



# The age of choice: Fiji and Vanuatu in the new aid landscape

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## Key messages

- While traditional donors are still the main providers of development assistance, less traditional sovereign donors, China in particular, have become increasingly important in both Fiji and Vanuatu.
- Technical assistance and capacity-building components are priorities for the governments of both countries. Due to limited capacity in line ministries, especially in Vanuatu, there is a stronger preference for projects that target capacity-building activities.
- Policy dialogue between the government and traditional bilateral donors as well as China has been weak, but is improving in both countries – though the situation in Fiji is unique owing to reduced engagement with the country's interim government.
- Philanthropic organisations do not seem to play a major role in the two Pacific Island countries.
- Though both countries are vulnerable to climate change, the amount of climate finance that reaches them through new mechanisms like the Global Environment Facility is small compared to more traditional bi- and multilateral programmes.

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# Abbreviations

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BACC	Budget and Aid Coordinating Committee
DAC	Development Assistance Committee
DSPPAC	Department of Strategic Policy, Planning and Aid Coordination
DFAT	Department of Foreign Affairs and Trade
EDF	European Development Fund
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund)
GNI	Gross National Income
GOF	Interim Government of Fiji
GOV	Government of Vanuatu
IMF	International Monetary Fund
ITEC	Indian Technical and Economic Cooperation Programme
JICA	Japan International Cooperation Agency
LDCF	Least Developed Countries Fund
MCA	Millennium Challenge Account
NAB	National Advisory Board
NGO	Non-governmental organisation
NIE	National Implementing Entity
NTDA	Non-traditional Development Assistance
NTP	Non-traditional Provider
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PIC	Pacific Islands country
PiPP	Pacific Institute of Public Policy
REDD+	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
SGP	Small Grants Programme
SPC	Secretariat of the Pacific Community
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNDP	UN Development Programme
UNFCCC	UN Framework Convention on Climate Change
US	United States
VANGO	Vanuatu Association for NGOs
VAT	Value-Added Tax
VPMU	Vanuatu Project Management Unit
WWF	World Wide Fund for Nature

# Executive summary

Development cooperation is changing rapidly. Traditional development assistance from members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) is becoming less important. There are now numerous other sources of development assistance: non-DAC donors, such as China and India; philanthropic organisations, such as the Bill and Melinda Gates Foundation; and new 'social impact investors', such as the Shell Foundation and the Acumen Fund.

This report reviews the experiences of Fiji and Vanuatu in managing these non-traditional development assistance (NTDA) flows as part of a broader Overseas Development Institute (ODI) project 'The age of choice: How are developing countries managing the new aid landscape?' (Greenhill et al., 2013). This project examines the challenges and opportunities experienced by governments in managing the new aid landscape, particularly the growth of NTDA. NTDA refers to cross-border sources of finance provided to developing countries for a public or philanthropic purpose, which have an element of concessionality but are not 'traditional' bilateral or multilateral official development assistance (ODA). The category of 'non-traditional providers' (NTPs) includes non-DAC donors, climate finance, philanthropic organisations, social impact investors and global health funds.

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield (2008), in contrast with much of the literature on the political economy of aid, lies in seeing the process of engagement between partner country governments, donors or NTPs as one of negotiation. Partner country governments and providers are assumed to have a possibly divergent set of objectives that they seek to reconcile through negotiation. Fraser and Whitfield (2008) also focus on the importance of both the economic and political context in shaping country and donor negotiating capital, and thereby negotiation outcomes.

Drawing on this theoretical framework, we sought to answer the following questions for the cases of Fiji and Vanuatu:

- How have the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since the early 2000s?
- What is the economic, political, governance and aid management context that determines the ability of the two governments to mobilise and utilise development assistance and that shapes the outcomes of negotiations between government and providers?
- What are the governments' priorities concerning the volume, purpose and 'terms and conditions' of development assistance? To what extent do these priorities differ for different types of providers?

- In which arenas do the governments seek to engage with providers, and what strategies do they employ to negotiate with them? How do these arenas and strategies differ for the various types of providers?
- To what extent are these governments achieving their objectives when it comes to negotiating with providers? How has the existence of non-traditional providers of aid helped or hindered these countries in achieving their objectives?

Specific contextual elements (economic, political and governance) influence negotiating strategies and outcomes in relation to traditional and non-traditional providers of development assistance. Key elements for the cases of Fiji and Vanuatu are as follows:

- The 2006 coup has dramatically restricted financing options for the Fijian development strategy. Australia, New Zealand, the European Union (EU) and other bilateral DAC donors imposed a series of diplomatic and financial sanctions on the government after it failed to hold elections in 2009. As a consequence of these domestic political developments, traditional donors now provide only a small fraction of their assistance through the government. Elections in September 2014 are likely to dramatically change the picture. The Asian Development Bank (ADB) has already mentioned that it may change its position after the election, so several donors are preparing a basis for reengagement with the Fijian government once the new executive has been appointed.
- As a result of reduced activities by traditional partners, Fiji has expanded its 'Look North Policy' to identify new partnerships and intensify its engagement with Southern partners. It has already established partnerships with China Eximbank and EXIM Bank of Malaysia, and has signed Memoranda of Understanding with Russia and Turkey. Currently, Fiji is negotiating new partnerships with, for example, Brazil, Indonesia and the United Arab Emirates (UAE).
- Fiji has a separate unit that deals with aid from China and Taiwan. This structural difference in aid management between traditional donors and China and Taiwan might indicate varying strategies for negotiations with the two groups.
- Fiji is not an aid-dependent country. This is partly because of sanctions that were imposed after the coup, but also a result of its upper-middle-income status. Its low dependency on aid influences Fiji's position in aid negotiations. However, the importance of aid varies by sector; it plays a much stronger role for the social sector, for example.
- Vanuatu can be classified as an aid-dependent country. A good share of its budget is financed through development assistance. This makes successful negotiations with donors very important for Vanuatu. While aid dependency might weaken its position towards donors, it is important that Vanuatu be able to communicate its preferences since the country is not able to finance its development strategy without development assistance.
- Vanuatu does not have many other sources for financing that could offer an alternative to aid. It is not yet known whether offshore oil and minerals exist that might be exploited in the future. In addition, regulatory changes have led to a reduction in foreign direct investment (FDI) growth. Vanuatu has recorded strong economic growth in the last decade that might reduce some of the country's financial needs if it can be sustained; however, one of the main drivers of this is donor-financed infrastructure investment.

- Vanuatu’s lack of geopolitical importance and its political instability are additional factors related to its strength in aid negotiations. The first could limit the country’s ability to attract new donors as well as add weight to the importance of interventions in Vanuatu. The latter reduces possibilities for strategic planning and makes long-term projects riskier for donors.

The two countries share a number of characteristics, such as their geographic location and small size, a low number of active development partners at country level, and a high-risk exposure to natural disasters and challenges imposed by the consequences of climate change. However, their differences – in economic performance and development, diplomatic relations with traditional partners, political stability and geostrategic relevance – influence the governments’ power to negotiate with providers of development assistance. These factors also heavily impact their ability to access non-traditional development finance flows, priorities and capacity. Nevertheless, some common patterns emerge, especially when it comes to climate change financing and philanthropic assistance. To summarise, the main messages emerging from the case studies of Fiji and Vanuatu are as follows:

- While traditional donors are still the main providers of development aid, less traditional sovereign donors, especially China, are becoming increasingly important.
- Both governments value the flexibility of funds from sovereign non-traditional donors and their easy accessibility. These characteristics have been mentioned as advantages compared to bilateral and multilateral assistance, where – especially for the latter – decision and disbursement processes are often perceived as burdensome and lengthy. Consequently the countries, especially Vanuatu, seem to shy away from using assistance from donors with complicated requirements, low predictability or lengthy processes.
- Though the flexibility of NTDA is valued, interviewees in both countries mentioned some disadvantages. A major concern for officials in Fiji is the low spillover effects on the local economy through Chinese assistance due to the use of Chinese contractors and materials for construction. In addition, loans from NTPs are less concessional than those from traditional donors. Interviewees in Vanuatu expressed concerns about the lack of transparency in the negotiation process for Chinese loans.
- Technical assistance and capacity-building components attached to development assistance are priorities for both governments. Limited capacity in line ministries, especially in Vanuatu, has led to a preference for projects that include capacity-building activities. Transfer of knowledge on how to manage projects from donor consultants in implementation units is important to ensure governments can successfully manage and sustain such projects in the future.
- Coordination between traditional and non-traditional donors has been weak but is improving. In both countries – though the situation in Fiji is unique owing to reduced engagement with the government – policy dialogue between traditional bilateral donors and China seems to be improving. As China’s infrastructure projects are very big in both countries, coordination with other donors might be important to make interventions more consistent and effective.
- As found in previous country case studies for this project, international philanthropic organisations seem not to play a major role. There may be different reasons for this. First, the Pacific is not the focal area for most

of the major international foundations. Second, Fiji is an upper-middle-income country, which might explain why it's off the radar for some of the international players.

