Foreign Aid to the Pacific: Trends and Developments in the Twenty-First Century

Matthew Dornan and Jonathan Pryke*

Abstract

The Pacific islands is one of the most aid-dependent regions in the world. This article examines developments in the delivery of foreign aid to the region since the year 2000, a period in which there has been considerable change in both the amount and way in which aid is delivered internationally. Although Pacific island countries have seen a scale-up in development assistance, it has been modest relative to that enjoyed by other developing countries. Improvement has been mixed in areas identified as a concern by the aid effectiveness agenda, with high levels of volatility and lack of predictability particularly problematic.

1. Introduction

The Pacific islands is one of the most aid-dependent regions in the world. Official development assistance (ODA) is higher in the Pacific than in any other region on a per capita basis, and 10 Pacific island countries are among the 25 countries where ODA is highest as a proportion of national income. The importance of ODA to Small Island Developing States, of which Pacific island countries form the single largest grouping, is acknowledged in economic theory by the Migration, Remittances, Aid and Bureaucracy (MIRAB) model, which posits a central role for aid in funding government expenditure and service delivery in these states. There is a widespread belief that foreign aid, or development assistance, has contributed to the relatively high living standards seen in many Small Island Developing States in the Pacific. That said, this view is contested and is not true of all Pacific island countries.

Although there is analysis of various elements of aid effectiveness within the Pacific, there has been no high level quantitative analysis of the major trends and developments of aid provision in the Pacific in the twenty-first century. This article fills that gap in the literature by examining the extent and evolution of ODA to Pacific island nations, including Papua New Guinea and Timor-Leste. The next section provides the international context for aid to the region. The section that follows discusses the existing literature on aid in the Pacific. The article then explores ODA to Pacific island countries in
more depth, examining historical trends and changes in the delivery of aid, using data from the OECD Development Assistance Committee (DAC), supplemented where appropriate by data from other sources. This is the first time analysis of this nature has been published on the Pacific, and the authors hope it is useful in illustrating the challenges and opportunities for aid management in the world’s most aid dependent region.

2. A Brief History of Aid

The modern era of foreign aid is widely viewed to have commenced in the late 1940s with the Marshall Plan for post-war reconstruction in Europe. This closely coincided with US President Harry Truman’s inaugural address, which also outlined the case for providing aid for the development of poor countries in other parts of the world (Riddell 2007). The way in which aid is viewed as contributing to economic development objectives has evolved since. In the 1960s and early 1970s, aid was provided to fill capital shortages in a bid to achieve faster rates of economic growth. Arthur Lewis (2013) stressed the importance of financial and physical capital (infrastructure), to which Millikan and Rostow (1957) also added human capital (by stressing the need for technical assistance). The 1970s saw the emphasis shift for the first time to poverty alleviation, both through the efforts of World Bank President McNamara (Easterly point to McNamara’s 1973 annual address in Nairobi as a watershed moment) and the work of various UN agencies (especially the ILO and UNDP) (Easterly 2007; Riddell 2007). Aid was increasingly criticised at the same time for its pursuit of non-development motives such as commercial and strategic objectives.

The 1980s is often caricatured as a decade in which poverty was forgotten. Although strictly incorrect—poverty continued to drive many donor activities—there was a shift toward policies that would facilitate economic growth rather than focusing on poverty itself: a shift evident in donor efforts to make aid conditional on policy reform. Poverty gradually (again) received greater attention in the 1990s with the end of the Cold War. This was reflected in both the research efforts of international agencies (for example, the UNDP’s Human Development Report series commenced in 1990) and the policies advocated alongside structural adjustment loans, which increasingly considered the impact of market liberalisation on the poor. The 1990s and 2000s also saw the emphasis on policies widen to incorporate governance (broadly defined), institutions and political economy. The role of the state was more explicitly recognised in this period (Murray & Overton 2011).

The 16 years since the turn of the century have seen considerable change in both the amount and way in which aid is delivered.³ A renewed focus on poverty, evident in the Millennium Declaration (and ensuing Millennium Development Goals) and the World Bank’s 2000–2001 World Development Report Attacking Poverty, has resulted in commitments to increase ODA to developing countries, with this commitment agreed by OECD leaders as part of the at the 2002 Monterrey Consensus. There has been a resultant increase in ODA provided around the world, which has risen from $86 billion in 2000 to $178 billion in 2014 (both measured in constant USD, 2013). This reversed declines in the level of aid seen in the 1990s, although ODA as a proportion of donor Gross National Income (GNI), a widely used measure of donor ‘generosity’, has recovered only modestly and remains lower than in the 1960s.

Equally significant are changes to the way that aid is given. As part of the 2005 Paris Declaration on Aid Effectiveness, major bilateral and multilateral aid donors and recipients agreed to a series of commitments designed to make aid more effective, organised around the principles of (i) ownership of development strategies by aid recipients; (ii) alignment of donor aid to recipient priorities; (iii) harmonisation of donor development assistance in order to avoid duplication and simplify its provision; (iv) a results focus; and (v) mutual accountability by both development assistance providers and recipients. Targets associated with these principles were
established, with progress to be monitored by the OECD Development Assistance Committee. Although many of these developments were less novel than what is commonly believed, the ability to achieve wide agreement on such principles and to establish an institutional framework to monitor progress against specific targets was a new development which had not previously been achieved. The impact of these international developments on aid to Pacific island countries is discussed in the succeeding pages.

