Michael T. Skully, *Financial Institutions and Markets in the South Pacific.* New York: St. Martin's Press, 1987. Pp. xvi, 379. US$45.00.

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The financial sectors of Pacific island countries have grown rapidly in recent years and many, notably the larger countries, now have well-developed and relatively diversified financial institutions and services. Yet up-to-date information on existing financial structures and their evolution has been sparse, restricted largely to what is available from formal development planning documents, official statements, and the occasional academic analysis. This book, which is the fourth in a series on Asia-Pacific finance markets prepared by Mr. Skully, goes a long way in filling the existing gap.

Skully examines the range of finance institutions and markets operating in five Pacific island countries--New Caledonia, the Solomon Islands, Tonga, Vanuatu, and Western Samoa. (Papua New Guinea and Fiji were included in an earlier study.) Why these countries were selected is not clear but, doubtless, it is due to the fact that their financial sectors are relatively diversified and, hence, interesting analytically. Additionally, the financial sectors of these countries reveal many contrasting features that allow useful comparisons. The differences are particularly evident between New Caledonia and the other countries--a difference that largely reflects New Caledonia's dependent political status and in some degree heavy reliance on a mineral product.

Each country study follows a similar format. First, there is an introduction to the country and its financial sector, followed by an examination of the development and operation of financial institutions as well as local money and foreign-exchange markets. An analysis of financial institutions is then undertaken, ending with a "speculative" section on future development. The core component--and one that takes up most of the discussion--is concerned with financial institutions and market arrangements.

For each country, the discussion focuses on the leading financial institutions such as central bank authorities, commercial and development banks, and other official agencies including pension-fund schemes.

Considerable information is provided on these institutional facilities, including statistical data on the value of assets and liabilities, funding, and staff. The presentation is most valuable in providing detailed information that, so far as I am aware, has not been uncovered elsewhere.

Other financial arrangements are discussed in somewhat less detail and include: general insurance, life insurance, credit unions, cooperative societies, offshore financial centers (where they exist), and several other facilities, some of which are unique to an individual country. Also examined in less detail are financial market facilities; these are shown to be relatively undeveloped among the five countries and relate mainly to foreign-exchange dealings and interbank lending.

The study shows that all five countries have achieved a fair measure of diversification in their financial structures. All have in place a central monetary authority of some description, at least one commercial bank, and a development bank. These facilities are complemented by a varied array of nonbank financial intermediaries including general and life insurance institutions, finance companies, cooperative savings and lending groups, credit unions, and related arrangements. Several countries have established international finance facilities, of which those in Vanuatu are the best known.

An intercountry comparison reveals that the main difference in the financial structures of the countries under review lies in the nonbank sphere. Regarding this sphere, it is somewhat surprising to find that New Caledonia--the largest of the group--is the least diversified. Conspicuously absent are cooperative financial arrangements, credit unions, commodity marketing agencies, and national housing authorities--nearly all of which are found in each of the other four countries. It is not clear what conclusions can be drawn from this characteristic of New Caledonia's nonbank sector, but one suspects that it reflects a failure to encourage a more broad-based participation in the territory's financial sector.

New Caledonia's case illustrates the importance of political factors in the development process. According to Skully, uncertainty over the future political status of the territory has weakened the motive to invest in the local economy with the result that the commercial banks find themselves persistently facing "an inadequate supply of lending proposals" (p. 56). The fact that surplus funds tend to be invested in Paris money markets means, therefore, that the territory's banking system is playing a less effective role than it could in promoting economic development.

Skully's detailed treatment of Vanuatu's offshore international finance center (IFC) is particularly valuable. Although it was established by the British administration in 1970 when Vanuatu was still a colony, it remains Vanuatu's "best known but least understood" financial facility (p. 251). It may be a surprise to some of us to learn that Vanuatu's IFC is both more complex and more substantial than might be expected. As many as seven different institutional arrangements can be distinguished: trusts, exempt corporations, shipping registration, exempt banks, exempt insurance, trust companies, and investment companies.