- The amount of climate finance that both countries receive through new mechanisms like the Global Environment Facility (GEF) is small, though they face high risks through climate change. For both countries this is a priority issue, and they aim to improve the situation. However, absorptive capacity might compromise the use of additional funds.
- Apart from intensified cooperation with new sovereign donors, Fiji has accessed the Global Fund and the GEF as new sectoral sources of finance since 2007. Though small, these new sources of funding help fill funding gaps.
- Most of the traditional donors plan to reengage with the government of Fiji and increase funding after the elections in September 2014. It will be of interest to see how this change will influence the donor landscape in the future, especially as increased borrowing from non-traditional donors is not seen in an entirely positive way by government officials.
- Especially for Vanuatu, lack of capacity in line ministries is a relevant challenge. Although the country wants to access donor funding, it struggles with managing these funds. This lack of capacity leads to a rising demand for Chinese aid, as Chinese projects come as turnkey projects and do not demand extensive reporting. Capacity constraints also limit Vanuatu's ability to access climate finance funds through new mechanisms like the GEF.
- Less demanding procedures to access funds would still not solve Vanuatu's problems on the spending side. Limited capacity makes it difficult for the government to design and implement projects that make good use of funds.

# 1 Introduction

## 1.1 Background

Development cooperation is changing rapidly. Traditional development assistance from members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) is becoming less important. There are now numerous other sources of development assistance: non-DAC donors, such as China and India; philanthropic organisations, such as the Bill and Melinda Gates Foundation; and new 'social impact investors', such as the Shell Foundation and the Acumen Fund.

This study forms part of a set of case studies that examine the challenges and opportunities governments experience in managing the new landscape, particularly the growth of what we call 'non-traditional development assistance' (NTDA) (see Greenhill et al., 2013). NTDA refers to cross-border sources of finance provided to developing countries for a public or philanthropic purpose, which have an element of concessionality but are not 'traditional' bilateral or multilateral official development assistance (ODA). The distinction between traditional and non-traditional is at best a useful approximation, inevitably involving a degree of subjective judgement. It does not imply either that the so-called 'traditional' providers do not innovate, or that 'non-traditional' assistance is new. It nevertheless provides a useful conceptual distinction for the purposes of the study.<sup>1</sup> The category of 'non-traditional providers' (NTPs) includes non-DAC donors, climate finance, philanthropic organisations, social impact investors and global health funds. We do not focus on domestic resource mobilisation or purely private flows. The rationale for focusing only on NTDA flows is twofold: the limited scope of the study makes it more manageable; and these flows are the most likely to complement or substitute for ODA, and therefore governments may manage them in comparable ways.

The main purpose of this analysis is to look at this new, complex development landscape and to help developing countries, donors and those involved in international dialogues around aid effectiveness to better understand its implications for partner country aid management strategies. We aim to help countries to understand how they can adapt their strategies in order to access new sources of development assistance and to make best use of the sources that are available to them. This study does not analyse and address the challenges from the perspective of donor countries.

This report reviews the experiences of Fiji and Vanuatu in managing NTDA flows, as part of the Overseas Development Institute (ODI) project 'The age of choice: how are developing countries managing the new aid landscape?' (Greenhill et al., 2013). The first phase of the project considered three case studies (Cambodia, Ethiopia and Zambia) that explored the challenges and opportunities countries face in managing flows from traditional and non-traditional actors within the context of the new aid landscape. It also provided a provisional taxonomy and quantification of the various

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<sup>1</sup> Unlike Greenhill et al. (2013), this paper does not treat Korea separately.

forms of development assistance, including less traditional flows, both at the global level and at country level. Four main messages emerged from the first phase of the project: (1) all countries analysed receive flows from NTPs, and the volume has increased significantly over the past decade, (2) partner countries welcome more choice and more finance, (3) partner countries identify ownership, alignment and speed as key priorities, and (4) countries such as Cambodia and Ethiopia are taking a strategic approach to the division of labour between traditional and non-traditional providers.

Together with a forthcoming report on Papua New Guinea (Prizzon, forthcoming), these country case studies on Fiji and Vanuatu explore and test how far we can extend the findings emerging from the first phase of the project to other partner countries, including small island economies. Because of their geographical location and size, these countries have small-scale civil services, high per capita ODA flows (with the notable exception of Fiji) and few development partners, Australia being the most dominant actor. Furthermore, small island developing states were prioritised in relation to climate change adaptation financing under the 2009 UN Framework Convention on Climate Change (UNFCCC) Copenhagen Accord. Meanwhile, the Pacific region has been of greater geopolitical interest for China in recent years. Competition between Taiwan and China for diplomatic recognition in the region ended with a diplomatic truce in 2008 (see Hayward-Jones, 2013).

We consider Fiji because the Pacific headquarters of several agencies surveyed in this analysis were located in Suva (notably international agencies such as the International Monetary Fund (IMF), the UN System and non-governmental organisations (NGOs)). Moreover, it is believed that elections in September 2014 will mark a milestone in the future reengagement with traditional development partners, who interrupted diplomatic relations, including provision of assistance, following the coup in 2006 (Howes, 2013b) and the government's failure to hold elections in 2009. Against this backdrop, we analyse the current picture and the extent to which the Interim Government of Fiji (henceforth GOF) has diversified its funding sources away from traditional official sources (DAC donors and multilateral development banks such as the Asian Development Bank (ADB)).

Vanuatu was chosen because it is a small island economy that faces great development challenges, as well as the consequences of climate change, and is prone to natural disasters. In addition, we were able to make use of a good ODI network in the country.

## 1.2 Methodology and research questions

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield (2008), in contrast with much of the literature on the political economy of aid, lies in seeing the process of engagement between partner country governments and donors or NTPs as one of negotiation. Partner country governments and providers are assumed to have a possibly divergent set of objectives that they seek to reconcile through negotiation. Fraser and Whitfield (2008) also focus on the importance of both the economic and political context in shaping country and donor negotiating capital, and thereby negotiation outcomes.

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- To what extent are these governments achieving their objectives when it comes to negotiating with providers? How has the existence of NTPs of aid helped or hindered these countries to achieve their objectives?

Country visits in Fiji were conducted between 12 and 17 May 2014, and in Vanuatu between 19 and 22 May. ODI staff worked in collaboration with Shupiwe Suffolk (Independent Consultant, Fiji) and Tess Newton Cain (Devpacific, Vanuatu) to hold semi-structured interviews with key informants (see Appendix 2 for a full list of the interviewees who agreed that their names or the names of their institutions could be published). Some interviews took place over the telephone in May/June 2014. Interview findings were combined with a background literature review and data analysis. The synthesis report from the first phase (see Greenhill et al., 2013) describes the case study methodology in greater detail.

The case study report is structured as follows: Section 2 presents the case study of Fiji and Section 3 that of Vanuatu. Each section starts with a summary of the economic and governmental context that shapes aid negotiations, and follows an adapted version of the framework developed by Fraser and Whitfield (2008) and Ostrom et al. (2001), as illustrated in Greenhill et al. (2013). We review key indicators between 2000 and 2010. Each country's case study continues by outlining trends in volumes and modalities of development assistance flows from the main NTPs (official and private) since the beginning of the 2000s. Next, the governments' priorities are outlined regarding the terms and conditions of development assistance flows, how they have evolved over time, and whether each government has been able to meet its objectives in negotiations with traditional and non-traditional providers. Finally, each country's case study describes the arenas in which government interacts and negotiates with NTPs and the implications for traditional aid coordination mechanisms. Section 4 concludes the report by summarising the main case study findings emerging from the two country studies.

# 2 Fiji

## 2.1 Contextual information

In this section we discuss the context that has shaped Fiji's ability to manage assistance flows from traditional and non-traditional providers. The methodology used for the case study (see Greenhill et al., 2013) stresses the importance of context in influencing a country's ability to negotiate effectively with providers, both traditional and non-traditional. Contextual factors include (1) economic conditions, (2) political and governance conditions, and (3) a country's progress towards aid effectiveness targets and national development strategies.

### 2.1.1 Economic conditions

**Fiji – an upper-middle-income country – has experienced a period of volatile and generally low economic growth in the 2000s.** Only in the past three years has the growth path seemed to stabilise, at around 2% – which is still low compared to other countries in the East Asia and Pacific region. The main reasons for the country's low growth performance – below 2% between 2005 and 2011 – were underperforming export levels; declining investment, in part as a consequence of the 2006 military coup; restrictions on foreign currency; and structural economic problems. In 2012, major floods hit Fiji's tourist areas (ADB, 2012). The economy is still recovering from the floods, with an expected growth rate of 3% for 2013 (IMF, 2013). Elections in September 2014 will most likely have a positive effect on foreign investors and lead to increases in foreign aid in the near future. Nevertheless, economic diversification is one of the main challenges of the Fijian economy, which has until now heavily depended on the tourism sector. While the contribution of sugar production to the country's gross domestic product (GDP) declined from 9% in 1996 to 2% in 2011, it still is a source of income for a large part of the rural population (IMF, 2011).<sup>2</sup>

**Fiji is not an aid-dependent country.** Before the coup in 2006, ODA as a share of Fiji's gross national income (GNI) was already at only 2.2% (2005). This amount decreased slightly in the two years following the coup to 1.3% in 2008, but later recovered to pre-coup levels. In 2012, ODA reached 2.9% as a result of emergency-driven aid flows following the flooding and cyclones. The importance of aid varies by sector. While aid accounted for 6% of the total budget in 2012 (Ministry of Finance, Fiji 2013b), it accounted for 9% percent of the budget in the health sector. Allocation through government systems decreased significantly in the year following the coup, from 44% in 2006 to 18% in 2007.