3. Literature on Aid in the Pacific

Aid has received considerable attention in the region given its economic importance and impact on service delivery. The influence of aid across a number of areas has been explored, including its role in supporting regionalism (Asian Development Bank and Commonwealth Secretariat 2005; Chand 2010; Dornan & Newton Cain 2014), infrastructure development (World Bank 2006; Pacific Region Infrastructure Facility 2013) and poverty reduction (Abbott & Pollard 2004). Development assistance from emerging donors in the region has also been the subject of study, with a number of authors pointing to the public policy ramifications of such assistance (Wesley-Smith & Porter 2010; Wesley-Smith 2013; Dornan & Brant 2014).

The way in which foreign aid is provided in the Pacific has also been examined. Murray and Overton (2011) study the impact on sovereignty of changes resulting from the aid effectiveness agenda (described in the previous section), concluding that administrative strains that reporting and planning requirements have placed on small governments have actually resulted in a loss of sovereignty for small island developing states in the region. Overton et al. (2012) highlight the agency exercised by Pacific Islanders in managing foreign aid flows. Dornan (2017) examines conditionality and the limits to policy influence that donors exercise. There have also been studies of aid program changes on the donor side, the most relevant of which examine changes to Australia’s and New Zealand’s aid programs (see Banks et al. (2012) for a study of changes in New Zealand, and Corbett (2017), Corbett and Dinnen (2016), Day (2016), and Wood et al. (2017) for studies of changes to foreign aid in Australia).

The economic literature has primarily focused on the question of whether aid has resulted in economic growth or poverty alleviation in Pacific island countries. Literature inspired by the MIRAB model has highlighted the importance of aid to smaller Pacific island countries with minimal economic opportunities due to remoteness and an absence of economies of scale (Bertram & Watters 1985; Bertram 1999; Armstrong & Read 2006; Bertram 2006; Fraenkel 2006). Winters (2005) and Winters and Martins (2004), for example, explore the geographical constraints to export-led development in small Pacific island countries, arguing that the absence of economies of scale makes impossible the pursuit of standard export-led development strategies, instead requiring a focus on areas where economic rents are available. This work informed the World Bank’s Pacific Futures discussion note, which highlighted the role of aid in its analysis of how economic geography impedes growth in smaller Pacific island countries (World Bank 2011).

Arguments in favour of aid have not gone uncriticised by economists. The World Bank points to the limits of aid in its phrase, the ‘Pacific paradox’, which describes a situation where small Pacific island countries that have received considerable aid have seen limited economic growth (Connell 2013). Others have directly attributed slow economic growth to the incentive and political effects of aid. The late Helen Hughes famously argued that ‘aid has failed the Pacific’ by distorting incentive structures away from productive activities and toward rent seeking activities, thereby reducing the prospect of rapid economic growth (Hughes 2003). This argument drew on debates at the international level, but was not supported by empirical evidence from the region. Pavlov and Sugden (2006) find that economic growth would have been lower in the absence of aid in the Pacific island countries, while Feeny (2006a) arrives at the

© 2017 The Authors. Asia & the Pacific Policy Studies published by John Wiley & Sons Australia, Ltd and Crawford School of Public Policy at The Australian National University
same result for Papua New Guinea. In another article, Feeny (2006b) argues that aid has not impacted rural areas of Melanesia but has lifted national growth rates.

These findings mirror those of the international literature on aid and economic growth, which has increasingly formed the consensus that aid inflows increase economic growth and reduce poverty, but are also subject to diminishing returns beyond a certain threshold. Feeny and McGillivray (2008) investigate diminishing returns in the Pacific, estimating the threshold at which aid is subject to diminishing returns on economic growth (meaning that additional aid no longer contributes to increases in the rate of per capita income growth) to be 20.2 per cent: a level that is lower than that seen in seven Pacific island countries. However, such estimates are controversial and vary widely between studies. A key argument for why aid is subject to diminishing returns is that aid can overwhelm the capacity of a country and its economy to absorb that aid (the term absorptive capacity is commonly used). But the absorptive capacity of countries and economies varies, given different levels of education, capital and so forth. Logically then, the threshold at which aid is subject to diminishing returns must also vary and can be increased by the right policies and, potentially, by appropriate development assistance.

More broadly, the merit of cross-country regressions designed to link aid with growth in per capita income has also been brought into question. Duflo and Kremer (2003) for example argue that it is impossible to establish whether aid leads to economic growth due to methodological issues (important among these being issues of causality). Easterly and Sterne note that such studies are ‘running into sharply diminishing returns’ (Riddell 2007).

Another strand of the economic literature on aid to the Pacific has examined its impact on political economy and institutions (Larmour 2005; Duncan 2011; Dornan 2014a; Dornan 2016). Bowman and Chand (2008) argue that high levels of aid are correlated with low institutional quality in small states, although not large states. The results from Gani’s (2009) study of aid and its effects on governance in the Pacific are mixed. Such studies are relevant to debates at the international level regarding whether aid is directed toward countries with poor policies (Burnside & Dollar 2000). Gouy (2011) and Feeny (2007) contribute to another international debate by discussing the potential for aid to reduce revenue collection efforts. Feeny (2007) finds evidence of this in Melanesia, whereas Gouy (2011) finds no such evidence when looking across all Pacific island countries. This latter finding is consistent with that of the international literature, which has found no consistent effect on tax revenue (Morrissey 2014).