Many of the above institutional groups operate under highly complex legal arrangements. And as for their business dealings, the mind boggles at the scale of financial resources associated with some of these institutions. For example, the value of assets of the 640-odd companies registered under the IFC is an estimated US$5 billion (p. 253), while the turnover of exempt banks is assessed at US$50 million per day. For the average Pacific islander such amounts seem almost beyond comprehension.

In his appraisal of the financial institutions and markets of the five countries, Skully points to several major weaknesses. One that appears to be common to these countries is the relative neglect of the rural sectors on the part of the commercial banks. The urban bias is strong and it is not uncommon to find rural communities that are entirely untouched by the banking system, usually leaving them dependent only on the financial services provided by a local government representative or a post office agent or both. Many such communities are large enough to justify bank servicing of one kind or another; commercial banks need to be more creative in such circumstances.

Another major problem is the low rate of commercial bank lending to indigenous populations. For example, in the Solomon Islands, commercial bank lending to indigenous groups amounts to a low 10 percent (in 1983) of their total lending activities (p. 78). One reason for this is the relatively small size of the average loan, but one wonders how much this outcome again reflects the urban, and possibly big business and expatriate, bias of existing commercial bank structures.

Other common problems of major importance highlighted by Skully are a failure to establish an adequate national network of saving facilities to encourage personal savings and to accelerate training so as to reduce the dependence on expatriate executives. Also notable are inadequacies in interest rate policies; for example, the common practice of maintaining interest rates on saving deposits at levels significantly below the inflation rate.

All in all, the study succeeds admirably in achieving its essential aims and, in style of presentation, is lucid and easy to read. Any deficiencies are therefore merely minor blotches that do not detract from the value of the work.

Certainly, Skully's observations on some of the policy implications of his findings are revealing, but arguably could have been carried further. One area that could have been treated in greater depth is the relationship between the leading financial institutions and government monetary and fiscal policy formation. Major questions arise, for example, on the role of the banking system in influencing the money supply, the rate of investment (via its lending activities), and, ultimately, the balance of payments and aggregate level of economic activity. A more detailed evaluation of the various techniques and measures that government can bring to bear on the financial system as means of implementing official financial policy would also have been useful.

Skully refers to Western Samoa's "well-developed" informal financial market, particularly in rural areas, which includes "family and relatives, friends, rotating co-operatives, traders and money lenders" (p. 296). However, apart from this information, no attempt is made to elaborate on the nature and significance of such a market. Nor is there an indication of whether it thrives in other countries under review. Since informal markets appear to be important segments of the financial sector of many Pacific island countries, its virtual omission from the study gives a somewhat incomplete picture of the overall financial situation.

Certain statements and definitions are somewhat lacking in accuracy. In relation to Western Samoa, which this reviewer knows best, it is not correct to describe a *matai* as a "traditional ruler" (p. 192)--"traditional chief" would do. It is stated on the same page that Western Samoa's head, of state is elected from among four paramount chiefs; to be true this assertion has to be qualified by the condition that "so long as the paramount chief was, at the time, a member of the Council of Deputies." A statement is made on cocoa growing in Western Samoa, suggesting that it is a new cash crop (p. 291); in fact cocoa has been grown commercially in that country for decades. Perhaps a closer familiarity with Western Samoa would have averted these ambiguities.

The odd spelling error has been allowed to slip through. The word "sense" should read *"sene"* (the Samoan counterpart of a cent; p. 330); "secretary" should read "secrecy" (p. 256); and "Sturt" (Inder--our legendary man-about-the-Pacific) should be "Stuart" (p. 60).

Finally, one feels that an additional chapter could have been useful in synthesizing the results. Such a final chapter would highlight the lessons from the collective experience, identify major themes, and, in general, tie up any loose ends. However, as it stands, the study is a strong one and another feather in Skully's cap. As a basic reference, the book will have considerable value to researchers, businesspersons, and others with an interest in the financial and development experience of the Pacific islands.