

Policy Submission on Aid Policy for the UN International Meeting on Small Island Developing States, January 2005

“There is an urgent need in small island developing States to address the constraints to sustainable development, including scarce land resources, which lead to difficult land and agriculture use decisions; limited fresh water; education and training needs; health and human settlement requirements; inordinate pressures on coastal and marine environment and resources; and limited means available to exploit natural resources on a sustainable basis”

Barbados Plan of Action, 1994ⁱ

“Not everything that counts can be counted; and not everything that can be counted counts”

Albert Einstein

Aid to Small Island States – the critical issues

Small Island Developing states (SIDS) are limited in size and are physically and economically extremely vulnerable. They are dependent both on natural resources and international trade but lack the means to influence the terms of that trade. The devastating Indian Ocean Tsunami of 26th December tragically proved that small island and coastal states are also extremely vulnerable to natural disasters; lacking the capacity to withstand such disasters or to recover swiftly after they have passed.

Aidⁱⁱ is vital to the economies of many SIDS; supporting health and education programmes, funding investment in infrastructure and helping Small Island states integrate into the global economy. The 1994 Barbados Meeting stimulated a surge of interest and funding for Small Island States. However, since then the rhetoric has not been matched with action and aid levels have been falling steadily;ⁱⁱⁱ declining by over 50 percent between 1994 and 2004.^{iv} Consequently, the above quote from the Barbados Plan of Action rings as true today as it did ten years ago.

Despite this trend, per capita aid flows to SIDS tend to be higher than to mainland developing countries with similar development needs.^v Between 1995 and 1999 aid to the Pacific was \$220 per capita and \$34 per capita to the Caribbean.^{vi} These figures outstrip aid per capita to Sub Saharan Africa (\$22), Latin America (\$10) and India (\$2). Largely, this disparity can be explained by the high costs of managing aid programmes across fragmented and isolated island states with small populations. However, it is also a reflection of the strategic, political and economic importance of island states.

Yet aid flows vary tremendously between the Small Island States. Aid forms a central part of government revenue for many. In several states, such as Tuvalu, Tokelau and Niue, aid equals or even exceeds Gross Domestic Product (GDP).^{vii} Aid dependency can have a number of negative impacts; reducing the legitimacy of governments accountable more to aid donors than their tax paying population, encouraging corruption and alleviating pressure on governments to reform inefficient policies and institutions. It can also leave recipient government policies vulnerable to volatile aid flows fluctuating with the donor's political whims.

Other island states do not receive enough aid to support basic health and education programmes. Coupled with poor governance and conflict, some countries' development is even regressing. In the Solomon Islands and Vanuatu, for example, income poverty was greater in 2001 than 1990.^{viii} In Papua New Guinea the proportion of undernourished people as a percentage of the total population increased to nearly 30% during the 1990s.^{ix}

In other words, the picture of aid to small island states is one of both relative abundance and scarcity. How much aid a SIDS receives reflects not only the needs of its population, but also its relationship with a previous colonial power, its geo-strategic position, its natural resource wealth, its role in the international community and the effectiveness with which its leaders have leveraged what influence they have.

At the end of the Cold War there was a hope that aid would be divorced from its previous political objectives and would be free to focus on the development needs so evident globally. However, since 9/11 the role aid has largely been reconceptualised in terms of its value in promoting security and preventing terrorism. Moreover, aid is still often 'tied' to requirements for expenditure on the products and services of the donor country. Inherently inefficient, this reduces the value of aid to the recipient country by around a quarter.^x

The ultimate objective of all aid should be its redundancy – yet despite years of aid this has still not been achieved. Some donor countries such as America and Japan clearly argue that their aid programme is aligned to their own national interest. Elsewhere, aid often appears a substitute for more substantive action such as concerted peace keeping interventions in fragile states or more open immigration policies. However, the question is to what degree such aid supports the national interest of the recipients.

Aid reform – some policy options

1/. Mobilise the resources and political will to implement the Barbados Plan of Action. The BPOA has been refined over the past ten years with perhaps more enthusiasm for its negotiation than its implementation. The draft Strategy Paper outlines the priority areas listed in the BPOA as well as the new and emerging issues that have arisen since the BPOA was adopted in 1994.^{xi} The paper details measures to tackle climate change and sea level rise, to mitigate natural and environmental disasters, to manage waste, to protect coastal and marine resources, to preserve freshwater and land resources and so on.

SIDS and the international community have to take the opportunity presented by the January 2005 meeting in Mauritius to implement this plan of action by mobilising the necessary resources, political will and international co-operation to achieve the concrete goals clearly outlined in the BPOA.

Aid can play an important role in many SIDS but it is a complex actor – there is no one-size fits all solution and each scenario is different. However the following recommendations to donors and recipients that may help to make aid more efficient, effective and less politicised.