**Australia, Japan, EU institutions and New Zealand have since been Fiji's most important traditional donors.** Together they provided over 90% of Fiji's traditional bilateral aid between 2000 and 2012 (total traditional bilateral aid in 2012 was \$86 million). The focal sectors of Australia and New Zealand are education and health. Japan is more active in the infrastructure sector and in disaster relief interventions.

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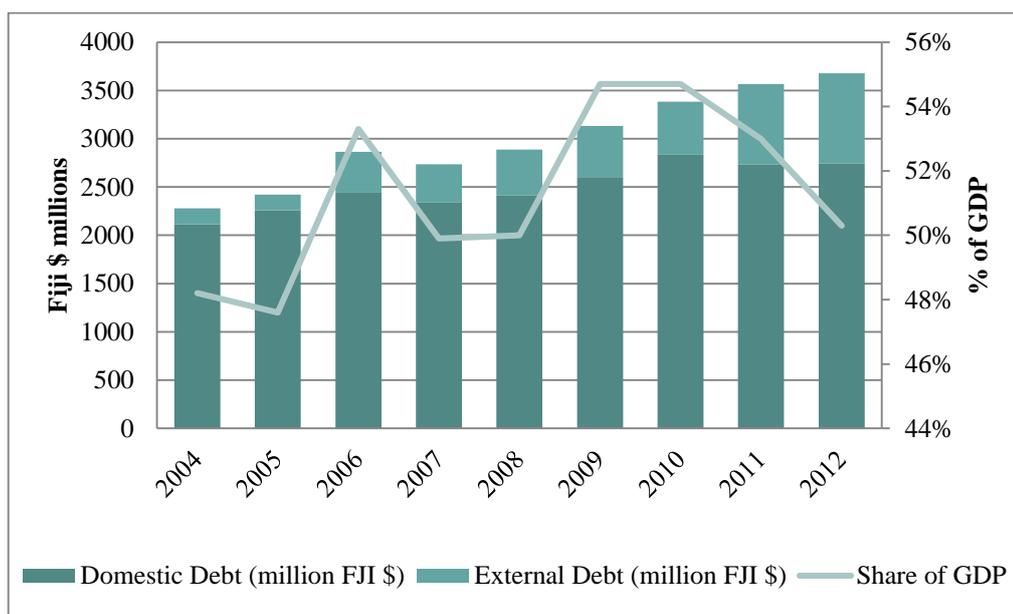
<sup>2</sup> The European Union (EU) is currently providing a \$60 million programme (Accompanying Measures for Former Sugar Protocol Countries) to assist the sugar cane sector in its restructuring process following the EU sugar reform.

The EU focus is on agriculture and climate change. These four donors have kept their amount of assistance relatively stable despite the political situation and restrictions on working directly with the government; this was achieved through cooperation with local civil society organizations as well as regional and international organizations.

**GOF has run a small budget deficit for the past decade.** The budget deficit to GDP ratio has been around 1-2%, except for 2009, when it was at 4%. Tax revenues have also been relatively stable for the past decade or so, at around 21% of GDP. This is well above the regional average (16%) and slightly above the average for other upper-middle-income countries (19%) (World Bank, 2014). In 2012, GOF introduced a 30% cut in corporate tax.<sup>3</sup> Tax revenues have remained constant, however, because of higher value-added tax (VAT) receipts following a VAT increase from 12.5% to 15% in 2011 (Ministry of Finance, Fiji, 2011).<sup>4</sup>

**Public debt has declined slightly in the past few years.** The decline from 55.6% of GDP in 2009 to 49% in 2013 reflects repayments of loans and achievements in lowering fiscal deficits from the 2009 peak of 4% to 1% in 2012 (Ministry of Finance, 2011; 2013a). Most GOF liabilities, about 84%, come from the domestic market through the issuance of government and saving bonds ('Viti' bonds). High liquidity in the local market and historically low interest rates have provided an opportunity to refinance expensive loans at low costs (Ministry of Finance, 2013a).

**Figure 1: Trends in public debt, Fiji, 2004-2012**



Sources: Debt information provided in GOF (2007, 2009, 2012) and measured in million FJI\$ (left-hand scale); the debt to GDP measure (right-hand scale) is calculated by using government information on total debt and GDP information from World Bank (2014).

**External debt constitutes only a minor share in the country's debt composition, but its share has increased in the past few years.** External increase is especially caused by the issuance of a global bond ('infrastructure bond') in 2012 and increased

<sup>3</sup> Corporate tax rates were reduced from 28% to 20%. Marginal tax rates also were reduced for all bands of private income: in the lower band from 25% to 7%, in the middle band from 31% to 18% and in the top band from 31% to 20%.

<sup>4</sup> Part of the increased VAT income owed to the consumption shock through the lump-sum transfer of the Fiji National Provident Fund (FNPF). As this was a one-time transfer and additional corporate tax cuts are planned for stock-market-listed companies (Ministry of Finance, Fiji, 2013a), the tax income might decrease.

borrowing from China Eximbank and EXIM Bank of Malaysia (see Section 2.2). Given the current political situation, Fiji has no access to less expensive options from the multilateral banks; in view of Fiji's middle-income status, these options would be lending on market-based terms in the form of *Ordinary Capital Resources* of the ADB or lending through the World Bank's *International Bank for Reconstruction and Development* (Howes, 2013a). GOF has a medium-term target to reduce its debt level to 45% of GDP, but a well-developed debt management strategy is lacking.

**Private flows to Fiji are expanding.** The share of GDP inward foreign direct investment (FDI) increased from 2.5% in 2001 to 11.1% in 2011, nearly twice as much as the average for Pacific countries (6.6%) (World Bank, 2014). However, such flows are volatile and have dropped in years with severe flooding (2005, 2009 and 2012). This had a negative impact on Fiji's tourism sector investments. Remittances to Fiji have been stable at around 5% of GDP – but below the average for Pacific countries (6%) – over the past decade.

**Fiji is not a resource-rich country.** Fiji's natural resource rents as a share of GDP are half the average of Pacific countries (3% vs. 6.1%, respectively, in 2012 (World Bank, 2014)). Copper has recently been discovered, but the industry is still in the exploration phase, and revenues through taxation or royalties will probably materialise only in 10 years.

### 2.1.2 Governance and geopolitical conditions

**The 2006 coup has heavily impacted Fiji's external relations.** This was the fourth coup since Fiji's independence from the UK in 1970. Since 2007, Voreqe Bainimarama has been Prime Minister of the military interim government. In 2009, after promised elections were not held, the Pacific Islands Forum and the Commonwealth of Nations suspended Fiji from participation. In addition, most of the country's development partners decided to no longer provide development assistance through the government, and the multilateral development banks refrained from lending to Fiji.

**Isolation from its traditional partners triggered Fiji's 'Look North Policy'** with the objective of establishing new bilateral partnerships (GOF, 2008). This strategy also envisioned strengthening existing relations with China. In addition, Fiji enhanced its international presence by opening new embassies around the globe. These new embassies and diplomatic relationships led to a rising number of partnership agreements with countries such as Turkey, Indonesia and Russia (see Section 2.2).

**Fiji's relations with traditional donors are, however, likely to improve after the elections in September 2014.** As a first sign, a ban on travel to Australia and New Zealand that had been imposed on Fijian ministerial, military and high officials was lifted in March 2014. In addition, many donors, like ADB, have already stated their willingness to reengage Fiji in the future if democratic elections that fulfil international standards are held (ADB, 2014; Howes, 2013b). Since 2011 the EU, among other donors, has provided €5 million in assistance to support Fiji's return to democracy.

**Despite its political situation, Fiji is still the diplomatic hub in the Pacific for most regional donors and organisations.** Fiji hosts diplomatic missions that serve many Pacific Islands countries (PICs), regional organisations (e.g. the Pacific Islands Forum and the Secretariat of the Pacific Community (SPC)), the regional headquarters of major intergovernmental organisations (e.g. the UN) and international NGOs, as well as the University of the South Pacific. Fiji is currently also heading the group of Pacific states in the Global Environment Facility (GEF).

