entirely. The quest for growth is indeed not an easy one, but some *have* succeeded; it would be pessimistic to think of it as a hopeless chase like Easterly makes it out to be. Conditions for growth and reasons for its success do vary, and with these, so do the solutions to the problems. But to reject the solutions *in toto* is just as universalistic as the belief in the one-size-fits-all remedy Easterly abhors.

ANNOTATED LIST OF BOOKS RECEIVED

Editor's Note

The *Asian Journal of Public Affairs* annotates all books sent to us for review. Currently, we are able to do so only for books published in the English language.

I

LEONG, HO KAI. (Ed). *Reforming Corporate Governance in Southeast Asia: Economics, Politics, and Regulations*. Singapore: Institute of Southeast Asian Studies. 2005. Pp. 387. US\$29.90. Paper. ISBN: 9812302913.

Seventeen papers present an attempt to understand the link between corporate governance and Southeast Asian nations, particularly through the lens of post-1997 Asian Financial Crisis. Provides suggestions for improving corporate governance in the region, i.e., through increased transparency, shareholder involvement, and institutional capacity-building. Four papers covering governance theory and regional overview (Madhav Mehra, Wu Xun, Low Chee Keong, Dipinder S Randhawa); Malaysia's challenges and recent reforms (Cheah Kooi Guan, Philip Koh Tong Nee); Indonesian reform and political economy (Djisman S Simandjuntak, Andrew Rosser); Thai national governance (Deunden Nikomborirak, Saravuth Pitiyasak); regulations and government-linked companies in Singapore (Kala Anandarajah, Ho Khai Leong); private sector reform and financial institutions in the Philippines (Felipe B Alfonso, Branka A Jikich, Rene G Banez; Mario B Lamberte, Ma. Chelo V Manlagnit); Vietnam's economic reforms and equitized companies (Nick J Freeman, Nguyen Van Thang). Ho Kai Leong teaches at the School of Humanities and Social Sciences, Nanyang Technological University, Singapore.

II

NAJAM, ADIL. *Portrait of a Giving Community: Philanthropy by the Pakistani-American Diaspora*. Cambridge: Harvard University Press. 2007. Pp. 231. US\$19.95. Paper. ISBN: 0674023668.

Stems from the results of a national survey coordinated by Aga Khan Foundation-USA and Pakistan Center for Philanthropy (PCP) examining philanthropic habits of Pakistani-Americans, particularly in channeling aid

back to Pakistan. Offers insight into the identity of Pakistan's diaspora community in the United States and the significance of their cross-cultural composition towards proper understanding of philanthropy. Provides a breakdown of money flows: both geographically, and by Pakistani and non-Pakistani causes. Highlights the role of 9/11 in calling greater attention to Pakistan's need for economic support and the consequent response by Pakistani expatriates. Concludes with a summary of lessons learned and policy recommendations for future giving and economic development for Pakistan. Adil Najam teaches at Fletcher School of Law and Diplomacy, Tufts University.

III

SRIRAMESH, KRISHNAMURTHY. (Ed). *Public Relations In Asia: An Anthology*. Singapore: Thomson Learning. 2004. Pp. 341. US\$49.90. Hardcover. ISBN: 978 9812437853.

Offers analysis of public relations in ten leading Asian countries: including China, India, Thailand, Indonesia, Taiwan, Hong Kong, Malaysia, the Philippines, Saudi Arabia, and South Korea. Establishes conceptual linkages for all studied countries between public relations practices and a variety of socio-cultural factors such as domestic political system, political architecture, and macroeconomic status. Posits that such socio-cultural characteristics contribute to the particular public relations orientation for each respective country. Epilogue considers the necessity to streamline multiculturalism into public relations coursework. Recommended for communications/mass media, journalism, and public relations students and practitioners. Krishnamurthy Sriramesh is a faculty member at the School of Communication and Information, Nanyang Technological University, Singapore.

IV

GHESEQUIERE, HENRI. *Singapore's Success: Engineering Economic Growth*. Singapore: Thomson Learning. 2007. Pp. 160. US\$28.75. Hardcover. ISBN: 9789814195287.

Presents a framework for analysing the growth experience of Singapore since independence. First few chapters focus on the outcomes achieved, measured through quantitative indicators of growth and development. The rest of the book is devoted to presenting a comprehensive and cohesive explanation for how these outcomes were brought about. Framework consists of three main components - effective and well-designed policies, the successful and honest political economy of implementation, and stable and efficient institutions. Singapore's adoption of each of these is explained in detail, and a blend of historical as well as analytical perspectives is given. Focuses on how policy,

politics and institutions combined to create consistent growth, coherent development and a stable investor climate. Ends with a brief discussion on the past, present, and future challenges facing Singapore's growth experience. Provides food for thought for policy-makers, investors and Singaporean citizens, and combines an framework for analysis with a comprehensive study of the Singaporean economy. Henri Ghesquiere is a visiting professor at the Lee Kuan Yew School of Public Policy, National University of Singapore.

V

HAUSMAN, DANIEL and MCPHERSON, MICHAEL (Eds). *Economic Analysis, Moral Philosophy and Public Policy*. Second Edition. Cambridge: Cambridge University Press. 2006. Pp. 352. US\$28.99. Paper. ISBN: 978-0521608664.

