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## Development Assistance Challenges

Vijay Naidu

### **Vijay Naidu: Personal Journey**

For the past four decades I have been an engaged Pacific scholar and, during this time, I have read and been influenced by the work of some pioneering scholars from The Australian National University (ANU), worked closely with ANU colleagues, and enjoyed longstanding friendships with several who were at ANU at some point in their working lives.

My undergraduate class of 1971 at the University of the South Pacific (USP) included Brij Lal and Kesaia Seniloli (both of whom later completed their PhD studies at ANU, and Brij would later become a distinguished professor at ANU), Rajesh Chandra (former vice chancellor of USP) and Justice Daniel Fatiaki (former chief justice of Fiji and currently judge of the Supreme Court in Vanuatu). Among our lecturers in subsequent years were Professor Ron Crocombe and Dr Ahmed Ali, both of whom had ANU connections. Studying Pacific history and societies, Pacific Islands development and migration, and ethnicity in Fiji meant that from my undergraduate days I was exposed to the scholarly writings of Jim Davidson, E. K. Fisk, Gerry Ward, Harold Brookfield, Ken Gillion, Neil Gunson, Deryck Scarr, Dorothy Shineberg and Oskar Spate.

I worked closely with Professor Ron Crocombe as his tutor in the Advanced Pacific History course he taught at the third-year level. I owe my fortuitous entry into academia to him and Professor John Harre especially.

In addition to Brij Lal, other ANU scholars past and present with whom I have enjoyed friendship over the years, and/or whose work I have read and been influenced by, are Ahmed Ali, Stewart Firth, Greg Fry, William Sutherland, Ron Duncan, Ropate Qalo, Sandra Tarte, Scott McWilliams, Stephanie Lawson, Katarina Teaiwa and Jon Fraenkel.

Research collaboration and attendance at seminars and conferences have resulted in a number of publications in books published by ANU. David Hegarty, the former director of the State, Society and Governance in Melanesia program became a close associate and friend.

Naidu, V. 2006. Development Assistance Challenges. In M. Powles (ed.), *Pacific Futures*. Canberra: Pandanus Books, 142–63.

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In the first decade of the 21st century, Pacific Island countries (PICs), with the exception of Samoa and Tonga, are still only a generation away from independence from direct colonialism. Indeed, there are still a number of vestiges of colonial rule present in the region.<sup>1</sup> In the past 20 to 30 years, these countries have sought to develop as peripheral capitalist societies with varying degrees of ‘traditional’ forms of societal organisation and cultures still in existence. Development has meant for their peoples improving material standards of living, greater participation in political processes and access to public utilities such as potable water, electricity, sanitation and educational and health services. Disadvantaged groups in society such as women, youth, ethnic minorities, the disabled, rural dwellers and the poor have been recognised as needing attention. Not infrequently some of the latter categories have been reluctantly put on the development agenda as a result of the insistence of external development partners, donor countries and agencies.<sup>2</sup> PICs’ efforts at development can be described as having had mixed success and their place in global development, characterised by an unbridled thrust toward free trade, is disconcerting.

1 France continues to practice direct colonialism in Kanaky (New Caledonia), Tahiti Polynesia (French Polynesia and Wallis and Futuna). The ‘Compact’ ties the former US Trust Territories of Federated States of Micronesia (FSM), the Marshall Islands, and Palau to the United States. The Cook Islands and Niue are closely linked to New Zealand and Tokelau remains under New Zealand’s control. Indonesia occupies West Papua.

2 Middle-aged and old men (*unimane* in Kiribati) dominate decision-making in the patriarchal systems that characterise much of the region.

This chapter will examine development assistance in a holistic way, situating it within the broader framework of development and development assistance to developing countries. International trends in overseas development assistance or aid will be outlined. Significant donor countries will be identified, as will the nature of aid provided. Donor countries tend to be most supportive of their former colonies and territories that continue to be politically integrated with them.<sup>3</sup>

Besides unravelling some of the complexities of development assistance, the chapter will challenge existing stereotypes about overseas aid and island country dependency. Issues such as geopolitical strategic rent and interdependence between island and Pacific Rim countries will be highlighted. Of significance in terms of overall development trajectory, it will be pointed out that some island countries do not have prospects for meaningful 'independent' development and that there are degrees of 'independence' feasible for others. However, it will also be pointed out that the trade imbalances against island countries signify an extent of interdependence between them and donor country interests. It is not all one-way traffic.

## The Contradictory Pacific Reality

Pacific Island people appear to continue to enjoy relatively high standards of living in the context of numerous traits that they share with other postcolonial states. In the recent past, these have included exposure to a downward trend in commodity exports, natural disasters and the diminishing capacity of the state in managing externally induced social transformation.

In the absence of a strong capitalist class in most island countries, the state played a lead role as a facilitator of private enterprise and as an owner/operator of enterprises in its own right. Areas of non-subsistence economic activities, such as plantations, mines, tourist resorts, urban centres that were centres of administration, wholesaling and retailing outlets, as well as services such as central hospitals and elite schools, drew island people from all over the interior and outer-island hinterland.

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3 A view has emerged that closer political and economic integration and the lack of sovereignty have contributed materially better standards of living and human rights in such countries compared with those that are politically independent (Bertram and Watters 1985; Crocombe 2004).

The use of local resources for 'national development' in a less than transparent and equitable manner, the presence of strangers in territories claimed by resident 'indigenous' groups, competition over land and jobs, the destruction of natural habitats for subsistence livelihoods, the lack of participation by local communities in decision-making about the use of their resources, and the use of repressive measures by state power-holders against those who protest their legitimate concerns, have caused conflicts in a number of island states.