**In recent years, the Pacific region has received increasing attention from several actors.** The China–Pacific Island Countries Economic Development and Cooperation Forum has convened twice so far, the first forum taking place in Fiji. At the second forum, held in 2013, China announced the provision of \$1 billion dollars in concessional finance over the following four years and another \$1 billion in non-concessional finance (Development Policy Centre, 2013). Also, the US has stressed the importance of the Asia-Pacific region (Hayward-Jones, 2013a), which underlines the region’s newly increased geopolitical importance.

**Fiji scores well on the International Finance Corporation’s Ease of Doing Business Survey 2013, ranking 62<sup>nd</sup> of 189 countries and 9<sup>th</sup> of 25 in the region.** The country is currently establishing a one-stop online system for the registration of foreign investments to further improve the investment climate and the already positive development trends of FDI to the country.

**Like other small island states, Fiji is vulnerable to the impacts of climate change.** The country regularly suffers from flooding and cyclones. In the 2012 World Risk Report, which measured exposure to natural disasters, Fiji was ranked 15<sup>th</sup> of 173 countries, and in the climate change vulnerability index of the Notre Dame Global Adaptation Index, Fiji ranks 97<sup>th</sup> of 183 countries, where rank 183 indicates the highest vulnerability. The government recognises the importance of climate change but depends on financial support from its development partners to implement projects.

### **2.1.3 National strategies, aid management context and national actors**

**The Roadmap for Democracy and Sustainable Socio-Economic Development 2010-2014 is Fiji’s national development strategy.** Based on the People’s Charter for Change, Peace and Progress, released in 2008, the national development strategy sets out three thematic pillars: Good Governance, Economic Development, and Socio-Cultural Development. Under these pillars, the priorities are macroeconomic management, raising investment levels, infrastructure development, increasing food security and exports, reforming the sugar industry and the public sector, and improving social services. The strategy is sufficiently broad to fit almost any other activity into these priorities, however, it does not feature concrete and measurable targets, which would improve the identification of necessary interventions.

**When it comes to aid management, the Budget and Aid Coordination Committee (BACC) is the main government body for managing development assistance in Fiji.** Members of BACC represent key central agencies, and include the permanent secretaries for Finance, Strategic Planning, National Development and Statistics, and Foreign Affairs and International Cooperation; the deputy secretaries of the Office of the Prime Minister and the Ministry of Finance; and the secretary for the Public Service. In principle, they meet once a month. The Overseas Development Assistance Unit of the Ministry of Finance acts as the BACC Secretariat.

**BACC is the focal point for all decisions on aid, including at the sector level.** Line ministries are invited on a needs basis. However, we understand donors often discuss their programmes directly with the ministry, which asks for approval from BACC only at the end of negotiations. However, a considerable share of assistance is channelled via NGOs, and thus is not managed by BACC. GOF has a great interest in accessing information on where these funds go, so as to prevent duplication and ensure the most efficient use of available resources. To this end, BACC sends out a form twice a year to track donors’ assistance, including flows to NGOs.

**Relations with China and Taiwan are managed by a separate office within the Office of the Prime Minister,** the Development Cooperation and Facilitation

Division, established in 2007. Information on new projects in this unit is also shared with BACC.

**Policy dialogue between GOF and donors is irregular and takes place only when GOF presents the budget for the following year.** From interviews, we understood that development partners were supporting GOF in strengthening these mechanisms. In addition, all donors are invited to participate in a coordination round for the health sector.

**Since 2007, Fiji has autonomously applied for assistance from the Global Fund to Fight AIDS, Tuberculosis and Malaria.** Previously Fiji was part of the multi-country coordination mechanism led by SPC. Fiji has a separate Grant Management Unit in the Ministry of Health. In contrast to the situation in other countries reviewed for this project (see Prizzon and Rogerson, 2013 on Ethiopia), the unit is well integrated into Fiji's national system and arranges regular meetings with the Ministry of Health, the Ministry of Finance, and the Australian Department of Foreign Affairs and Trade (DFAT) (the biggest donor in the health sector). The unit reports received money to the Overseas Development Assistance Unit.

**In 2012, the Ministry of Foreign Affairs and International Cooperation became the unit in charge of climate change issues, and a national climate change policy was developed.** The transfer of the climate change portfolio away from the Ministry of Local Government, Urban Development, Housing and Environment was motivated by the need to be involved in international conferences and commitments. However, the Ministry of Rural and Maritime Development and National Disaster Management still takes care of adaptation interventions such as the reallocation of houses in coastal regions. It remains unclear whether these responsibilities between the units are clearly separated and whether cooperation between them is efficient.

#### **2.1.4 Context analysis: implications for aid negotiations**

We expect the contextual analysis provided in previous sections to influence negotiating strategies and outcomes in relation to traditional and non-traditional providers of development assistance for GOF in several ways:

- The 2006 coup dramatically restricted financing options for the Fijian development strategy. As a consequence of these domestic political developments, traditional donors now only provide a small fraction of their assistance through GOF.
- In response to this, Fiji's Look North Policy aimed to identify new partnerships and intensify engagement with existing partners among developing countries. This strategy enabled partnerships with China Eximbank and EXIM Bank of Malaysia to intensify. Likewise, Fiji has signed Memoranda of Understanding with Russia and Turkey and is negotiating new partnerships with, for example, Brazil, Indonesia and the United Arab Emirates (UAE).
- The September 2014 elections are likely to dramatically change the picture. ADB has already mentioned that it may change its position after the elections, and several donors are preparing to reengage with the Fijian government once a new executive has been appointed. Informal negotiations are still underway for some donors, but all donors we talked to planned to reengage with Fiji towards the end of the year.
- Fiji has a separate unit to deal with aid from China and Taiwan.<sup>5</sup> This structural difference in aid management between traditional donors and the

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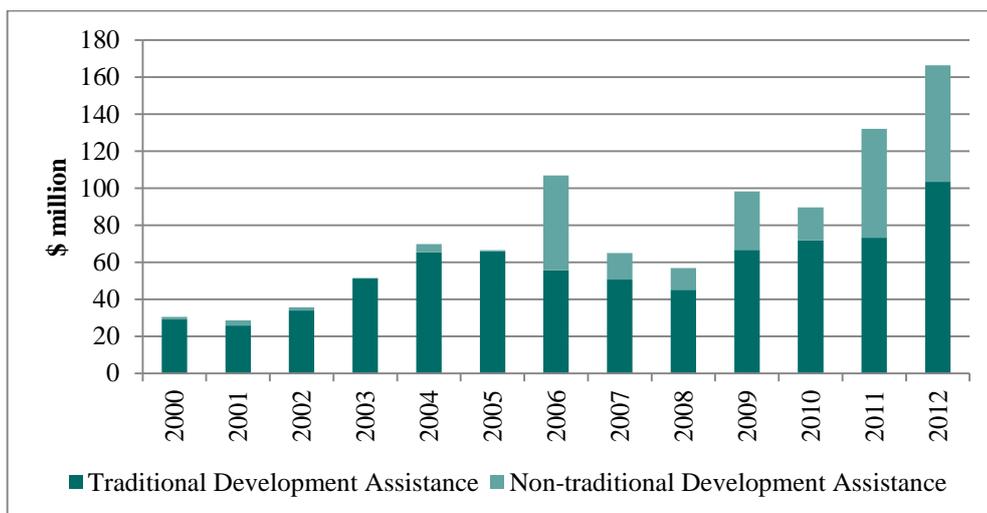
<sup>5</sup> Receiving assistance from both countries is a special situation. Usually countries receive assistance from either of the countries depending on the recognition of Taiwan.

most important new donors might indicate a different strategy for negotiations with the two groups. The Overseas Development Assistance Unit at the Ministry of Finance manages all traditional and some of the non-traditional donors; a unit in the Office of the Prime Minister is responsible for managing Chinese and Taiwanese aid. Fiji is not an aid-dependent country. This is partly because of the sanctions imposed after the coup but is also a result of its upper-middle-income status. This low dependency on aid influences Fiji's position in aid negotiations. However, the importance of aid also depends on the sector; for example, aid plays a much stronger role in social services. Therefore, aid negotiations are still of importance for Fiji to ensure support for these sectors.

## 2.2 Mapping non-traditional development assistance flows to Fiji

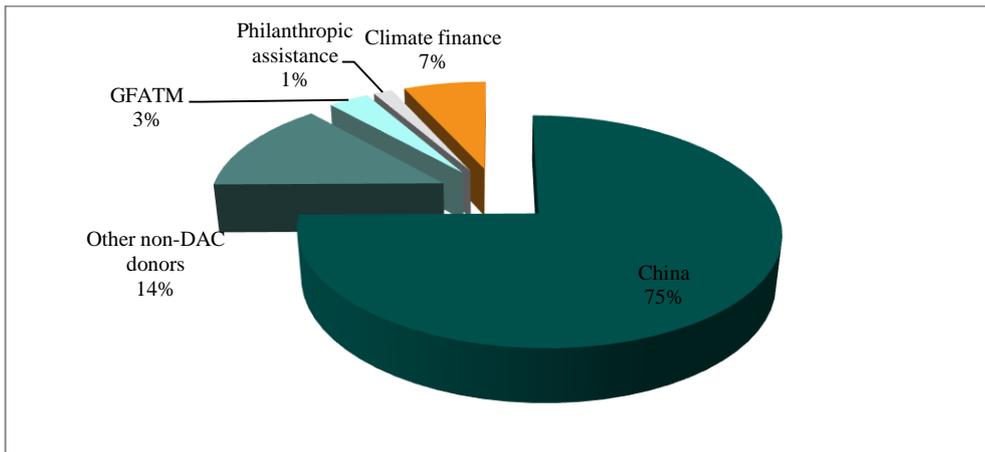
After having reviewed the main contextual factors likely to have an impact on Fiji's priorities and negotiating power in relation to traditional and non-traditional providers of development assistance, we provide in this section an assessment of the volume and trends of flows in NTDA. These are (1) bilateral official NTPs (notably China), (2) climate finance, (3) vertical health funds, and (4) philanthropic assistance.