What has been missing in the academic literature to date has been high level quantitative assessment of the trends and changes in foreign aid to the Pacific. That is what this article sets out to rectify. Through a historical analysis of aid flows to the region, this article assesses the extent to which the Pacific has shared in the scale up of aid flows seen internationally, and how donors in the region perform with respect to the Paris Principles of harmonisation and alignment, as well as in other areas known to impact effectiveness (including volatility and predictability).

4. Findings: Trends and Changes in Development Assistance to the Pacific

4.1. Levels of Development Assistance

Official development assistance (ODA) to Pacific island countries has increased in the last decade by approximately one-third in inflation adjusted terms after a long period of relative stability, despite significant year-to-year variations (Figure 1). The increase in ODA in the first half of the last decade coincided with high-level calls to ‘scale up’ aid to developing countries, as discussed previously. It also coincided with major military interventions in the region in both Timor-Leste and Solomon Islands. Although significant, the increase in ODA to Pacific nations is modest when compared to the increase in ODA to Sub-
Saharan Africa, or indeed, to developing countries as a whole. Figure 2 illustrates the relative increase in ODA enjoyed by different regions since 1970. While aid to Pacific nations has remained relatively stable in real terms since 1970, increasing moderately in the last decade, it has increased more than six-fold in Sub-Saharan Africa over the same period, and almost three-fold in other developing countries. Official development assistance has remained stable, and more recently fallen, in Far East Asia owing to the strong economic growth enjoyed in that region. The divergence between regions is especially notable after 2000, or in the period of the ‘scale up’. Whereas ODA to the Pacific increased by one-third in this period, across all developing countries it doubled, and in Sub-Saharan

Figure 1 Aid to the Pacific (including Timor-Leste)

![Graph showing Aid to the Pacific](image1)

Figure 2 Official Development Assistance (Index, 1970 = 100)

![Graph showing Official Development Assistance](image2)
Africa the increase was higher still, with ODA in 2014 230 per cent what it was in 2000.

These inter-regional allocation patterns can to some extent be explained by the focus on poverty alleviation that arose as a result of the 2000 Millennium Declaration. The Millennium Declaration, along with the Millennium Development Goals agreed in the following year, sought to halve the proportion of the world’s population living on less than $1 per day. Per capita incomes in many (although not all) Pacific island countries are comparatively higher than in regions such as Sub-Saharan Africa or South Asia, and so the direction of aid to such regions is understandable. However, the same pattern is not observed when one considers changes to ODA flows by country within the Pacific; these flows are not linked to per capita income, or by association, poverty reduction efforts. Countries with comparatively high per capita incomes such as Cook Islands, Niue and Tonga have seen large increases in aid over the period of 2000–2002 and 2012–2014 (119, 93 and 116 per cent, respectively), whereas aid to the two Pacific island countries where poverty is concentrated, Papua New Guinea and Timor-Leste, grew 19 per cent and fell 36 per cent, respectively. The largest increase between over this period, interestingly, has been in ODA directed to regional initiatives and organisations. This now represents the third largest component of ODA to the Pacific.

When a more relevant measure, aid per capita, is considered, the contrast between countries is more striking still, as can be seen in Figure 3. Aid per capita is particularly low in Papua New Guinea and Timor-Leste and has decreased in real terms since 2000–2002 in both countries. Aid per capita for eight Pacific island countries is closer to the (unweighted) average for Sub-Saharan Africa than for the Pacific, while aid per capita received by

---

**Figure 3**  ODA per Capital across Pacific Island Countries
Timor-Leste, Fiji and Papua New Guinea sits closer to the (unweighted) average for Far East Asia.

As a general rule, Pacific island countries with small populations tend to be provided with more aid: a finding consistent with the international literature on how aid is allocated across countries. There are several theoretical reasons for why this is the case. The most prominent is that donors like to operate in as many countries as possible, for geopolitical and strategic reasons, and hence small countries tend to receive more aid per capita than large countries (Alesina & Dollar 2000). Analysis of ODA to Pacific island countries certainly supports this proposition, with many small bilateral donors providing trivial amounts to different Island countries. An alternative explanation for why aid per capita is higher in small countries is the economies of scale argument, which posits that service delivery by government is subject to economies of scale. According to this argument, it costs considerably more for development partners to support service delivery in small countries than in large countries. There is some evidence to support this in the Pacific, although it is by no means comprehensive (Pacific Region Infrastructure Facility 2013; Dornan 2014b). The relationship between aid per capita and population is not true of all Pacific island countries. Rather, it appears that while no large country receives significant aid per capita, small countries can receive both high and low levels of per capita aid. Countries that maintain an association with New Zealand (and to a lesser extent, the United States) also appear to receive more aid.