As very small and non-competitive producers of raw materials, these island states are extremely vulnerable to fluctuations in commodity prices. Most are heavily dependent on one or two commodities. They are price takers rather than price makers. They are producers of much that they do not consume and consumers of much that they do not produce. Human capital loss is a major concern for some of them. They are variously subject to a full range of natural hazards such as cyclones, droughts, flooding and tidal surges, earthquakes and tsunamis as well as volcanic activity. Brindley discusses three different vulnerability indexes, which show that PICs are among the most vulnerable countries in the world. A composite vulnerability index, which takes account of a country's openness (export dependence), lack of economic diversification and susceptibility to natural disasters, places PICs and other small island states among the top 30 of the most vulnerable of 111 countries. 'Vanuatu is ranked the most vulnerable of any of the 111 states; Tonga comes in 3rd, Fiji 8th, the Solomon Islands 11th, Samoa 20th, Papua New Guinea 30th, and Kiribati 59th' (Brindley 2004:23).

As if economic vulnerability and natural hazards are not enough to deal with, 'manmade' disasters abound. These include lack of accountability by state power-holders, serious shortcomings in the rule of law, public finance mismanagement, outright corruption and military intervention in democratic processes. In a number of the largest countries, security forces have become the primary sources of insecurity.<sup>4</sup> Poor leadership, lack of vision and the processes of peripheral capitalism have led to growing social inequality and poverty. In the larger island countries, significant numbers of children do not attend schools as these are not accessible or affordable.

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4 The ethnically exclusive Fijian military has engaged in three military coups undermining democratic electoral outcomes; Solomon Islands police were involved in the 2000 coup that overthrew Prime Minister Bart Ulufa'alu's government; the PNG and Vanuatu security forces have mutinied periodically.

The lack of opportunities for gainful employment and amenities for recreational activities have spawned countercultures of delinquency, crime and drug abuse among unemployed young men and women.<sup>5</sup> Sexually transmitted diseases and HIV/AIDS are becoming widespread. Idle young men have become the foot soldiers for unscrupulous leaders in Fiji, Papua New Guinea, Vanuatu and Solomon Islands.

The World Bank has pointed to the 'Pacific paradox' and a 'doughnut effect' in Oceania with respect to economic growth (World Bank 1993). PICs are perceived as the hollow of the doughnut, the rim of which is made up of the more vibrant Asia-Pacific Economic Cooperation (APEC) countries. For much of the past two decades, PICs have experienced stagnating, and even periodically declining, rates of economic growth (see Table 1), even though in per capita terms a number of countries and the region as a whole have the highest development assistance flows. Hence the paradox.

Despite the size of these aid flows, real per capita growth rates over the period have been disappointing. The average for the Pacific over the 20-year period to 2001 was 0.8 per cent per annum, compared to 1.1 per cent for the rest of the world. However, the last decade has been even worse, with the Pacific averaging a contraction of 0.1 (per cent) per year, compared to the world average of 1.4 per cent growth (Brindley 2004:4).<sup>6</sup>

PICs are perceived as dependent, especially on aid, have negligible economic growth and increasingly pose problems for the larger rim countries. The 'MIRAB' model (Bertram and Watters 1985) highlights PICs economies that are dependent on migration (MI), remittances (R), aid (A) and a large bureaucracy (B) or public sector for employment. The countries included were Cook Islands, Niue, Tokelau, Tuvalu and Kiribati. To these can be added the Micronesian countries of FSM, the Marshall Islands, and Palau.

5 Region-wide, there is only one job for every seven people looking for employment (Pacific ACP 2007:22).

6 The heavily remittance-dependent economies of Samoa and Tonga have experienced growth. Samoa has engaged in the reform process most consistently and has shown annual growth rates in the past five years. With the collapse of its squash exports, Tongan economic prospects are not positive.

Table 1. Pacific Islands: Summary of economic aggregates.

	Population (2001)	GNI* per capita (US\$ 2001)	Aid per capita (US\$, 1982–2001 average)	Average growth of real incomes per capita (1982–2001)
American Samoa	70,000	a	–	–
Cook Islands	18,000	4,272b	–	–
Federated States of Micronesia	120,000	2,150	802	–0.15%
Fiji	817,000	2,150	56	0.74%
French Polynesia	237,000	c	1,517	1.58%
Kiribati	93,000	830	223	0.05%
Marshall Islands	53,000	2,190	1,016	0.44%
Nauru	12,700	2,830b	–	–
New Caledonia	216,000	c	1,642	1.95%
Niue	1,900	–	–	–
Northern Mariana Islands	80,000	c	–	–
Palau	20,000	6,780	1,779	1.30%
Papua New Guinea	5,253,000	580	80	0.50%
Samoa	174,000	1,490	213	1.27%
Solomon Islands	431,000	590	129	–0.17%
Tokelau	1,500	–	–	–
Tonga	101,000	1,530	241	2.06%
Tuvalu	10,000	1,560b	–	–
Vanuatu	201,000	1,050	237	–0.01%

Note: a. Estimated to be upper-middle income (\$2,976–9,205); b. GDP per capita; c. Estimated to be high income (\$9,206 or more); \*GNI = gross national income.

Source: Brindley 2004.

### According to Bertram and Watters:

‘Aid’ to these communities, although usually described as ‘development aid’, has in fact tended to have the character of a straightforward supplement to local incomes and consumption, and accounts for a large proportion of both. Up to half the budget of local governments is financed from offshore donors and the share of government employment in total cash employment on the islands ranges from about half to over 90 per cent. In balance-of-payment terms, aid inflows finance between 40 per cent and over 100 per cent of imports. Aid is, clearly, crucial rather than peripheral in the determination of incomes and consumption levels. (1985:499)

An extent of ‘MIRABleness’ also afflicts other Pacific states that have large bureaucracies, high rates of emigration and are aid dependent. This might give the wrong impression that the model is widely applicable to Pacific people. This is not the case as migration, remittances, aid and even a large bureaucracy (relative to population size) have not been significant to the same degree in Melanesia, which has nearly 7 million of the 8 million Pacific Islanders resident in PICs. Table 1 shows the enormous variations in development assistance to individual PICs, with Fiji receiving on average \$US56 per capita on the one hand and Palau averaging nearly \$US1,800 per capita for the 1982–2001 period.