**Figure 2: Traditional and non-traditional development assistance, Fiji, 2000-2012**



Source: Ministry of Finance, Fiji (2011); OECD (2014); [www.pmooffice.gov.fj](http://www.pmooffice.gov.fj); <http://www.foreignaffairs.gov.fj/trade-policy/international-cooperation/oda-trend>; [aiddata.org](http://aiddata.org); [www.theglobalfund.org/en/](http://www.theglobalfund.org/en/); <http://foundationcenter.org>.

**Figure 3: Share of different types of non-traditional assistance, Fiji, 2009-2012**



Source: Ministry of Finance, Fiji (2011); OECD (2014); [www.pmooffice.gov.fj](http://www.pmooffice.gov.fj); <http://www.foreignaffairs.gov.fj/trade-policy/international-cooperation/oda-trend>; [aiddata.org](http://aiddata.org); [www.theglobalfund.org/en/](http://www.theglobalfund.org/en/); <http://foundationcenter.org>.

The composition of development assistance between traditional and non-traditional providers has significantly changed since 2005, when the latter were still negligible. We estimate that NTDA flows in 2012 (see Appendix 1 Table A1) stood at 37.8% of total development assistance in Fiji; non-DAC sovereign donors represent 94% of total NTDA flows, the Global Fund 2%, philanthropic assistance 1% and climate finance 4% (see Greenhill et al., 2013 for definitions of NTDA). The major share of NTDA from non-DAC sovereign donors comes from loan agreements with Exim Bank of India, EXIM Bank of Malaysia and China Eximbank. This is also the reason for the high average share of Chinese assistance (75%) for the 2009-2012 period in Figure 3, which refers to the disbursement of several infrastructure loans.

### 2.2.1 Bilateral official non-traditional providers

**Fiji's most prominent non-traditional partner is China.** Cooperation with China comprises grants, concessional loans and technical cooperation. This cooperation between the two countries has intensified over recent years.

**China has been offering technical cooperation and small grants to Fiji for more than 30 years.** Lending from China Eximbank, meanwhile, started only in the recent past but has developed fast. For 2013, 26.4% of Fiji's foreign debt was denominated in Yuan, representing about \$158.5 million. Fiji borrows only for capital investments to ensure an adequate return on investment to repay its debt. The first concessional loan by China Eximbank was for an e-government project in 2009, and amounted to \$20 million (Ministry of Finance, Fiji, 2008, 2011). Loan agreements in 2010, which were disbursed over the following years, were for low-cost housing (about \$36.5 million) and upgrading of the Nabouwalu–Dreketi road (about \$48.5 million). It is anticipated that in 2014, 15.6% of ODA, or about \$9 million, received by Fiji will be provided by China (BACC, 2014). Chinese aid projects (grants and technical assistance) will focus in 2014 on completion of Navua Hospital (\$0.7 million), a hydro project in Taveuni (\$8.3 million) and the building of several sports complexes. Technical assistance activities are focusing on a mushroom demonstration centre and rice industry development in Vanua Levu. In the round of interviews, we understood that no new loan applications to China Eximbank were being made at the moment. This might have been in anticipation of the elections scheduled for later in the year. We understand that a fixed borrowing cost of 2% is associated with loans from China Eximbank. A five-year grace period often applies, and the loan is repayable over twenty years. Although these conditions are less favourable than those of the multilateral development banks, they are still

significantly lower than market conditions, whereby Fiji has to pay an interest rate of 9% for its government bond.

**Another long-term partner of Fiji is India.** Although around one third of Fiji's population is of Indian origin, Indian activities are limited. Since the 1970s, India has been providing capacity development training in India for ministry officials in the framework of the Indian Technical and Economic Cooperation Programme (ITEC). The number of people sent to India with ITEC has increased over the past five years from 45 to 200. GOF identifies the area of training, as well as who will participate in the training.<sup>6</sup> In addition to capacity development, the Indian High Commission provides support for *ad hoc* programmes, mainly in health and agriculture. In terms of lending, Exim Bank of India in 2006 provided a 10-year loan of \$50 million to the sugar sector.

**Though Fiji has well-established cooperation with China, it also receives assistance from Taiwan.** This support is mainly in the form of technical assistance in the agriculture sector. In addition, Fiji's Office of the Prime Minister, which coordinates aid from China and Taiwan, received a grant from the Taiwanese government. However, this has been almost completely used up, and there are no indications of a new grant for Fiji.

**Fiji is developing new partnerships with a number of other countries** in addition to the already well-established partnerships with China and India (see Section 2.1). Under some of these new partnerships, single projects have evolved. One such partnership is with Malaysia. Fiji borrowed \$40 million from EXIM Bank in 2010 for a highway upgrade (Fiji Times Online, 2010). However, as the conditions of the loan were very unfavourable, with high interest rates and a short repayment period (we understand that political risk guarantee has to be provisioned for),<sup>7</sup> GOF has taken only part of the loan and cancelled the rest. Russia and Fiji have also signed several Memoranda of Understanding recently, and Russia provided a grant to Fiji for the establishment of the Pacific Islands Development Forum (Ministry of Finance, Fiji, 2013b). With Fiji enhancing its international presence by opening new embassies around the globe (see Section 2.1), donors such as Cuba, Turkey, Thailand and UAE have provided small amounts of assistance.<sup>8</sup>

## 2.2.2 Climate Finance

**In climate finance, in the fifth round of the GEF (2010-2014), Fiji received an indicative allocation of \$7 million.** Of this amount, \$4.5 million is for biodiversity, \$2 million for climate change and \$0.5 million for land degradation. This is significantly smaller than the amount provided by bilateral traditional donors in 2012, which provided \$3.3 million for biodiversity, \$14.5 million for climate change and \$16 million for environment projects (OECD, 2014b).

**In addition to the GEF grants, Fiji had received \$2.8 million from the GEF Small Grants Programme (SGP) by 2012.** These SGP funds are separate from the

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<sup>6</sup> In addition to ITEC, India has a programme providing 30 scholarships a year for study in India. Scholars selected by the Indian Cultural Centre can choose from a wide field of studies (<http://www.indianhighcommissionfiji.org/hc.php?id=Education>)

<sup>7</sup> <http://www.exim.com.my/credit-insurance/political-risks-insurance>

<sup>8</sup> UAE has provided a small amount of support since 2012 (\$0.15 million in 2012) and increased this support earlier this year by signing an agreement to fund a renewable energy project worth \$5 million (<http://www.fiji.gov.fj/Media-Center/Press-Releases/FIJI-AND-UNITED-ARAB-EMIRATES-SIGN-SOLAR-PROJECT-A.aspx>). Further small development assistance projects, especially in the form of scholarships, trainings and dispatching of volunteers, come from Thailand (\$0.03 million), Indonesia, Malaysia and Cuba (<http://www.fiji.gov.fj/Media-Center/Press-Releases/FIJI-AND-UNITED-ARAB-EMIRATES-SIGN-SOLAR-PROJECT-A.aspx>). In addition, Turkey has an ongoing cooperation with Fiji (\$0.06 million in 2012); this includes, *inter alia*, the implementation of a hydropower project and a grant for the 2014 elections of \$90,000 (<http://www.mfa.gov.tr/relations-between-turkey-and-the-republic-of-fiji.en.mfa>).

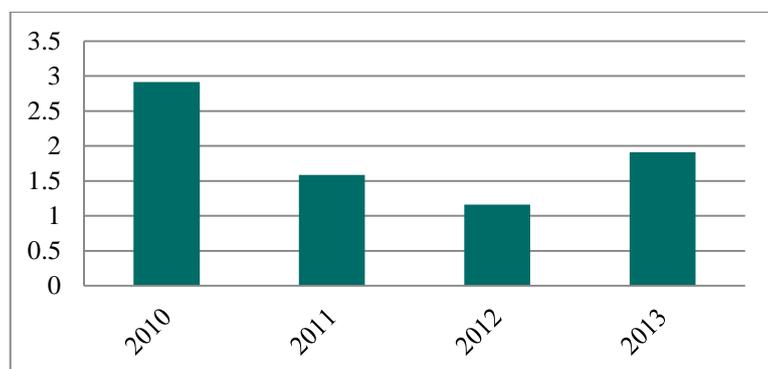
general GEF allocation and programmed for small projects directly implemented by NGOs and civil society. However, the government can shift a part of its GEF funding into the SGP programme. The maximum amount allocated to projects is \$50,000. As with the general GEF programme, the UN Development Programme (UNDP) is the implementing agency. GOF has favourable perceptions of the SGP, as it is very efficient. By the end of 2012, Fiji was able to finance 89 projects executed by civil society and community-based organisations with these funds (GEF, 2010).