2/. Devolve Aid ministries from Trade and Foreign Affairs ministries. It is telling that many national aid agencies are situated within their government's trade and foreign ministries. Giving government aid agencies greater autonomy would greatly reduce the pressure on aid policies to meet other geo-strategic and economic objectives.

3/. Untie aid from conditions on procurement from the donor country. By requiring that recipients buy often expensive goods and services from the donor country, tied aid both reduces the monetary value of aid and undermines the capacity building effect of aid.

4/. Harmonise aid policy across donor countries. Recipient countries devote precious human and financial resources to chasing aid and satisfying the varied and complex reporting requirements of donors. Harmonising aid policy between donor countries has three impacts; firstly, it can reduce the strain on recipient countries meeting donor reporting criteria, secondly, it can reduce the transaction costs of managing multiple, competing aid programmes, and thirdly, it can help to narrow the scope for individual donor countries to pursue their own economic and political agendas.

5/. Align aid policies with national development plans and the BPOA. This is a process that is beginning to happen but needs to be promoted strongly. Aligning aid policies with nationally expressed priorities helps to give greater ownership of development projects to recipient governments and builds commitment to success. One direct way to achieve this is to provide aid for budgetary support allowing recipients to fund existing government programmes.

6/. Aid for better governance and capacity building. A significant portion of aid is already directed towards improving governance in SIDS – but more can be done to enable SIDS to engage in the global economy, to diversify their economies and become more responsive to the needs and demands of their people.

7/. **Increase aid transparency.** In the same way that many aid programmes demand better governance standards and increased transparency there is a need for greater transparency from aid programmes themselves. Labelling money used for trade promotion, military support or political influence as 'aid' reduces the credibility and legitimacy of genuine aid programmes.

8/. **Assess needs according to vulnerability.** At present International Financial Institutions tend to rank developing countries' needs according to GDP per capita – which discriminates against the Small Island States which tend to have relatively high GDP per capita. A more appropriate gauge would be a vulnerability index^{xii} which assess states' ability to resist and recover from external environmental and economic shocks. With small, often undiversified economies and extreme exposure to environmental events SIDS can be very vulnerable to external shocks. An assessment of development needs based on an understanding of vulnerability would be more appropriate in the context of the SIDS; a point that is particularly relevant in the tragic aftermath of the 26th December Tsunami.

Oli Brown

Project Manager, Trade, Aid and Security Project,
The International Institute for Sustainable Development (IISD)
International Environment House II, 9 chemin de Balexert,
1219, Châtelaine, Genève, Switzerland. obrown@iisd.org

Important Note : The views expressed in this submission are those of the author alone and do not necessarily reflect the position of the International Institute for Sustainable Development (IISD)

Notes

ⁱ United Nations General Assembly 'Report of the Global Conference on the Sustainable Development of Small Island Developing States' Bridgetown, Barbados, 25 April-6 May 1994. UNGA A/CONF.167/9

ⁱⁱ Aid = official development assistance –encompasses all forms of concessionary financial flows

ⁱⁱⁱ Net disbursements for bilateral and multilateral aid peaked at \$2.36 billion in 1994ⁱⁱⁱ and by 1997 had fallen to \$1.96 billion. Aggregated figures were not available but flows to individual countries reflect a steady decline.

^{iv} UN 'Draft Strategy for the further implementation of the Programme of Action for the Sustainable Development of Small Island Developing States'. p.3 A/CONF.207/L.1

^v Though these have been falling along a similar trajectory

^{vi} OECD Development Assistance Committee - Average Aid flows per capita 1995-9 by region US dollars, in *Turning the Tide*, [get proper reference]

^{vii} Tuvalu, Tokelau and Niue – from Crocombe, Ron, 2002, *The South Pacific*

^{viii} UNDP, "The Human Development Report - 2003," ed. United Nations Development Programme (New York: <<http://www.undp.org/hdr2003/>>, 2003), p. 53

^{ix} UNDP, "The Human Development Report - 2003," ed. United Nations Development Programme (New York: <<http://www.undp.org/hdr2003/>>, 2003), p. 54

^x Studies have shown that tied aid reduces the value of aid by about 25%. World Bank 'Assessing Aid – Overview' <http://www.worldbank.org/research/aid/overview.htm> There has been a trend away from tied aid but some major donors to SIDS (notably Australia and Japan) still tie a large proportion of their aid.

^{xi} UN 'Draft Strategy for the further implementation of the Programme of Action for the Sustainable Development of Small Island Developing States'. A/CONF.207/L.1

^{xii} Such as, for example, the Commonwealth Vulnerability index
<http://www.unescap.org/mced2000/pacific/background/vulnerability.htm>