Despite this high level of capital inflow, it is anticipated that Oceania will lag behind sub-Saharan Africa in achieving the Millennium Development Goals by 2015. These include reducing by half the number of people in extreme poverty and hunger; universal education; gender equality in access to higher education, wage employment and the proportion of seats in parliament; reducing child mortality by two-thirds; reducing maternal mortality by 75 per cent; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability (reversing loss of environmental resources); halving the number of people without access to safe drinking water; and improvement in the lives of slum dwellers. While PICs statistics with respect to these goals and indicators are distorted by the Melanesian countries in general, and Papua New Guinea in particular, with almost three-quarters of the population, it is nevertheless a sobering reminder of a paradise lost.<sup>7</sup>

Global warming is likely to have a disproportionate effect on atoll states such as Kiribati, the Marshall Islands and Tuvalu. It will have consequences for all island countries, further reducing the ability of their people to literally keep their heads above water. They will suffer from saltwater inundation with rising sea levels—the consequence of activities in the industrialised world. The question is, will the latter take responsibility?<sup>8</sup>

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7 HIV/AIDS has spread through virtually all PICs, but the situation in Papua New Guinea is especially worrying, with an estimated 40,000 HIV-positive cases. Illnesses such as malaria, TB and respiratory and infectious diseases remain significant threats in Melanesia. Lifestyle diseases such as diabetes and cardiovascular problems have become rampant in Micronesia and Polynesia.

8 Australia sided with the United States in downplaying the environmental impacts of human activities and sought to dilute the Kyoto Protocol, much to the chagrin of PICs representatives.

However, Pacific Islanders themselves have been most resilient in dealing with the challenges their countries face. Islanders have sought education. They have migrated from the context of limited opportunities in their homelands to many parts of the world, but especially to New Zealand, the United States, Australia, France, Canada and Holland. Export earnings, remittances from relatives abroad, tourism-related income and aid have contributed to relatively high standards of living and per-capita income levels compared with other developing countries. This is another dimension of the Pacific paradox—being able to enjoy relative wellbeing without the necessary expansion in in-country productivity.

A sector that is regarded as posing considerable impediment to economic growth is agriculture, and especially subsistence agriculture. In virtually all PICs, customary forms of land tenure are intimately bound with small-holder production. Customary land tenure is perceived as a major fetter to increased productivity, as group ownership does not allow land to be used as collateral in securing bank loans for investment in equipment, fertiliser and pesticides. Moreover, investments in other areas, such as tourism, housing, renewable energy and waste disposal, are seen as being unnecessarily stalled by land not being a factor of production that can be bought and sold in the market. However, it is also widely recognised that without the access that most (not all) Islanders have to plots of cultivable land, guaranteed by their membership in landowning groups, poverty levels would be much higher.<sup>9</sup>

## Aid Paradigms and Development Assistance Trends

In terms of the overarching conceptual paradigm of aid, there have been several shifts and changes. These paradigm changes have been determined by developed countries with minimum regard to developing countries' perspectives. Indeed, with little regard to their own commissions on overseas development assistance (ODA). Thus, just on the release of the report of the Independent Commission on International Development Issues (1980), also known as the Brandt Report, the United States and the United Kingdom substantially reduced ODA, contrary to the report's

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9 Some Pacific experts continue to subscribe to the notion of 'subsistence affluence', which in my view is not present equally in all PICs and in any case raises the issue of what is defined as affluence.

core recommendations. Without immediate tangible returns to the donor country, international aid did not fit into the monetarist and market-centred policies of Reaganomics and Thatcherite economics (Gounder 1995).<sup>10</sup> OECD countries and the multilaterals that are largely their instruments have determined the modalities, ebb and flow of aid.

From aid as overseas development assistance for the purpose of addressing many of the ‘gaps’ left behind after the colonial experience of most developing countries, thereby ensuring the continuing influence of the former imperial powers, aid, in the current era of ‘conditional aid’, has become a significant instrument for compelling structural adjustments. The quantum of aid and the mode of delivery have never been adequate to bring about systemic people-centred changes in recipient countries. More broadly, after colonialism established patterns of raw material production in the Third World, the Bretton Woods institutions have pushed postcolonial states the world over to produce the same export commodities, thereby triggering an oversupply, reducing their foreign exchange earnings and leaving them in their current predicament of dependence. A good example of this is the current predicament of coffee producers. The 1980s debt crisis and the imposition of stabilisation and accompanying conditionalities have further aggravated their situation (Ould-Mey 1994; German et al. 2004).

In the past two decades, the ability of a postcolonial state to foster its national economy has been seriously undermined.<sup>11</sup> This is the bigger picture within which ODA is better understood.

In broad terms, ODA increased from the 1960s to the 1980s, but declined in the 1990s. In real terms (using 2001 prices), in 1992, ODA from all development assistance countries (DAC)<sup>12</sup> stood at close to \$US58 billion, declining to \$US44 billion in 1997, and increasing to \$US58 billion in 2002. ‘In fact aid fell in real terms by 24% between 1992 and 1997’ (German et al. 2004:181). This dramatic decline did not mean that the need for ODA had diminished but that domestic policies of donor countries took overriding priority. It is apparent that even after the Financing for Development Conference in Monterrey, Mexico, in

10 From 1977 to the early 1990s, the British Government had an Aid and Trade Provision system that ensured that development assistance was to benefit the British economy.

11 International financial institutions have a powerful invasive role where a country has fallen into the debt trap as well as a missionary role in determining macro-economic policies.

12 Comprises 30 OECD member states.

2002, the pledges of donor countries of about \$US16 billion will be far short of the \$US50 billion per annum needed to achieve the Millennium Development Goals.

When one considers that the world's countries spend more than \$US1,000 billion on armaments and militaries, \$US350 billion on agricultural subsidies and only \$US57 billion on ODA (Wolfensohn cited in UNANZ 2004), the huge gulf between rhetoric and reality is striking. The total aid figure is significantly reduced when tied aid and the 'boomerang effect' of aid is considered. Substantial proportions of Australian and New Zealand development assistance is tied aid. The amount of aid funds transferred offshore can be minute.