Fiji also has a national programme for reducing emissions from deforestation and forest degradation (REDD+). In 2013, the Forest Carbon Partnership Facility granted Fiji up to \$3.8 million for a four-year period to implement REDD+ measures (GOF, 2013).

### 2.2.3 Vertical health funds

**Around \$9 million has been committed to Fiji from the Global Fund; of this, \$7.5 million had already been disbursed by 2013** (Global Fund, 2014). These funds are only for AIDS and tuberculosis programmes, as Fiji is not a malaria-prone area. As Fiji is an upper-middle-income country, the Global Fund requires government project co-financing of 60%, so as to ensure the country can carry out programmes itself in the future. Meanwhile, given its low disease burden and its high-income status, Fiji is eligible only for three-year transition period financing. In addition, according to the new Global Fund financing mechanism, Fiji has to frontload its co-financing and needs to provide 50% of the donor funding in addition to the 60% domestic share. Only from the second year onwards will the country receive funding from the Global Fund, when mutually agreed targets (agreed between the Global Fund and the Grant Management Unit) are met; that is, Global Fund money is backloaded. Resources from the Global Fund are included in the health budget overview.

**Figure 4: Global Fund disbursements, Fiji, 2010-2013**



Source: Global Fund (2014).

### 2.2.4 Philanthropic assistance

**Philanthropic assistance seems to be very small at the country level.** Consistent with previous case studies in this project (Greenhill et al., 2013; Prizzon, forthcoming), we did not identify any joint GOF–philanthropic organisation project. Civil society in the country also does not report a big presence of philanthropic organisations, such as the Bill and Melinda Gates Foundation or the Rockefeller Foundation. However, according to the US Foundation Center, which collects information on US-based foundations, a total of \$11 million in grants has gone to Fiji since 2003 (approximately \$1 million per year). This is equivalent to less than 2% of ODA flows.

**The only big international foundation mentioned during our interviews was the Packard Foundation.** The Packard Foundation is active in wildlife and maritime conservation work. Since 2007, the foundation has supported different projects and organisations in Fiji, to a total of \$4.3 million. This includes support to the World Wide Fund for Nature (WWF) and a local NGO called Live & Learn. The Vodafone Foundation is active on a local level in education and health. It does not work directly with GOF but coordinates its activities with the Ministry of Education when a project involves courses in schools. Otherwise, the foundation cooperates with local NGOs.

### 2.3 Government priorities and outcomes

Having reviewed the volume of and trends in NTDA flow, we now outline our findings from interviews and key documents concerning priorities and preferences with regard to the ‘terms and conditions’ of traditional and non-traditional development assistance to GOF. By ‘terms and conditions’ we mean elements of aid quality, such as predictability, alignment and concessionality.

**The national development strategy outlines a preference for increased aid, technical assistance and aid for trade** (Ministry of National Planning, 2009). Preference for technical assistance and projects with capacity-building elements embedded within them were mentioned several times during the country visit. GOF seems to have these priorities for traditional and non-traditional donors alike. Technical assistance made up almost 16% of aid in to Fiji in 2012 (Ministry of Finance, 2013b). The GOF preference to increase its level of assistance especially refers to assistance with better financial conditions. As a result of the sanctions on government, GOF cannot access grants from traditional donors and currently borrows under less concessional conditions from exim banks.

**Government officials interviewed were not as positive about Chinese development assistance as those in many African countries reviewed in this project.** GOF is concerned about the lack of a multiplier effect of projects for the local economy. Most of the borrowed money goes directly to Chinese subcontractors or is used to buy material in China (‘turnkey projects’). And the terms and conditions of the loans are more expensive. However, GOF appreciates the fast disbursement and the lack of conditions attached to Eximbank loans. In addition, Fiji cannot borrow from multilateral banks due to the political situation. GOF officials reported that the government borrows money only for infrastructure projects that have a sufficient return on the investment to repay the loan. This has led to a focus on the infrastructure sector of China Eximbank lending assistance.

**Limited capacity in line ministries seems to lead to a favouring of donor-managed implementation units in these ministries.** Direct channelling through grant management units reduces pressure on already-stretched administrations. However, it was noted that these units had to be better aligned with national systems; this should ensure that work is not duplicated, and, in addition, reduce tensions arising from the existence of different salary schemes for the same work – one for employees of the ministry and another for those paid by the donor through the grant unit.

**A general preference exists for flexible and fast-disbursed funds without conditions.** DFAT’s health programme is an example of an established agreement for fast disbursement, although conditions are still fixed in the basic agreement. Currently, programmes often face delays in fund provision, meaning they have to make use of other available money, which causes accountancy problems. This is another reason for the preference for flexible funds: if funding is missing in a project

or there are unforeseen developments, funds from one project that are not needed at the moment can be shifted to projects where they are needed.

**Government officials stressed that ownership was a key priority and assistance should address priority areas as identified in the national strategy.** These priorities differ in each sector and should be set in development cooperation agreements with donors. It is important that aid be targeted towards these priorities to ensure its effectiveness. There was also a stated priority for high-quality aid – away from fragmented funds for many small projects that do not have a huge impact in the end. However, it was also noted that it was difficult for a line agency to articulate its own priorities with the donor, as the central aid coordination body has strong control.

**Fiji aims to develop a climate change strategy that fits well with donor strategies to make sure that climate change finance can be accessed.** Accessing international funds is a competitive process, and in general interviewees with GOF report that the application process is complicated. Capacity constraints and demanding reporting requirements lead to further delays in using GEF funds. Although UNDP is the implementing agency for bilateral and regional GEF funds, GOF would prefer to have direct access. A recently completed Climate Finance Assessment, conducted with support from UNDP, should provide information on the possibility of developing a national implementation agency. As it is challenging for the country to make use of climate finance flows by identifying and implementing most effective projects, it is not apparent whether setting up its own implementation unit will improve the situation.

**During the visit there was a general concern about financial flows often being used in silo-like projects.** An integrated mechanism or strategy for sustainable development that could increase the effectiveness of climate finance flows is lacking. On the other hand, GOF is currently developing a green growth strategy, whose draft version was presented and discussed on a Prime Minister's summit in June and which should be launched later in 2014. This may also provide some approaches to better integrate projects in an overall sustainability agenda.

## **2.4 Arenas for negotiation with traditional and non-traditional providers of development assistance**

**As noted in Section 2.3, there is no formal coordination mechanism between GOF and development partners.** This is partially a result of a lack of diplomatic relations between most traditional partners and GOF. In 2013, after a gap of several years, GOF invited its development partners to a donor consultative forum. We understand all development partners participated, including less traditional ones/non-DAC members such as China, Indonesia and Taiwan. The meeting included a GOF presentation on the future budget and national development strategy, and offered limited possibility for policy dialogue. Meanwhile, although a central coordination mechanism is lacking, GOF is well aware of the priority sectors of each donor and coordinates with each on a bilateral basis, where relevant.

**There is no clear picture on sectoral coordination.** While GOF reports having sectoral meetings for education, health, climate change and disaster risk reduction, these meetings, with the exception of those in the health sector, were not mentioned by other stakeholders. We understand that all donors, including India, Russia and Turkey, are invited to and participate in these health sector meetings. However, the general idea is that the Ministry of Finance sets up agreements with all donors, and only then do the donors interact directly with line ministries. This system was introduced two years ago to improve the central oversight of assistance flows and to prevent duplications.

**There are informal coordination mechanisms between development partners.** In a small community, coordination happens often on an informal basis and donors are well informed about what the other agencies do. China is also invited to these coordination meetings, but has not been very active in the past. As we have seen, China, like Taiwan, interacts with GOF via a different channel to traditional and other non-traditional donors: with the Office of the Prime Minister and sometimes via the Ministry of Foreign Affairs and International Cooperation. These counterparts seem to be less technical and at more of a political level than those of traditional donors. Nevertheless, as mentioned before, China is invited to coordination rounds with other partners as well.

The following section focuses on Vanuatu. Section 4 presents our overall conclusions on both case studies.

# 3 Vanuatu

## 3.1 Contextual information

As in Section 2.1 for Fiji, this section discusses the context that has likely shaped Vanuatu's ability to manage assistance flows from traditional and non-traditional providers. The methodology used for the case study (see Greenhill et al., 2013) stresses the importance of context in influencing a country's ability to negotiate effectively with providers, both traditional and non-traditional. Contextual factors include (1) economic conditions, (2) political and governance conditions, and (3) a country's progress towards aid effectiveness targets and national development strategies.