Another measure used to compare the amount of aid received across countries is ODA as a percentage of GNI: an indicator commonly used to assess aid dependence. On this measure, Pacific island countries are among the most aid-dependent countries in the world, with seven of the world’s 15 most aid-dependent countries (measured on the basis of ODA/GNI in 2012–2014) situated in the region. Again, there is a tendency for countries with small populations to receive more aid as a proportion of GNI, although there are clear exceptions (Solomon Islands, for example, which is not small by Pacific island standards). Figure 4 shows that the majority of Pacific island countries receive more aid as a percentage of GNI than is the case in Sub-Saharan Africa (based on its unweighted country average), which is another region commonly assumed to be aid dependent (the average in Far East Asia, unsurprisingly, is considerably lower, and is equivalent to that of Fiji). As with aid per capita, there is no link between changes in ODA/GNI between 2000–2002 and 2012–2014 and income per capita (or by association, poverty alleviation efforts). This is despite poverty alleviation being the primary objective behind global efforts to ‘scale up’ aid to developing countries.

4.2. Development Assistance Providers

Australia is the largest provider of development assistance in the region, although there is significant variation between Pacific island countries, with those in the North Pacific more reliant on Compact Funding from the United States. A number of caveats regarding the OECD data are also worth noting. First, the data are focused on sovereign Pacific island countries, which means that transfers of funds to non-independent territories like New Caledonia, Guam, Wallis and Futuna and the Commonwealth of the Northern Marianas are not counted. Inclusion of these funds would alter Figure 5 significantly, with fiscal transfers (not counted as ODA) from France to New Caledonia alone measuring approximately $500 million each year. The second point to note is that the data on ODA calculate net loans, which means that loan repayments are subtracted from ODA that is provided. This has the effect of reducing the amount of ODA provided by multilateral institutions (especially the ADB through the AsDB Special Funds) and Japan.

Notwithstanding these caveats, aid to the Pacific is very concentrated. In no other region in the world does a single donor provide such a large share of total ODA as Australia (the United States in the Middle-East comes close). Foreign aid is concentrated further at the
country level, with most aid to countries like Papua New Guinea, Solomon Islands, Niue and Tokelau provided by one donor. These patterns are often the result of historical ties, including colonial relationships. Fragmentation across the Pacific remains low despite recent cuts to the Australian aid budget, given the fact that aid to Pacific island
countries was largely protected from such reductions.

Chinese development assistance is not reflected in the OECD data (or in Figure 5). In the absence of official data from the Chinese Government on ODA to the region, a number of authors have produced over-estimates of Chinese aid to the region (Hanson 2009; Hanson & Fifita 2011). Better data are now available from an extensive Lowy Institute survey of Chinese assistance to Pacific island countries, based on information sourced from budget documents and other government sources (Brant 2016). These estimates, which are illustrated in Figure 6, suggest that China has become the third most important source of ODA to the region, with a total of US $1.78 billion provided as development assistance between 2006 and 2016 (multi-year data are more reliable given challenges associated with calculating yearly expenditure of Chinese ODA-funded projects).

Chinese development assistance in the region is targeted to countries that adhere to the ‘one China’ policy, which include Cook Islands, FSM, Fiji, Niue, Papua New Guinea, Samoa, Timor-Leste, Tonga and Vanuatu. The Chinese share of total development assistance in these countries is more significant than for the region as a whole. China has provided over 50 per cent of total ODA to Fiji between 2006 and 2013, and close to 30 per cent of ODA in Cook Islands, Samoa, Tonga and Vanuatu, where it has become the second main source of development funding. Notwithstanding this, and the significance of its development assistance to the region more broadly, China’s share of total ODA to the region remains small, with approximately 80 per cent of Chinese development assistance taking the form of concessional loans (the majority of which are provided by China Eximbank for infrastructure, broadly defined). Development assistance to the region is very concentrated even when accounting for assistance from China.

5. Analysis of Foreign Aid in the Pacific

Development assistance to Pacific island countries has evolved as a result of changes to what is internationally considered ‘best practice’ aid management and delivery. Principles advocated by the Paris Declaration have also been agreed in the Pacific by major donors and Pacific island countries (with the exception of Timor-Leste) as part of the 2009 Pacific Islands Forum’s Compact on Aid Effectiveness (the Cairns Compact). This agreement resulted in the peer review of aid management systems in Pacific island member countries, and starting in 2014, with the review of the aid programmes of major development partners. The focus on ownership led to a

Figure 6 Top Five Sources of ODA to Pacific Island Countries, 2006–2014 (Current, USD Billion)
renewed focus on national development plans (and associated sector and economic strategies), and to new country partnerships agreements between development assistance providers and Pacific island country governments. The impacts of these developments on ownership, alignment and coordination are inherently difficult to measure. Murray and Overton (2011) argue that such changes have reduced sovereignty of Pacific island countries. Dornan (2017) is more optimistic and notes some improvements. Below, we use the quantitative data that are available to explore changes to foreign aid provided in the region over this period, focusing on variables that can be measured.

5.1. Programme-Based Approaches

In recognition of the high transaction costs associated with a large number of individual projects, and in an effort to use local systems where possible, there has been a shift away from projects toward programme-based approaches, including sector-wide approaches (SWAs) and budget support. There are limited data on the use of programme-based approaches in Pacific island countries, with 2008 survey data from the OECD the most comprehensive source (a survey has not been conducted more recently). The target established by the High Level Forum on Aid Effectiveness in Paris for 66 per cent of aid to be delivered through programme-based approaches had clearly not been met in 2008 (the latest year for which data are available). However, Pacific island countries as a whole perform especially poorly, with only 32 per cent of ODA provided as part of a programme-based approach (see Figure 7). The corresponding figures in Sub-Saharan Africa and Far East Asia were 45 and 56 per cent, respectively. There is variation across countries in the region, with Samoa, which is known to have effective aid management systems and frameworks, a stand-out performer (Fiji’s very low score at the time reflects the fact that development partner engagement with the military government was limited).