Very few OECD countries have achieved the UN's target of 0.07 per cent of GNI ODA. Holland, Denmark, Luxembourg, Norway and Sweden are the exceptions (German et al. 2004). During the Marshall Plan period, the United States provided up to 2 per cent of its GDP in aid for the reconstruction of Europe; this volume of ODA from one country was unprecedented. Despite the adoption of the Millennium Development Goals and the global consensus to increased ODA at the Financing for Development Conference in Monterrey, significant increased development aid is yet to be seen (Akiyama and Kondo 2003).<sup>13</sup> In the current period, the following excerpt provides a succinct picture of the context of ODA:

[Developed–developing world] resource transfers are declining and [developed-world dominated]–global institutions are consolidating a system of highly unequal relations between countries.

NGOs [non-government organisations] have been increasingly angered by the cynical exercise of power by [developed-world] governments promoting 'good governance' and 'aid effectiveness', while defending narrow political and economic self-interests. Industrialised countries devoted US\$353 billion (seven times total ODA spending) to protecting agriculture in 1998, according to UNDP. At the same time, the policy choices available to poorer countries are narrowed by conditionalities imposed by international finance institutions and bilateral donors. As reports from NGOs in Asia illustrate, southern governments are forced to privatise and liberalise, while OECD restrictive practices, tariff and non-tariff barriers cost developing countries US\$160 billion a year.

13 A recent OECD news release (14 May 2004) stated that aid volume had risen by 11 per cent in the past two years, after a decade of decline.

This translates into real human suffering which the World Bank recently quantified as welfare losses of US\$19.8 billion (German et al. 2002:2; emphasis in the original).

## Development Assistance Post–September 11

It is apparent that the terrorist attacks on the twin towers of the World Trade Centre on 11 September 2001 have changed significantly the context of international politics and international aid. September 11 has caused a sea change in the United States, which has replaced communism as public enemy number one with the more amorphous ‘terrorism’ as the biggest threat to its security. The United States has indicated its willingness to take unilateral action against perceived threats to its security without the endorsement of the UN. There are many ramifications of this superpower’s approach to ‘go-it-alone’, with a number of hangers-on. The geopolitics of bigger powers have significantly influenced aid flows and it is likely that the United States will reward those countries that its leadership sees as being supportive and/or of strategic value. Oceania has been a beneficiary of the change. Prior to this tragic event, the Pacific Islands were no longer perceived as strategically important. This applied especially to northern Pacific Micronesian states, and also to the US territory of Guam; this perception has since been reversed drastically (Underwood 2004).

September 11 has also triggered the more interventionist phase in Australian foreign policy and development assistance. It appears that there is a process underway of re-marking the boundaries of its backyard with an emphasis placed on the national interests and stability of countries in the neighbourhood. According to Bruce Davis, the Director-General of AusAID:

The aid program is a long-term tool to address long-term problems. In particular, we need to persist with support for stability and for economic and governance reform over the long haul—strengthening the hands of reforming governments and supporting reform champions within struggling governments (noting that generational change may be required before benefits are fully realised).

We don’t have the luxury of walking away. These states are on our doorstep and our engagement with them is core business for our development cooperation program. Our national interests are inextricably linked to stability and peaceful development in the region (Davis 2003).

Implied in this excerpt is a growing preoccupation with Australian security and proactive development assistance to ensure stability. This will have repercussions for the nature of aid and aid delivery to PICs.

## The Pacific Context of Aid

ODA in the South Pacific has undergone a number of shifts in the fashion of aid worldwide (see Hjertholm and White 1998). Former colonial rulers in the region, such as Britain and the United States, began to shift their interests before September 11 to other areas where their strategic and economic interests were seen to be better served.<sup>14</sup> Japan, China and Taiwan have begun to play an increasingly important role as bilateral donor countries. For these countries and the ANZUS partners, aid to island countries has been and continues to be an important foreign policy instrument (Tarte 1998; Teaiwa et al. 2002). For the duration of the Cold War era, aid was one of the ways in which the white Pacific influenced and controlled the black Pacific. Regional organisations wittingly and unwittingly learned how to play the aid game, becoming conduits of such influence. On the economic front, aid has ensured the consolidation of the linkages forged during colonial rule and the patterns of economic subordination remain. Politically, room to manoeuvre existed insofar as some island countries could threaten that they would go to the Soviets if certain of their requests were not met. However, any real attempts to establish such relationships were strongly opposed by ANZUS, with the Australasian media going into bouts of hysterical frenzy. Kiribati's fishing agreement with the USSR is a case in point (Neemia 1988).<sup>15</sup> Vanuatu's ties with Libya received strong condemnation.

In the current period, aid in the South Pacific ranges from the competitive chequebook diplomacy practised by China and Taiwan to the marine resource-related ODA by Japan and the more conditional aid of Australia and New Zealand. International finance institutions—namely the World Bank, the International Monetary Fund and the Asian Development Bank—likewise continue to push for reform, entailing structural

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14 While the British contribution is partly incorporated in EU aid to the region and the United States makes direct subventions to the Compact states, these donor countries have shifted their interest to the former Soviet Bloc countries in transition, which have bigger markets and natural resources.

15 Australia and New Zealand had agreements with the Soviet Union allowing the latter's fishing boats into certain ports. This raised the issue of the white man's burden and continuing paternalism towards black Islanders.

adjustment conducive to market-centred development (Teaiwa et al. 2002; Slatter 2004). These bilateral and multilateral agencies have now shifted to a common rhetoric of poverty reduction requiring a continuation of vigorous reforms. There is a concern that the efforts to harmonise ODA in the region will lead to the homogenisation of aid in line with the agenda of the international financial institutions. Numerous contradictions abound. The one-size-fits-all structural adjustment programs have contributed to political instability in the complex multiethnic states. The 'blame the victim' syndrome is manifested in terms such as 'failed states' and 'arc of instability' (Fry 1999).

Geopolitical interests continue to be the primary motivation among Pacific Rim donor countries for aid (see Table 1). An examination of aid flows from donor countries to recipient countries shows a clear preponderance of aid to current and former colonies and to areas of influence. French aid is provided largely to French Polynesia and New Caledonia; US aid to its former Trust Territories—the Marshall Islands, the FSM and Palau; Australian aid to Papua New Guinea, Indonesia and East Timor; New Zealand aid to Samoa, the Cook Islands, Niue and Tokelau; Japanese aid to other Asian countries.