### 3.1.1 Economic conditions

**Vanuatu is a lower-middle-income country, classified also as a least developed country due to its size and remoteness, that saw strong economic growth performance in the 2000s.** High growth between 2003 and 2009 was driven mainly by tourism and tourism-related sectors (about 60% of GDP (IMF, 2009)) as well as investments in infrastructure through the Millennium Challenge Account (MCA) project between 2008 and 2010. After 2009, economic performance slowed down from an average of 8% (2003-2008) to an average of 2% (2009-2012), but it remains positive. Stagnation of foreign investment is one of the reasons for the slowdown, as well as reduced construction activities (Ministry of Finance and Economic Planning, Vanuatu, 2012) and delays to central infrastructure investments. Decreased attractiveness of Vanuatu for FDI can be attributed to the global financial crisis, changes in the rules for leasing land, rising debt levels, and the continued instability in government (see section below).

**Since its independence in 1980, Vanuatu has been an aid-dependent country.** ODA represented about 13.6% of GNI in 2012 (World Bank, 2014) and contributed about 20-30% of the government's budget in the 2000s (ADB, 2009). The share of ODA to GNI has been relatively stable since 2000, with a small increase during the time of the MCA project. Flows from the major traditional donors have also been relatively stable. The main development partners (Australia, New Zealand and Japan) accounted for about 94% of traditional bilateral ODA in 2012 (total traditional bilateral ODA was \$98.4 million). Again, from 2008 to 2010 the picture changed slightly because of the MCA project. France has also traditionally been an important development partner for Vanuatu, but it has reduced its support heavily since 2009, from \$11 million in 2008 to \$3 million in 2012. In addition to bilateral donors, the EU, ADB and the World Bank are active.

**As suggested in interviews, the division of labour among donors is effective and supported by the government.** In the education sector, New Zealand and Australia are the dominant donors, with a focus on operations. Japan and China support infrastructure in this sector and France provides support to the francophone education system. Australia, Japan, WHO and the Global Fund are the donors in the health

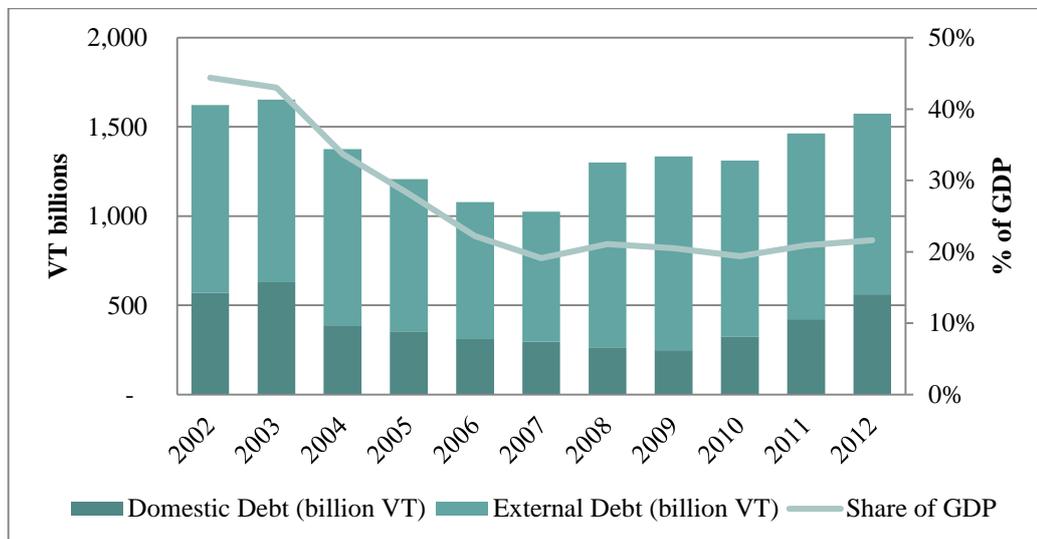
sector. Infrastructure is supported by almost all donors, but again no duplications seem to arise.

**Remittances through seasonal working agreements with New Zealand are well established.** These agreements offer a source of income for the rural population. Though stable, the level of remittances has been rather low, at about 2.8% of GDP in 2011 and 2012, as against the lower-middle-income country average of around 7-8% (World Bank, 2014).

**Recently, the government has issued exploration licences for deep seabed mining.** However, it is not clear if natural resources exist offshore, nor if there is potential for them to generate government income in the future.<sup>9</sup>

**Vanuatu has reduced its debt level significantly, but recent borrowing agreements might cause a rapid increase in future debt services.** As a result of high debt levels (40% in 2002), Vanuatu took no external loans between 2003 and 2007. The country could reduce its debt level through this decision to 14% in 2007 (IMF, 2009). However, recent loan agreements, especially with the China Eximbank, in addition to more concessional loans with ADB and the Japan International Cooperation Agency (JICA),<sup>10</sup> were identified by interviewees as reasons for concern. The Ministry of Finance has no separate debt unit; the budget unit takes account of debt issues. The country has no official debt strategy but follows the IMF recommendation of keeping the level of debt below 40% of GDP and the debt service below 8%.

**Figure 5: Trends in public debt, Vanuatu, 2002-2010**



Sources: Debt information provided by IMF (2007, 2011, 2013); relevant is the left-hand scale; the debt to GDP measure is calculated by using IMF information on total debt (IMF, 2007, 2011, 2013) and GDP information from World Bank (2014) (relevant is the right-hand scale).

<sup>9</sup> So far, Vanuatu has generated natural resource rents only through use of its forest. These rents amount to about 1% of GDP.

<sup>10</sup> The loan with ADB has an interest rate of 1% during the grace period and 1.5% afterwards, a 7-year grace period and a 30-year repayment period (ADB loan agreement 2832 – VAN (SF), <http://www.adb.org/sites/default/files/projdocs/2013/42391-013-van-sfj.pdf>). The loan with JICA has an interest rate of 0.55%, a 10-year grace period and a 40-year repayment period (see <http://www.jica.go.jp/english/news/press/2012/120613.html>).

### 3.1.2 Governance and geopolitical conditions

**Vanuatu became independent in 1980.** Before independence, it was governed as an Anglo-French condominium by France and the UK. The country is a parliamentary republic with a very fragmented parliament: currently, 16 parties and 4 independent candidates represent the 52 seats.

**Vanuatu has a history of government changes, with ten changes of prime minister in the past six years, one only a few days before the country mission.** Fragmentation of the parliament might be one reason for votes of no confidence, as no strong coalitions exist. The high frequency of changes in government is a challenge for long-term planning at the government level.

**Vanuatu is of low geopolitical importance for traditional donors.** While Fiji operates as the hub of the Pacific region (see Section 2.1), Vanuatu has no economic importance or hub function that would increase its importance for traditional donors. But it is also part of the Pacific region, which overall has received increased attention from China,<sup>11</sup> the US and Russia, and it hosts the Secretariat of the Melanesian Spearhead Group.

**In addition to political instability, Vanuatu's economy is exposed to natural disasters and climate change.** In the 2012 World Risk Report of the UN University, Vanuatu ranks first out of 173 ranked countries, and in the vulnerability index of the Notre Dame Global Adaptation Index it ranks 131<sup>st</sup> of 183 countries, where rank 183 indicates the highest vulnerability. Consequently, adaptation to natural hazards and climate change are important topics for the country. In 2013 it established a separate Ministry of Climate Change Adaptation, Meteorology, Geo-Hazards, Environment and Energy (the Ministry of Climate Change), which brings together existing departments from different ministries and agencies. In addition, there is a National Advisory Board on Climate Change and Disaster Risk Reduction (NAB), which consists of directors of sector ministries, representatives of two environment NGOs and a women's representative. NAB meets to discuss new programmes and then tells management units how to implement these.

**Despite government instability, Vanuatu's quality of public administration is equal to the average of the region and the average of lower-middle-income countries.**<sup>12</sup> In terms of its macroeconomic management and debt policy, as well as accountability and corruption, the country performs better than the average in both peer groups.<sup>13</sup> Probably because of its small economy, Vanuatu is not mapped in the Transparency International Corruption Perceptions Index.

### 3.1.3 National strategies, aid management context and national actors

**Despite frequent changes in government, Vanuatu has a long-term development strategy.** The Vanuatu Priorities and Action Agenda covers the 2006-2015 period and was developed with support from ADB. The elaboration of a new strategy is underway and was discussed in a public forum at the end of June 2014 (Garae, 2014).

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<sup>11</sup> Vanuatu provides an example of the competition between China and Taiwan in the region. Since 1982 Vanuatu had bilateral relations established with China. In 2004 the government switched and recognized Taiwan, as Taiwan offered more aid than China. However, a month later this decision was not ratified by parliament (LA Times, 2004; China Daily, 2004). In 2011, Vanuatu planned once again to establish diplomatic relations with Taiwan and wanted to set up a trade office there. China opposed this decision and offered to support Vanuatu with its budget shortfall in reward (Pacific Island Report, 2011).