Introduces ideas in moral philosophy and economics to the lay-person. Uses specific examples to illustrate the debates surrounding these disciplines and provides strong policy perspectives and relevance. Examines contemporary and upcoming issues dealing with environmental and human capital factors, and is a substantial revision of the first edition. Opening introduces ethics in relation to both normative and positive economic theory. Part I links rationality and morality, and examines how traditional economics presupposes a moral philosophy. Part II examine the long pervasive equity-efficiency debate in economics and sheds light on theories and philosophical foundations of utilitarianism and consequentialism. Part III discuss the difference between equality, equity, and egalitarianism, and considers moral issues that are outside the current purview of welfare economics, such as freedom and justice. Part IV brings a strong policy perspective and discusses pollution transfers and education vouchers as two contemporary examples of the application of the concepts in Parts I-III. Daniel Hausman is the Herbert A. Simon Professor of Philosophy at the University of Wisconsin, Madison. Michael McPherson is the President of the Spencer Foundation in Chicago.

VI

HOLZMANN, ROBERT and PALMER, EDWARD E. (Eds). *Pension Reform: Issues and Prospect for Non-financial Defined Contribution (NDC) Schemes*. Washington, DC: World Bank Publications. 2006. Pp. 686. US\$45.00. Paper. ISBN: 9780821360385.

Presents twenty-four papers on the issues and concepts embedded in discussions regarding non-financial, or notional, defined contribution plans (NDCs), and their country implementation. Provides case studies of Italy, Latvia, Poland, and Sweden, where Non-financial Defined Contributions are under the realm of debate. Part I is definitional and descriptive, and highlights main issues. Section 1 under Part I focuses on conceptual questions,

while section 2 examines broader conceptual, policy, and cross country debates. Part II presents the case studies and examines future courses of action. Section 3 under Part II reviews the experience of countries that have actually introduced NDC schemes. Section 4 under Part II presents chapters on selected countries where NDC is being considered as an option for reforming the current defined benefit (DB) system. Recommended for academics and policy-makers examining the validity of the NDC debate. Robert Holzmann is director, Social Protection Department, at the World Bank and Edward Palmer is professor of social insurance economics at Uppsala University and Head of the Division for Research at the Swedish Social Insurance Agency.

VII

RAMESH, M and HOWLETT, MICHAEL. (Eds). *Deregulation And Its Discontents: Rewriting the Rules in Asia*. Cheltenham: Edward Elgar. 2006. Pp. 264. US\$100.00. Hardcover. ISBN: 9781845428778.

Compilation of essays that critically evaluate the address of deregulation and re-regulation in Asia. Highlights the fact that the role of government in business has been cyclical - regulation, deregulation and re-regulation - and that these cycles overlap. Illustrates this through case studies of the electricity market, pensions, and stock markets in the Asia Pacific. Section I presents an introductory discussion of governance and globalization in Asia. Section II highlights regulatory reform in East Asia, focusing on the “discontents” of deregulation. Concludes with a section on policy design principles for regulatory reform. Recommended for academics and researchers of public sector economics, Asian studies, the political economy of Asia, as well as public officials dealing with regulatory issues. M. Ramesh is Associate Professor at Lee Kuan Yew School of Public Policy, National University of Singapore and Michael Howlett is Burnaby Mountain Professor, Department of Political Science, Simon Fraser University, Canada.

VIII

KELLY, DAVID A., RAJAN, RAMKISHEN S., AND GOH, GILLIAN H.L. (Eds). *Managing Globalization: Lessons from China and India*. Singapore: World Scientific. 2006. Pp. 508. US\$108.00. Hardcover. ISBN: 9812564624.

Deals with issues of globalisation by compiling articles from eminent scholars on/from India and China. Four distinct issues covered are economic growth, reforms, and development strategies; social security and challenges from pension reforms and restructuring of state-owned enterprises (SOEs); national security and international relations and questions of ethnicity and identity among the peoples of India and China. Essays are written in the normative, in order to provide and set relevant examples. Section I deals with the ongoing

debates of India emulating China's economic growth, China's expanding service sector and India's efficient resource usage. China's active role in regional and international arena vis-à-vis US and ASEAN are compared against India's dormant participation. China's trouble in ensuring peace with ethnic homogeneity is contrasted with India's multi-ethnic democratic policy making. Gillian Goh is a Postdoctoral Fellow at the Lee Kuan Yew School of Public Policy. David Kelly is a member of the editorial board of *Contemporary Chinese Thought*. Ramkishan Rajan is an Associate Professor at the School of Public Policy, George Mason University in Virginia, USA.

IX

ASHER, MUKUL G., SEN, RAHUL AND KUMAR, NAGESH. (Eds). *India-ASEAN Economic Relations: Meeting the Challenges of Globalization*. Singapore: Institute of Southeast Asian Studies. 2006. Pp. 313. US\$25.00. ISBN: 9812303219

Collection of ten papers presented at the ASEAN-India Forum in 2004 organised by Institute of Southeast Asian Studies. Papers address the trade liberalisation in India with respect to the ASEAN, and examine its volume. Assess investment flows, co-operation in financial services, information and communication technology in the region. Examines prospects for the Asian Economic Community comprising Japan, ASEAN, China, South Korea and India. India's "Look East Policy" is compared with China's "Bamboo Networks" in the region. Recommends alternative influence strategy for India through culture, arts and decision-making as a form of soft power. Nagesh Kumar is Director General of Research and Information System for Developing Countries, New Delhi; Rahul Sen is a Fellow at Singapore's ISEAS; and Mukul Asher is Professor at the Lee Kuan Yew School of Public Policy.