In terms of what donor countries receive in return, Poirine (1993) has written about 'military rent' and 'atomic rent' with respect to American interests in Hawai'i and Guam and French interests in French Polynesia. He has identified the importance of military rent or geopolitics in ODA and aid as 'geopolitical rent'. ANZUS interest in much of the Pacific can be regarded in a broadly similar way. Moreover, the 8 million people in Pacific Island states, small by world standards, do provide an almost captive market for goods and services from Australia and New Zealand. There is a huge trade imbalance in favour of the latter countries. Pacific Island economies are also tied up with these larger economies because of labour migration and remittance flows.

## Forms of Development Assistance and Donor Agencies

Development assistance to Pacific Island countries takes several forms and includes monetary grants, soft loans, technical assistance, technology transfer and other in-kind contributions. At the broadest level, it can be bilateral or multilateral, involving government-to-government transfers

and transfers by donor governments to international and regional multilateral organisations, which then transfer aid to island governments. In the past, virtually all overseas development assistance was official, involving government-to-government transfers. More than 80 per cent of development assistance continues to be bilateral. Much of the remainder is transferred to PICs through multilateral agencies—international and regional. Prominent among the regional organisations in this regard are the Pacific Islands Forum and the Pacific Community.

The relative autonomy of island states also gives them some room to manoeuvre with respect to development assistance. This manoeuvrability can be used strategically for longer-term development or it can be abused. Contradictions emerge between those seeking ‘good governance’ and those engaged in old-style chequebook diplomacy. Taiwan’s competition with China in gaining recognition among island states has meant that both these countries readily provide funds to unsavoury leaders. How the funds are used appears to be of little concern. Thus, much of the multimillion-dollar assistance given by Taiwan after the conflict in the Solomon Islands in 2000 was used to pay compensation to politicians and gang leaders. Recently, it was reported that Vanuatu was pledged AU\$9 billion by Taiwan for granting it diplomatic recognition (*Mercury* 2004).<sup>16</sup> Australia meanwhile has warned the Vanuatu Government that it will reduce bilateral aid if good governance is not given priority.

These days, donor agencies also make aid transfers directly to non-government organisations (NGOs) in developing countries and/or through development, relief and humanitarian NGOs based in metropolitan countries. The latter often network and form umbrella organisations to better coordinate their activities, share resources and engage in advocacy and campaigns. Eighty Australian development NGOs are affiliated with the Australian Council for International Development and 64 such NGOs are affiliated with the Council for International Development in New Zealand.

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16 The *Los Angeles Times*, in an article headlined ‘China, Taiwan Court Tiny Group of Islands’, reported that Vanuatu had ‘become the belle of the cross-straits ball as China and Taiwan open their chequebooks and compete for its loyalty’ (2004). Taiwan had promised AU\$30 million against China’s AU\$10 million. The article further reported that 26 countries recognised Taiwan—‘mostly impoverished nations in Latin America, Africa, and the Pacific. An additional 160 recognize Beijing’ (*ibid.*).

## Development Assistance Challenges

There are numerous challenges to development assistance in the contemporary period, which are likely to extend for at least the next 10 to 20 years. These include donor countries prioritising national interests over international concerns; their preoccupation with security matters and development-related conflicts; bilateral versus multilateral aid; structural adjustment programs to promote 'governance' denoting marketisation and democratisation; engagement with civil societies; and participatory development and long-term partnerships. The biggest challenge for PICs is to deal with the forces of globalisation pushing neoliberal reforms that will erode the preferential access they have to overseas markets. PICTA, PACER and Economic Partnership Agreements with the EU are designed to move PICs into the 'rules-based' free trade regime of the World Trade Organization (WTO). ODA will be required to provide support to PICs as they seek to engage competitively with the economic giants of the world on a supposedly level playing field.

## Maintaining and Increasing Aid Flow

There are many challenges to international aid in the Pacific region. A number of these are shared with other developing countries of the world. Central to these concerns is whether the coming decades will see an increase in ODA and a genuine long-term movement towards achieving 0.7 per cent of GNI of OECD countries. The massive drop in aggregate ODA in the 1990s is a precedent that could be repeated. This was explained as aid fatigue. Since 2002, Japan and Italy have significantly reduced aid.

Sub-Saharan Africa and the Pacific Islands are severely constrained in their ability to attract foreign direct investment. These constraints are structural: limited resource endowments, small population size and therefore minute markets, human resource limitations and institutional constraints, including rule of law and capital market issues. To maintain and improve the quality of life of people in these regions, ODA needs to meet the savings-investment gap as well as address social development areas such as education, health, housing, safe water and public utilities, which are of no interest to private investors if user-pay principles cannot be applied.

On per capita regional terms, the Oceania region is the highest recipient of aid, with \$US183 per person. Sub-Saharan Africa received \$US27 by comparison in 2002 (OECD 2003: Chart 1, Figure 1). In aggregate terms, however, the region received only about 2 per cent of world development assistance funds (OECD 2003: Chart 2, Figure 2). The largest donors have been France, Australia, the United States, Japan, New Zealand, the United Kingdom and various UN agencies. As is to be expected, the biggest recipients of aid were the French colonies of Tahiti Polynesia and Kanaky (New Caledonia), followed by Papua New Guinea with development assistance from Australia. The US Compact countries of Micronesia and the Marshall Islands come third, with the French territory of Wallis and Futuna next. Sectoral allocation of aid included education, health and population programs, other social sectors, economic infrastructure and services, production, program assistance and emergency assistance.