5.2. Fragmentation

Fragmentation of foreign aid describes the challenge whereby aid progressively comes in too many small slices from too many donors,

![Figure 7 Program-Based Approaches (Percentage of Aid Disbursed)](image-url)
creating high transaction costs and making it difficult for partner countries to effectively manage their own development. Fragmentation of foreign aid, which is widely discussed in the aid effectiveness literature, is lower among Pacific island countries than in other regions as a result of the concentration of development assistance discussed in the preceding section. The Herfindahl–Hirschman index, which was developed as a measure of industry concentration but can also be applied to development assistance (Easterly 2007; Pfutze 2010), shows that aid to Pacific island countries is less fragmented than in other regions, as illustrated in Table 1. This has a number of potential benefits. The 2006 Global Monitoring Report notes that:

‘High fragmentation can have negative implications for aid quality for several reasons: high transaction costs for recipients because more time is taken meeting donor requirements; too many small projects, with consequent limited opportunities to reap scale economies; and smaller or narrower donor stakes in overall country outcomes. A large number of donors also compounds the challenge of donor coordination.’ (IMF and World Bank 2006).

Fragmentation, of course, says little about donor coordination, except to the extent that it is reasonable to expect coordination to be both more difficult and costly for a larger number of donors. Measures of donor coordination that are available, although imperfect, suggest that there is considerable variation between Pacific island countries in relation to donor coordination, but that on average, donors perform less well in Pacific island countries than they do in other developing countries.7 The data presented in Figure 8 provide a snapshot but does not indicate whether or not coordination has improved. The anecdotal evidence available suggests that there has been modest improvement, especially in the area of aid to support policy reform. This is evident in the growing use of program-based approaches that include a number of development partners, in the establishment of donor roundtables (see Dornan & Brant 2014 for a discussion), and in the use of national plans to inform aid spending in areas such as infrastructure development. Discussions with donors and aid recipients nonetheless highlight scope for further improvement (Interviews with development assistance providers, 2014).

5.3. Volatility

The volatility of foreign aid flows is another issue discussed in the aid literature. Aid volatility has been demonstrated to have a negative impact on economic growth (Bulir & Hamann 2003; Hudson & Mosley 2007; Bulir & Hamann 2008), investment and government expenditure (Hudson & Mosley 2007; Hudson & Mosley 2008). The tendency for aid to be pro-cyclical makes aid-dependent countries more prone to external shocks, reduces the effectiveness of counter-cyclical policy tools (Bulir & Hamann 2008) and adversely affects the ability of governments to plan expenditure (Bulir & Hamann 2003). Aid flows have been shown to suffer from greater volatility than general government revenue or GDP (Bulir & Hamann 2003; Hudson & Mosley 2007; Riddell 2007; Bulir & Hamann 2008).

At the international level, aid volatility has increased in the last decade, despite the Paris Declaration’s call for development partners to ‘provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules’, in a manner that is aligned with country plans and...
objectives (Hudson & Mosley 2008; OECD DAC 2010). Interestingly, Hudson and Mosley (2007) argue that reductions in the degree of donor oligopoly, through greater competition between donors in recipient countries (or in other words, increased fragmentation), can lower levels of aid volatility. This finding conflicts with calls to reduce donor fragmentation discussed previously (see for example Easterly 2007).

Aid volatility in Pacific island countries is compared to that in Sub-Saharan Africa and Far East Asia over a number of decades in Figure 9, which, in keeping with the literature, uses the coefficient of variation as an indicator of volatility. Aid volatility since 2000 has been lower in Pacific island countries than in Far East Asia and Sub-Saharan Africa. Country-level data presented in Table 2 show a mixed picture, with considerable variation in aid volatility across Pacific island countries, and across time within individual countries.

It is often assumed that aid volatility is highest in small countries where ODA is more important as a proportion of GNI (Clarke et al. 2008; Iulai 2014). The data for Pacific island countries spanning 1970–2012 do not support this proposition, whether size is measured on the basis of population or ODA received (in both absolute terms, and as a proportion of GNI). However, when the volatility of aid supply from individual donor’s aid is assessed, there appears to be a negative relationship between the amounts of aid provided and its volatility, as shown in Figure 10. This result implies that aid from less important development partners in Pacific island countries is likely to be more volatile, which is not a surprise given project lumpiness. What is interesting is that the same result holds if development partners which provide less than $5 million per annum on average are excluded from the analysis.

5.4. Predictability

Predictability is also important for recipient governments, as it enables recipients to plan for and manage changes in aid received. The indicator of most interest here is Country Programmable Aid (CPA), which excludes aid that is by its very nature unpredictable, such as aid provided as part of an emergency or humanitarian response. Here, we draw on a
unique survey of providers of development assistance that collects donors’ forward estimates for CPA in each region. Data are available from 2008 onwards for Oceania (excluding Timor-Leste), although not at the individual donor level. These forward estimates are compared to actual CPA provided in Figure 11. It is immediately evident that the CPA forward estimates are highly inaccurate, failing to predict the scale up of aid to the region in 2008–2009, and in 2010, failing to predict a decline in CPA. The improved accuracy of forward estimates since 2010 is encouraging, but the one year of data is not sufficient to say that this improvement is part of a longer trend. Furthermore, when the same data are shown for individual countries (see Figure 12), the improvement since 2010 is not always evident.

