Saturday May 17, 2014

Who gives more aid to Pacific Islands?

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For the past four decades, Pacific island countries (PICs) are well known for their aid dependency syndrome, a continuing malaise ever since their independence in the 1970s. Generous aid money received from donors, who were the former colonial rulers, was initially for annual budgetary support. Aid, known as official development assistance in terms of pure grants was for salaries to civil servants and other recurrent expenditures.

The objective behind aid was to provide resources for the critically needed growth enhancing physical infrastructural facilities as well as investment in social infrastructure including health and education, as governments of PICs were not raising adequate revenue from taxes and user fees.

A Paradox

During 1970-1990, Samoa, Solomon Islands, Tonga and Vanuatu received aid in the range of 35 to 45 percent of their gross domestic product (GDP). Fiji was an exception. It was rarely more than 4 percent. It averaged around 2 percent of GDP.

While the Caribbean and Indian Ocean island nations which received much less aid did well, PICs were faring poorly. The growth rate in the Pacific was barely exceeding one percent. Per capita incomes in real terms were stagnant. That provoked the World Bank in their first ever series of economic reports on PICs published in 1993 to refer to the phenomenon of poor growth in the midst of plentiful aid as “Pacific Paradox”.

A more famous paradox was immortalized by Samuel Taylor Coleridge in the *Rime of the Ancient Mariner.* It is the story of a sailor’s long sea voyage with near death experiences:

“Water, water, everywhere,
And all the boards did shrink;
Water, water, everywhere,
Nor any drop to drink.”

That was the result of the curse associated with the killing of the Albatross by the sailor.

End of Cold War

Following the fall of the Berlin Wall in 1989 and demise of the Soviet Union, attention of the West was turned on rebuilding Eastern Europe. Cutting down of annual aid flows to PICs began with a review of aid to PICs by Development Assistance Committee (DAC) of the Paris based think tank of Organization of Economic Cooperation and Development (OECD) in 1991. Britain was the first to phase out of bilateral budgetary support to PICs.

Another consequence was redirection of aid flows, focusing only on projects and programs such as health and education, and for institution building and policy reforms. Further, donors began to coordinate with each other and international lending agencies for ensuring there is no duplication of project or program aid.

The purpose behind these actions is to conserve shrinking aid resources and maximize returns to donors. Here comes the subject of boomerang nature of bilateral aid. Every donor government is concerned about tax payers’ reactions. It is keen that free aid given out results in generating jobs for its own citizens by way of consulting services and increase in exports of capital goods.

Continuing curse of aid

The latest study on aid and growth in the Pacific is more alarming.

Alfred Deakin Research Institute’s study led by Professor Mark McGillivray with Sustineo Pty Ltd as the industry partner evaluates the effectiveness of aid given out by 27 major countries It notes that progress towards the UN Millennium Development Goal of halving income poverty is the worst of all regions in the world.

Observing that Pacific is a tale of paradise almost lost, McGillivray says: “Pacific Islands have consistently recorded the lowest and most volatile rates of per capita economic growth of any region in the world.”

The finding is no different from that of the World Bank’s 1993 study.

The contribution of McGillivray and associates is the development of an index ranking the 27 major donors on aid, trade, migration, finance, security, the creation and dissemination of new technologies and the promotion of environmental sustainability. China is not included because of incomplete information.

The top five donors to PICs are: New Zealand (1), Australia (2), Denmark (3), Finland (4) and Portugal (5). UK is ranked at 8, France at 10, and USA at 18. The lowest ranked is Korea, and Japan is slightly ahead at 25.

The study concludes aid alone is not enough to address the development challenges that regions face. It is apparent reforms, structural and policy oriented, are needed and that too in many areas.

Encouraging greater mobility of islanders seeking employment in advanced countries resulting in greater remittances to PICs is one of the solutions.

The study ranks New Zealand as the best performer in this area as well.