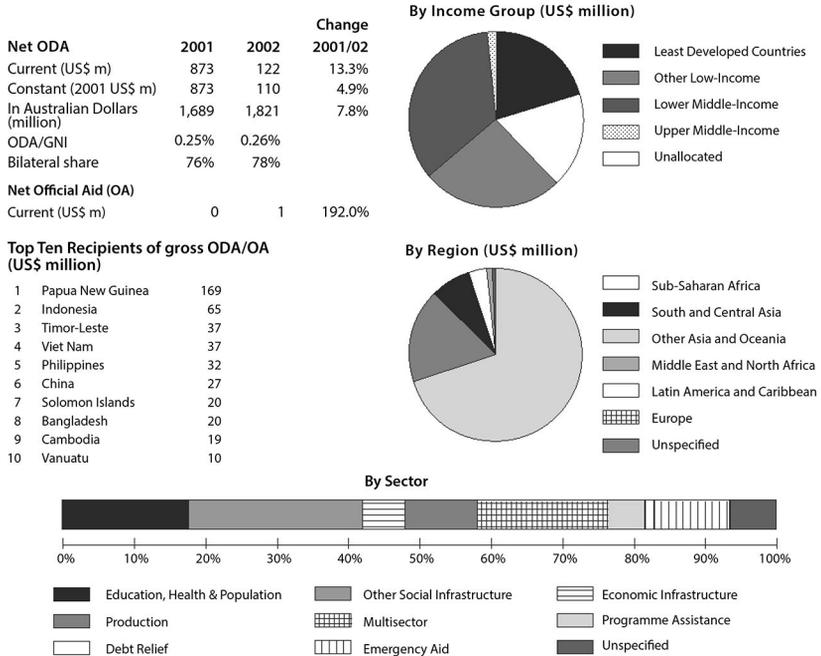


Figure 1. Gross Bilateral ODA, 2001–02 Australia.

Source: Adapted from Australia: Gross Bilateral ODA, 2001–2002, Aid Statistics, Donor Aid Charts, [www.oecd.org/dac/stats/donorcharts](http://www.oecd.org/dac/stats/donorcharts), © OECD.

### 13. DEVELOPMENT ASSISTANCE CHALLENGES

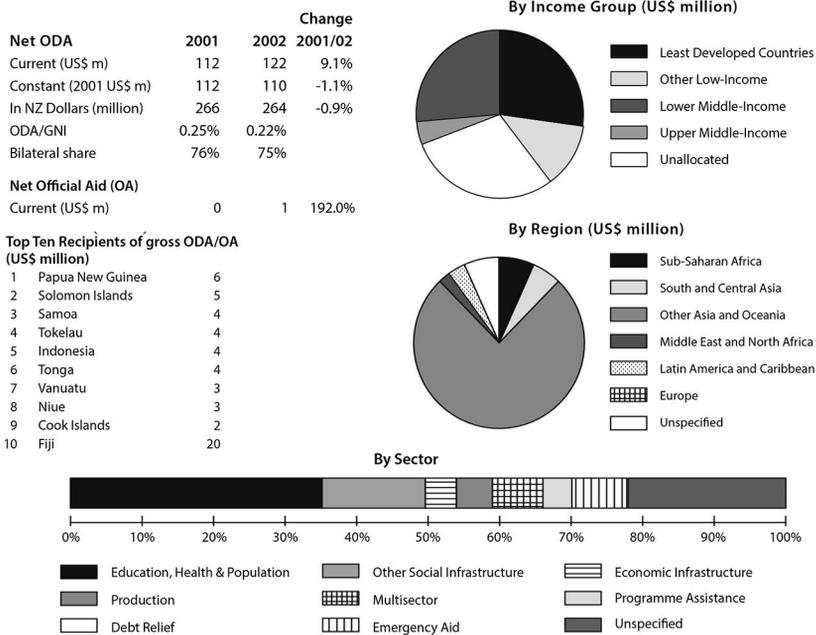


Figure 2. Gross Bilateral ODA, 2001–02 New Zealand.

Source: Adapted from New Zealand: Gross Bilateral ODA, 2001–2002, Aid Statistics, Donor Aid Charts, [www.oecd.org/dac/stats/donorcharts](http://www.oecd.org/dac/stats/donorcharts). © OECD.

With concerted efforts to halve poverty worldwide and to achieve other Millennium Development Goals, it is likely that donor interests will shift towards those countries and regions that are especially impoverished. A number of PICs classified as least-developed countries are hard pressed to justify their membership of this category of countries. Extreme poverty and hunger are emerging in the region but they are nowhere near comparable with sub-Saharan Africa and South Asia.

Ironically, issues less directly related to poverty reduction, such as the security concerns of Australia and New Zealand as well as the maintenance of their spheres of influence, will ensure that aid from these donor countries remains focused on Oceania. They currently direct 39 per cent and 44 per cent, respectively, of their total ODA to PICs (AusAID n.d.; NZAID n.d.). However, there are likely to be shifts in development assistance within the region towards Melanesia. Poverty reduction will also mean that aid funds will be targeted more to the poor. Already, NZAID has overhauled its education sector funding with very significant increases in the proportion allocated for basic education.

## Securitisation of Aid

Oceania is perceived variously as an American lake and ANZUS's backyard. Besides the tensions on the Korean Peninsula and North Korea's supposed membership in the 'Axis of Evil', China is emerging as a major player in the region. This is coupled with the 'look north' foreign and trade policy change in a number of PICs. For instance, Fiji's political leadership has been positively inclined to Japan and China, as neither of these countries' governments opposed the military coups of 1987 and 2000 and do not take a position on human rights violations.

With the US-conceived and led war on terror, there has been a tendency to perceive all kinds of open violent conflict as being motivated by terrorism or at least providing fertile ground for terrorist organisations. Resources formerly used for humanitarian and developmental aid are now increasingly diverted to security matters. These include building security organisations and training and equipping military and police personnel. Legal and institutional frameworks might be established or modified using aid funding. There appears to be a significant reorientation of Australian development assistance to the region in this regard (Pacific Islands Trade and Investment Commission 2002).