Predictability appears to be particularly problematic in the Pacific islands region. On average, predictability is lower in Oceania than in Sub-Saharan Africa or in other developing countries (a fact that cannot be explained by greater susceptibility to economic shocks and natural disasters, given that CPA does not include aid flows that are inherently unpredictable, such as disaster relief efforts). This is concerning given the importance of foreign aid to Pacific island countries, both in per capita terms and in relation to national income (as measured by ODA/GNI).

Figure 9 ODA Volatility (Unweighted Average across Countries)

Table 2 Aid Volatility: The Coefficient of Variation in Pacific Island Countries

|                  | 1970–1979 | 1980–1989 | 1990–1999 | 2000–2014 | 1970–2012 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Cook Islands     | 0.16      | 0.45      | 0.30      | 0.58      | 0.53      |
| Fiji             | 0.25      | 0.10      | 0.23      | 0.24      | 0.24      |
| Kiribati         | 0.27      | 0.14      | 0.21      | 0.44      | 0.31      |
| Marshall Islands | 0.59      | 0.25      | 0.25      | 0.39      |           |
| Micronesia       |           |           | 0.56      | 0.20      | 0.36      |
| Nauru            | 0.2       | 0.74      | 1.04      | 0.32      | 1.18      |
| Niue             | 0.18      | 0.30      | 0.30      | 0.36      | 0.32      |
| Palau            |           |           |           | 1.04      | 0.28      | 1.22      |
| Papua New Guinea | 0.13      | 0.09      | 0.16      | 0.16      | 0.35      |
| Samoa            | 0.68      | 0.11      | 0.28      | 0.43      | 0.44      |
| Solomon Islands  | 0.22      | 0.24      | 0.12      | 0.37      | 0.69      |
| Timor-Leste      | 0.94      | 0.57      | 3.09      | 0.23      | 1.21      |
| Tokelau          | 0.47      | 0.23      | 0.19      | 0.33      | 0.61      |
| Tonga            | 0.87      | 0.1       | 0.15      | 0.43      | 0.44      |
| Tuvalu           | 0.58      | 0.81      | 0.19      | 0.45      | 0.64      |
| Vanuatu          | 0.51      | 0.18      | 0.19      | 0.28      | 0.31      |

Source: Calculations by authors using OECD data.
5.5. Technical Cooperation

Technical cooperation is another indicator of progress against the aid effectiveness agenda established by the Paris Declaration. Technical cooperation (or technical assistance) has been criticised for a range of reasons, including failure to generate sustainable impacts (or at least impacts that can be attributed to technical cooperation), and the widespread use of technical experts from developed countries and the associated repatriation of salaries by
those experts. Although it is an important aid modality, and can be beneficial in many cases, there has been a clear trend over the last decade to reduce reliance on technical cooperation (Easterly 2007; Riddell 2007).

The data presented in Figure 13 confirm that ODA to Pacific island countries comprises a considerable technical cooperation component, higher than in other regions. This is not surprising. The small size of many Pacific
island countries limits access to ‘in-house’ specialised knowledge, ‘brain drain’ is known to be a problem in the region and even larger Pacific island countries such as Papua New Guinea suffer from limited government capacity. Nevertheless, the data suggest that the importance of technical assistance in the region has declined significantly in recent years.

6. Conclusion

This article has explored changes in the provision of development assistance to Pacific island countries since 2000 using available quantitative data. Much of the change that has occurred over this period has been influenced by international developments, including the foreign aid ‘scale up’ that originated in the 2000 Millennium Declaration, and the aid effectiveness agenda first adopted as part of the Paris Declaration. These developments have influenced but not determined both the level of development assistance received by Pacific island countries and the way in which it is delivered.

The Pacific has seen a scale-up in the ODA since 2000, receiving a little less than one-third more assistance than was the case previously. Although not insignificant, this scale-up is modest when compared to that enjoyed by other developing countries, which have seen development assistance double. Sub-Saharan Africa has seen an increase of 130 per cent. There has nevertheless been great variation in the size of the scale-up for Pacific island countries. Despite the poverty alleviation objectives of the aid ‘scale-up’, many countries with comparatively higher incomes have benefitted more than those where poverty is concentrated. PNG and Timor-Leste, which are home to most the region’s poor, have seen per capita reductions in development assistance over the period.

Improvement has been mixed in areas identified as a concern by the aid effectiveness agenda. Aid volatility and predictability remain problematic in Pacific island countries. There has been greater emphasis on coordination among development assistance providers, although there is not good evidence of improvement. The same can be said of the move away from project and toward programme-based approaches for delivering development assistance. One area where there has been notable change is in the provision of technical assistance. The importance of technical assistance has declined in recent years, although spending on TA remains high in the Pacific relative to other regions. This is an attribute that is unlikely to change given the unique challenges faced by SIDS in the region.