Australia has adopted a more aggressive foreign policy approach, which includes how aid is used. The Regional Assistance Mission to Solomon Islands (RAMSI) from mid-2002 has marked a remarkable change from Australia's 'hands-off the internal affairs of its neighbours' position to one that seeks early intervention. Thus, with other regional countries, Australia is currently reforming Solomon Islands' political and economic institutions to address possible future problems of instability. The 'help 'em friend' approach has been extended to Papua New Guinea in the Enhanced Cooperation Programme (ECP). Australian public servants, including police personnel, have begun to hold ministerial and administrative positions. A regional police training facility and programmes, based in Fiji,

are envisaged.<sup>17</sup> Australia and New Zealand have increased their funding of 'governance': Australia from 15 per cent in 1999–2000 to 33 per cent of its ODA in 2003–04 (AID/WATCH 2004a) and, in New Zealand, approximately 40 per cent of the aid budget to the Pacific was spent supporting governance-related activities (NZ AID 2004).

Australia's more interventionist approach as the self-appointed regional sheriff has markedly affected its development assistance to the region. Although in aggregate terms it is reported that Australian aid has increased to the region in general and to Papua New Guinea and the Solomon Islands in particular, closer scrutiny reveals that additional funds are used to pay Australian public servants, police personnel and private companies (AID/WATCH 2004b). The current phase and style of Australian ODA to PICs raises the challenge of neocolonialism in the region.

## Aid Actors

ODA in the earlier phase involved government-to-government transfers. International financial institutions also dealt with governments. While government-to-government interrelationships remain central, there have been changes in aid objectives and agencies. The reform agendas of OECD countries emphasise the promotion of the private sector and market. Human rights and the adoption of democratic institutions are also pushed. The role of the state as the lead actor in development and of state planning for development is de-emphasised and even openly criticised and ridiculed. International financial institutions have become leading advocates of private sector promotion and of minimising the economic role of the state.

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17 A matter that is critical in development assistance, which can be the subject of a separate paper, is aid and ethnicity. With respect to training and equipping police and military forces, donor countries and agencies (such as the UN) must take cognisance of the ethnic composition of security forces. In Fiji, the Solomon Islands and Papua New Guinea, as well as in Vanuatu, ethnicity has been a factor in political destabilisation by and within security forces. In Fiji's case, it appears that in pursuit of their own interests, the UN and Australia are not prepared to reflect on the morality of arming one ethnic group in a multiethnic society. This in the context of a military that has a track record of three military coups and a mutiny in the past 17 years.

In the smallest Pacific countries, the private sector is miniscule because the domestic market is so small. The attempt to drive home the neoliberal dogma is not likely to produce any significant positive outcomes. Such countries might have difficulties in accessing aid because of conditionalities linked to marketisation.

Besides the emergence of private business as a development partner in the use of aid, there has emerged in the past two or three decades a new category of agencies in the development arena. NGOs, together with community-based organisations, constitute 'civil society' and have taken up various degrees of active work in advocacy, provision and implementation of development projects. Developed-country NGOs have become vocal critics of their governments, the international financial institutions and grossly unequal international economic and political structures. Globalisation and unfair trade rules pushed by the WTO have induced a global network of civil society organisations that share information, resources, and strategies to counter the policies of the G8, OECD and international financial institutions.

Developed-country NGOs have also become recipients of ODA funds as well as donations from citizens of OECD countries to engage in relief, humanitarian and development aid. In the Pacific, international NGOs such as OXFAM, the Red Cross, World Vision, Greenpeace, Save the Children Fund, World Wide Fund and DAWN are playing a number of roles. It is anticipated that autonomous organisations backed by governments and the private sector, such as the Pacific Cooperation Foundation, can facilitate greater understanding of the development challenges faced by island states.

As in most other developing regions of the world, Oceania has also seen a significant growth in NGOs. The older church-based groups have been supplemented by women's organisations and youth and environmental groups. Many of these groups are perceived as bringing support to their communities more effectively than government. Thus, domestic violence, which is widespread in the region, has been tackled largely by women's groups. Donor countries and agencies promote NGOs and seek partnership with them in some situations because government officials are seen to be corrupt and ineffectual.

Thus, the Australian Foreign Minister, Alexander Downer, in announcing new strategies for the delivery of aid, asserted that they included 'a plan to bypass failed governments. The breakdown and corruption of governments, particularly in Melanesia, means more of Australia's aid will go directly to community and church groups' (Pacific Islands Trade and Investment Commission 2002).

A challenge for donor countries and recipient country governments is how best to accommodate NGO participation in development. This is particularly so when NGOs have taken positions that are opposed to governments or when NGOs challenge government policies and actions.

## Bilateral Versus Multilateral

As mentioned earlier, the bulk of ODA has hitherto been government-to-government transfers with aid to multilateral or regional organisations being relatively limited. However, it is likely that in the near future there will be a shift towards greater funding of regional-level initiatives and programs. There are several areas of common interest in the region, which include shipping, fisheries, transport and communication, higher education, environmental management and security, which benefit from a broader regional approach. The EU is already funding programs centred on the Pacific Islands Forum, the Pacific Community and the University of the South Pacific. These institutions also draw considerable support from some of the larger bilateral donors such as Australia, New Zealand, Japan and France.

Some intergovernmental regional organisations face difficult challenges. The Forum Fisheries Agency (FFA) in the past was hindered by distant water fishing nations (DWFNs) approaching PICs on a bilateral basis. Although PICs' exclusive economic zones have the most richly endowed tuna fisheries in the world and account for one-third of the world's tuna catch, the returns to island states are very small. Only 11 per cent of the total catch of 1 million metric tonnes each year is caught by PIC-owned vessels. While the value of the total catch is \$US2 billion, the fees paid to island countries in the late 1990s amounted to \$US54 million (Pacific ACP 2007:20). Without the efforts of FFA, many of the agreements with DWFNs would not have been possible, but in the negotiation process DWFNs have tried to weaken the regional approach.

## All-of-Government Approach, Harmonisation, and Sector-wide Approach

Just as regional approaches to certain common problems faced by PICs are seen as the most appropriate, there is increasing discussion about an 'all-of-government approach' in evolving common strategies towards the region and to individual PICs. While such an approach is seen as being more effective, as it reduces duplication of efforts and wastage as well as minimising contradictory directions in development assistance, there is a danger that it will also contribute to a lead government agency overshadowing the legitimate concerns of other departments. Thus, the orientation and thrust of AusAID, NZAID and the Japanese International Cooperation Agency (JICA) might become even more closely tied up with foreign affairs and trade as well as security matters serving the donor country's national interest rather than meeting the development aspirations of aid-receiving countries.

Harmonisation has become a buzz word among donor countries and agencies. Again, there appears to be a commonsense rationale for all donors to engage with each other in deliberating on and sharing approaches, resources and programs. This reduces duplication and promotes a sharing of best practice in development assistance at macro and micro levels and sectorally. Thus, a common approach to achieving Millennium Development Goals among donors might result in a pooling of resources, a more efficient allocation of funds to areas of need and a sharing of the different tasks on the basis of expertise. However, there are a number of fundamental issues with harmonisation. First, donor agencies do not necessarily have identical agendas with respect to their overall development goals and methods of achieving them. The question is whose approach will prevail. Allowing the World Bank or the Asian Development Bank to get the lead role in poverty reduction might not be the best outcome of such efforts at harmonisation.

The sector-wide approach has also been in vogue in recent times and is likely to become important in the future. This entails minimising the time and effort spent by government personnel in recipient countries making numerous reports to several donor agencies. For instance, civil servants in the Ministry of Health do not continue to report back separately to WHO, AusAID, NZAID, JICA, the Food and Agriculture Organization, EU, etc., on how their funds were used. Instead, supporting programs

in a sector of a recipient country would be on the basis of budgetary support for that sector. This would not only significantly reduce the time and effort of senior government personnel in the paperwork for reporting back, but would release them to do the policy and supervisory work that they are supposed to be engaged in.

The danger of the sector-wide approach is that it reverts to official channels as the primary conduits for development aid and in doing so provides support to government as against wider civil society. It also harkens back to the top-down approach to development. Given the politics of a government, it is likely that the consolidated support of donor countries and agencies might not be equitably used. It is not clear that the poorest of the poor will benefit or indeed that such an approach will help women and disadvantaged minorities. In this regard, the extent to which the sector-wide approach will ensure participatory development and empowerment is open to question. There is also the concern from smaller donors' points of view that in the pooling of resources their distinct contribution will not be given due recognition.

Local government in PICs has been a neglected area, which may or may not benefit from the sector-wide approach. In the aftermath of RAMSI, the discussion over a federal-type constitution for Solomon Islands has rekindled issues relating to local government in the region. Decentralisation of power away from the capital city is a major development challenge in most PICs that will draw on the support of donor countries and agencies.

## Participatory Development and Partnerships

In the development community there is recognition that for development to be sustainable it requires the participation of people who are its beneficiaries. Considerable thought needs to be directed at how their knowledge, skills, views and aspirations are to be incorporated in activities designed for their benefit. Participatory Rural Appraisal and Participatory Learning and Analysis, and a range of other participatory approaches and techniques, have shown that people who are the grassroots recipients of aid can and do make a significant contribution to the analysis of their situation and the strategies that could improve their lot. With decisions being made about development assistance by donor countries and agencies thousands of kilometres away, and through governments that often have

little to do with the poorest of their citizens, there is a huge challenge of nurturing participation. This in turn gives local ownership and ensures a greater degree of sustainability.

In this regard, NZAID's support for the Rethinking Pacific Education project is quite remarkable and might provide a good framework for ensuring a participatory approach to development assistance. This project, led by Dr Kabini Sanga, a Pacific educator and senior lecturer in education, with colleagues at the Institute of Education, University of the South Pacific, has been providing meeting grounds for discussion, research, critical evaluation and alternative policy formulation for educational development in PICs. Funded by NZAID, which does not interfere in the process, the project has generated new ways of conceptualising Pacific education, building capacity and confidence among island educators, bringing academics, policy-makers, and practitioners together in the task of creating more country and regionally relevant education. This type of donor-recipient relationship is a productive partnership.

Another significant point that emerges out of this project is the recognition of not only the existence of potential local partners in all projects, but of using the expertise that Pacific Islanders have acquired through years of research and reflection as well as by living in PICs on a continuing basis. It is vital that as part of generating local ownership more local people are used as expert consultants on matters that affect them and their societies.

From a situation of relative unequal standing between the giver and the receiver, there has been a trend towards an approach of 'we are in this together for the long haul' and that there are mutual benefits for both parties. This has engendered mutual respect and longer-term strengthening of relationships well beyond project or program cycles. As in all relationships, there will be ups and downs, but there is a willingness to keep channels open for dialogue and discussion.

Building national-level capacities in PICs so that there is leadership and the capacity to negotiate with donor agencies and in deliberations over international treaties on relatively equitable terms is critical to long-term partnerships. This means that human resource development is also a core issue in development assistance. Opportunities for tertiary and postgraduate education continue to be important in the emerging prioritisation of basic education.

## Conclusion

PICs are relatively poor and powerless in the global community. As part of the developing world, Oceania will be subject to the outcomes of negotiations over international trade, environmental (especially marine), security and labour agreements. Individual countries have different prospects depending on their human resources, institutional capacities, natural resource endowments and the nature of their incorporation in the global system. Their relative poverty means that on many fronts, including managing their limited resources, they need development assistance.<sup>18</sup> Regional approaches have served a number of useful purposes in the past and will need to be consolidated to meet common challenges.

The current push for a free-trade regime will have serious repercussions for island economies and government revenues. Donor countries and agencies will need to work with PICs to provide buffers against the negative repercussions. Such support will have to be seen as assisting PICs as partners in development who need a 'leg up' in particularly difficult circumstances. The beneficiaries of such assistance will not only be Islanders but donor countries. Instability and out-migration would be minimised and PICs and traditional donor countries would benefit.

There is a need to ensure that beyond providing resources for policing and law and order institutions, the participation of Islanders is enhanced in the decision-making processes of their countries. Development assistance needs to address issues of human capacity in PICs as a core dimension of development.

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This text is taken from *Understanding Oceania: Celebrating the University of the South Pacific and its collaboration with The Australian National University*, edited by Stewart Firth and Vijay Naidu, published 2019 by ANU Press, The Australian National University, Canberra, Australia.

[doi.org/10.22459/UO.2019.13](https://doi.org/10.22459/UO.2019.13)