There is good reason to believe that foreign aid will continue to be an important source of foreign exchange for many Pacific island countries going forward. Although this reflects an absence of economic development, the continuation of aid should nonetheless be viewed positively, as a source of income that raises living standards beyond what they would be without aid. In this context, the continuation of efforts to improve aid effectiveness remains important, as do efforts to better measure such improvements. The analysis presented here demonstrates that there is considerable scope for making changes to foreign aid so that it better meets development objectives.

Endnotes

1. The focus of this paper is official development assistance, which consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, as well as multilateral organisations. Most, but not all, development assistance (or aid) is captured by ODA. Assistance to developed countries is excluded (this is termed Official Aid, or OA). Development assistance from many non-OECD DAC members is also excluded. ODA data do not include flows from private individuals and non-government organisations (NGOs). The terms aid, foreign aid and development assistance are used interchangeably in the paper.

2. The countries covered in this analysis are: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-
Lester, Tokelau, Tonga, Tuvalu and Vanuatu. Territories have been excluded from this analysis because of the difficulty to distinguish between what would simply be classified as a resource transfer and what could be classified as foreign aid. The resource transfers to some Territories (such as New Caledonia and French Polynesia) would also significantly distort the findings of this paper without clearly making this distinction, which is beyond the ability of this paper to provide.

3. The call by the UN Secretary General and various national leaders in the 2000s to increase aid to 0.7 per cent of GNI repeated the key recommendation of the Pearson Commission, which was tasked by the World Bank President to assess ODA in 1969.

4. These estimates are often based on public announcements and press clippings, leading to problems such as ‘double counting’.

5. Data are available at http://www.lowyinstitute.org/chinese-aid-map/.

6. For example, the Australian government, which provides more than half of all foreign aid to the region, now has country partnership agreements in place with all Pacific island Countries.

7. These measures are limited to OECD data regarding the coordination of missions, analytical works and technical cooperation spending (collected for 2008 as part of efforts to measure progress against the Paris Declaration on Aid Effectiveness, and presented in Figure 9 along with targets for 2010 agreed at the High Level Forum on Aid Effectiveness in Paris).

References

Abbott D, Pollard S (2004) Hardship and Poverty in the Pacific. Asian Development Bank, Manila.

Alesina A, Dollar D (2000) Who Gives Foreign Aid to Whom and Why? Journal of Economic Growth 5(1), 33–63.

Armstrong H, Read R (2006) Geographical ‘Handicaps’ and Small States: Some Implications for the Pacific from a Global Perspective. Asia Pacific Viewpoint 47(1), 79–92.

Asian Development Bank and Commonwealth Secretariat (2005) Toward a New Pacific Regionalism, Suva: Joint Report to the Pacific Islands Forum Secretariat.

Banks G, Murray W, Overton J, Scheyvens R (2012) Paddling on One Side of the Canoe? The Changing Nature of New Zealand’s Development Assistance Programme. Development Policy Review 30(2), 169–86.

Bertram G (1999) The MIRAB Model Twelve Years On. The Contemporary Pacific 11(1), 105–38.

Bertram G (2006) Introduction: The MIRAB Economy in the Twenty-First Century. Asia Pacific Viewpoint 47(1), 1–3.

Bertram G, Watters R (1985) The MIRAB Economy in South Pacific Microstates. Pacific Viewpoint 26(3), 497–512.

Bowman C, Chand S (2008) Size Matters: The Impact of Aid on Institutions. Pacific Economic Bulletin 23(2), 145–65.

Brant, P. 2016. Chinese Aid in the Pacific. Lowy Institute for International Policy.

Bulir A, Hamann AJ (2003) Aid Volatility: An Empirical Assessment. International Monetary Fund, Washington, D.C.

Bulir A, Hamann AJ (2008) Volatility of Development Aid: From the Frying Pan into the Fire? World Development 36(10), 2048–66.

Burnside C, Dollar D (2000) Aid, Policies, and Growth. American Economics Review 90(4), 847–69.

Chand S (2010) Shaping New Regionalism in the Pacific Islands: Back to the Future? Asian Development Bank, Manila.

Clarke M, Fry T, Mihajilo S (2008) The Volatility of Aid to Small Island States. Pacific Economic Bulletin 23(2), 179–202.

Connell J (2013) Islands at Risk? Environments, Economies, and Contemporary Change. Edward Elgar, Cheltenham UK.

Corbett J (2017) Australia’s Foreign Aid Dilemma: Humanitarian Aspirations Confront Democratic Legitimacy. Routledge, Abingdon.

Corbett J, Dinnen S (2016) Examining Recent Shifts in Australia’s Foreign Aid Policy: New Paradigm or More Incremental Change? Australian Journal of International Affairs 70(1), 87–103.

Day B (2016) Australian Aid after the ‘Golden Consensus’: From Aid Policy to
Development Policy? Australian Journal of International Affairs 70(6), 641–56.
Dornan M (2014a) Reform Despite Politics? The Political Economy of Power Sector Reform in Fiji, 1996–2013. Energy Policy 67, 703–12.
Dornan M (2014b) Trade-related Infrastructure in Pacific Small Island Developing States. The World Bank, Washington D.C.
Dornan M (2016) The Political Economy of Road Management Reform: Papua New Guinea’s National Road Fund. Asia and the Pacific Policy Studies Series. Manila, Asian Development Bank.
Dornan M, Brant P (2014) Chinese Assistance in the Pacific: Agency, Effectiveness and the Role of Pacific Island Governments. Asia and the Pacific Policy Studies 1(2), 349–63.
Dornan M, Newton Cain T (2014) Regional Service Delivery among Small Island Developing States of the Pacific: An Assessment. Asia and the Pacific Policy Studies 1(3), 541–60.
Duflot, E. and Kremer, M. (2003) ‘Use of Randomization in the Evaluation of Development Effectiveness’, World Bank Operations Evaluation Department Conference on Evaluation and Development Effectiveness.
Duncan R (ed) (2011) The Political Economy of Economic Reform in the Pacific. Asian Development Bank, Manila.
Easterly W (2007) Are Aid Agencies Improving? Economic Policy 22(5), 633–78.
Feeny S (2006a) Economic Impacts of Foreign Aid to Melanesia. Journal of the Asia Pacific Economy 12(1), 34–60.
Feeny S (2006b) The Impact of Foreign Aid on Economic Growth in Papua New Guinea. Journal of Development Studies 41(6), 1092–117.
Feeny S (2007) Foreign Aid and Fiscal Governance in Melanesia. World Development 35(3), 439–53.
Feeny S, McGillivray M (2008) Do Pacific Countries Receive Too Much Foreign Aid? Pacific Economic Bulletin 23(2), 166–78.
Fraenkel J (2006) Beyond MIRAB: Do Aid and Remittances Crowd Out Export Growth in Pacific Microeconomies? Asia Pacific Viewpoint 47(1).
Gani A (2009) Governance and Foreign Aid in Pacific Island Countries. Journal of International Development 21(1), 112–25.
Gouy J (2011) Aid, Dutch Disease, and the Pacific. In: Duncan R (ed) The Political Economy of Economic Reform in the Pacific Pacific Studies Series. Manila, Asian Development Bank.
Hanson F (2009) China: Stumbling Through the Pacific. Lowy Institute for International Policy, Sydney.
Hanson F, Fifita M (2011) China in the Pacific: The New Banker in Town. Lowy Institute for International Policy, Sydney.
Hudson J, Mosley P (2007) Aid Volatility, Policy and Development. World Development 36(10).
Hudson J, Mosley P (2008) The Macroeconomic Impact of Aid Volatility. Economic Letters 99, 486–9.
Hughes, H. (2003) Aid has Failed the Pacific: Centre for Independent Studies.
IMF and World Bank (2006) Global Monitoring Report. Millennium Development Goals: Strengthening Mutual Accountability, Aid, Trade, and Governance, Washington, D.C.
Iulai L (2014) Aid Volatility: Is it a Problem in Tuvalu. Asia and the Pacific Policy Studies 1(2), 379–94.
Larmour P (2005) Foreign Flowers. University of Hawai‘i Press, Honolulu.
Lewis WA (2013) Theory of Economic Growth. Routledge, London.
Millikan MF, Rostow WW (1957) A Proposal: Key to an Effective Foreign Policy. Harper & Bros, New York.
Morrissey O (2014) Aid and Government Fiscal Behavior: Assessing Recent Evidence. World Development. In press.
Murray WE, Overton J (2011) The Inverse Sovereignty Effect: Aid, Scale and
Neostructuralism in Oceania. Asia Pacific Viewpoint 52(3), 272–84.

OECD DAC (2010) Guidance for the 2011 Survey on Monitoring the Paris Declaration.

Overton J, Prinsen G, Murray WE, Wrighton N (2012) Reversing the Tide of Aid: Investigating Development Policy Sovereignty in the Pacific. Journal de la Société des Océanistes 2, 229–42.

Pacific Region Infrastructure Facility (2013) Infrastructure Maintenance in the Pacific: Challenging the Build, Neglect, Rebuild Paradigm. Sydney.

Pavlov, V. and Sugden, C. (2006) 'Aid and Growth in the Pacific Islands'. Asian-Pacific Economic Literature.

Pfutze T (2010) The Importance of Aid Fragmentation in Sub-Saharan Africa. Centre for International Relations, Arlington, VA.

Riddell RC (2007) Does Foreign Aid Really Work? Oxford University Press, Oxford.

Wesley-Smith T (2013) China’s Rise in Oceania: Issues and Perspectives. Pacific Affairs 86(2), 351–72.

Wesley-Smith T, Porter EA (eds) (2010) China in Oceania: Reshaping the Pacific? Berghahn Books, New York.

Winters LA (2005) Policy Challenges for Small Economies in a Globalising World. In: Chand S (ed) Pacific Islands Regional Integration and Governance. ANU Press, Canberra.

Winters LA, Martins PM (2004) When Comparative Advantage Is Not Enough: Business Costs in Small Remote Economies. World Trade Review 3(3), 347–83.

Wood T, Burkot C, Howes S (2017) Gauging Change in Australian Aid: Stakeholder Perceptions of the Government Aid Program. Asia & the Pacific Policy Studies 4(2), 237–50.

World Bank (2006) The Pacific Infrastructure Challenge. World Bank Group, Washington D.C.

World Bank (2011) Pacific Futures: World Bank Discussion Note. World Bank Group, Sydney.