<sup>12</sup> In 2012, Vanuatu's level of public administration was assessed at 3 (region average 2.9; lower-middle-income country average 3).

<sup>13</sup> In 2012, Vanuatu had a macroeconomic management assessment of 4, a debt policy assessment of 4.5 and an accountability and corruption value of 3.5; the average for lower-middle-income countries was 3.7, 3.7 and 3 for the three indices, respectively, and 3.4, 3.6 and 3.1, respectively, in the East Asia and Pacific group.

The current strategy is very broad and does not identify strong priorities. Objectives included are Macroeconomic Stability and Equitable Growth, Private Sector Development and Employment Creation, Good Governance and Public Sector Reform, Primary Sector Development and the Environment, Provision of Basic Services and Strengthening Social Development, Education and Human Resource Development, and Infrastructure and Utilities.

**Vanuatu has no aid management strategy.** After the new development strategy for the post-2015 period is designed and priorities for interventions are decided, we understand the government might consider developing an aid strategy as a next step.

**The Department of Strategic Policy, Planning and Aid Coordination (DSPPAC) is the unit responsible for aid coordination.** DSPPAC is seated under the Office of the Prime Minister and is responsible for all development partners, both traditional and less traditional. It has several officers responsible for different sectors. The general monitoring function lies with DSPPAC. All projects discussed between development partners and line ministries have to be approved by DSPPAC as well. In addition to DSPPAC, the Vanuatu Project Management Unit (VPMU) focuses on coordination of big infrastructure projects with a value above 10 million Vatu. There are exceptions though. Chinese projects are managed via the Ministry of Foreign Affairs and DSPPAC. The VPMU has emerged out of the unit responsible for implementation of the MCA projects. In the Ministry of Finance there exists no separate overseas development assistance unit; the budget unit takes care of aid questions. The country has a central development fund that is supposed to channel foreign aid through the budget to the relevant government bodies.

**Mapping of the aid landscape was unclear from the round of interviews.** Although DSPPAC is supposed to lead the aid management process and have an overview of flows going to the public sector by each donor, it is not clear whether this is the case. This impression was shared by different interviewees. There were also very different perceptions of the amount of aid that goes through government systems, ranging from almost everything to only a small share. According to OECD, the share is about 31% (OECD, 2011). This variation in perceptions indicates either a lack of knowledge about what is happening in terms of aid in the country or poor communication between government agencies. Access to correct information of this type is crucial for aid-dependent countries such as Vanuatu to ensure sovereign and effective policymaking.

**Limited information on activities may have been caused by limited use of the government system by donors.** The government has a single development account that should capture all development assistance and then distribute it to the sectors when needed, but it is not used by all donors. Although it is not clear how intensively the government system is used, the often reported limited capacity of ministries might explain why donors do not use the government system.

**Weak institutional, management and absorptive capacity in the line ministries is a key constraint in the implementation of external assistance.** However, those donors using government systems usually also have advisors placed in the line ministries to help with the administration of funds. Australia and New Zealand provided budget support to the education sector from 2010 to 2013, and Australia provides it for the health sector.

**Vanuatu applies to the Global Fund via a regional mechanism.** Except for Fiji (see Section 2.1), Papua New Guinea and the Solomon Islands, all countries in the region receive their Global Fund financing through this regional mechanism. The SPC provides a multi-country plan for funding, and the money received for the region

is then split among the countries following an allocation scheme based on several criteria, including disease burden, population, and previous performance. In the next round, four countries will no longer be eligible for Global Fund financing,<sup>14</sup> but the group has decided still to give them a share of the received funds – that is, the funds for eight countries will be split among twelve countries in the future. The SPC has secured funding in all five rounds so far.

**Currently, only funds for malaria are distributed via the government system.** It is planned also to include AIDS and tuberculosis funds in the government development account. However, malaria is by far the biggest share of Global Fund assistance to Vanuatu. In the Ministry of Health, a separate unit is responsible for the whole malaria programme of the country – that is, the Global Fund programme and the one supported by Australia. For tuberculosis and AIDS there is only a national coordinator in the ministry, not separate units. Programme staff are responsible for reporting to the SPC, and they receive support in this from the regional body.

**The new funding model of the Global Fund will start in 2016.** The advantage of the new system is predictability of flows. It is expected that a recipient will know how much money it will receive if it meets its targets. Under the old model, available funding was not known at the beginning. However, the challenge under the new model is the backloaded disbursement of Global Fund financing (see Section 2.1). The recipient needs to frontload its resources, with Global Fund money arriving only in the second and third year. Frontloading is especially challenging, as none of the countries in the region can apply for additional transitional funding.

**Lack of resources for the maintenance of investments leads to a self-enforcing circle of aid dependence.** This is a common challenge for small countries, especially those in the Pacific (PiPP, 2013). The VPMU tried to address this problem, in order to improve not only monitoring but also the sequencing of projects to ensure thin capacities are not overstretched. However, the VPMU also faces capacity constraints and cannot fulfil this task. The experience with the MCA project was that people from the MCA monitored the project and left after the project had finished, taking all their knowledge with them. However, the government appreciates the fact that most bilateral donors set aside part of their funds for capacity development.

#### **3.1.4 Context analysis: implications for aid negotiations**

We expect the contextual analysis included in previous sections to influence negotiating strategies and outcomes in relation to traditional and non-traditional providers of development assistance for the government of Vanuatu (GOV) in several ways:

- **Vanuatu can be classified as an aid-dependent country.** A significant share of its budget is financed via development assistance (20-30% in the 2000s (ADB (2009)). This makes successful negotiations with donors very important for Vanuatu. While aid dependency might weaken its position towards the donors, it is important that Vanuatu be able to communicate its preferences, as the country is not able to finance its development strategy without development assistance.
- **Vanuatu does not have many sources for financing that could offer an alternative to aid.** It is not yet known whether offshore oil and minerals exist that might be exploited in the future. In addition, regulatory changes have led to a reduction in FDI growth, limiting this source of income. Vanuatu has recorded strong growth, which might reduce some of the

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<sup>14</sup> The four countries are Cook Islands, Nauru, Niue and Palau. Eligibility is determined by the disease burden and the ability to provide the financial means for health interventions.

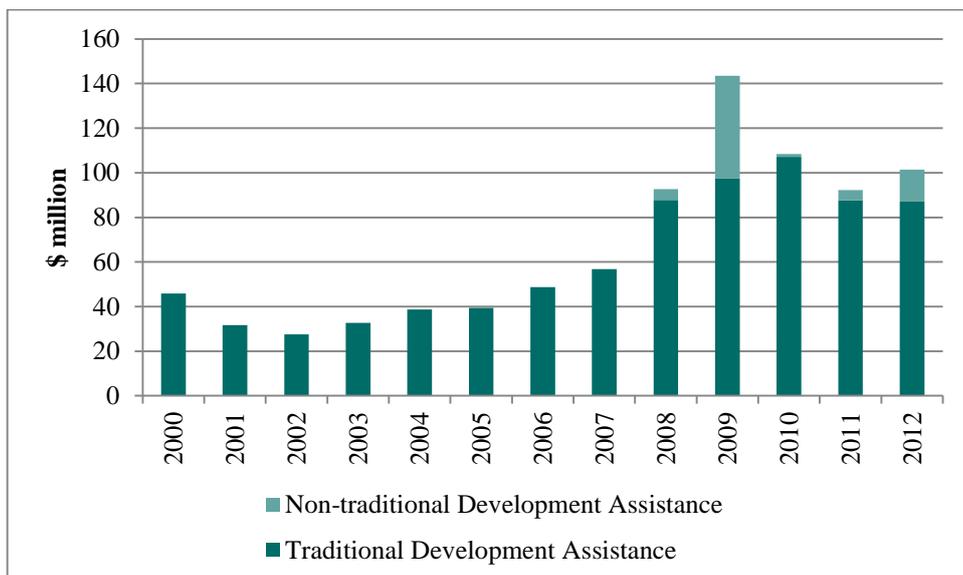
country's financial needs if it can be sustained; however, one of its main drivers is donor-financed infrastructure investment.

- **Vanuatu's lack of geopolitical importance and its political instability are additional factors that affect its strength in aid negotiations.** The former may limit the country's ability to attract new donors as well as to increase the perceived importance of interventions in Vanuatu. The latter reduces possibilities for strategic planning and makes long-term projects riskier for donors.

### 3.2 Mapping non-traditional development assistance flows to Vanuatu

Having reviewed the main contextual factors likely to have an impact on Vanuatu's priorities, its negotiating power and the outcomes in relation to traditional and non-traditional providers of development assistance, we provide in this section an assessment of the volume and trends of flows in NTDA. These are (1) bilateral official NTPs (notably China), (2) climate finance, (3) vertical health funds, and (4) philanthropic assistance.

**Figure 6: Traditional and non-traditional development assistance, Vanuatu, 2000-2012**



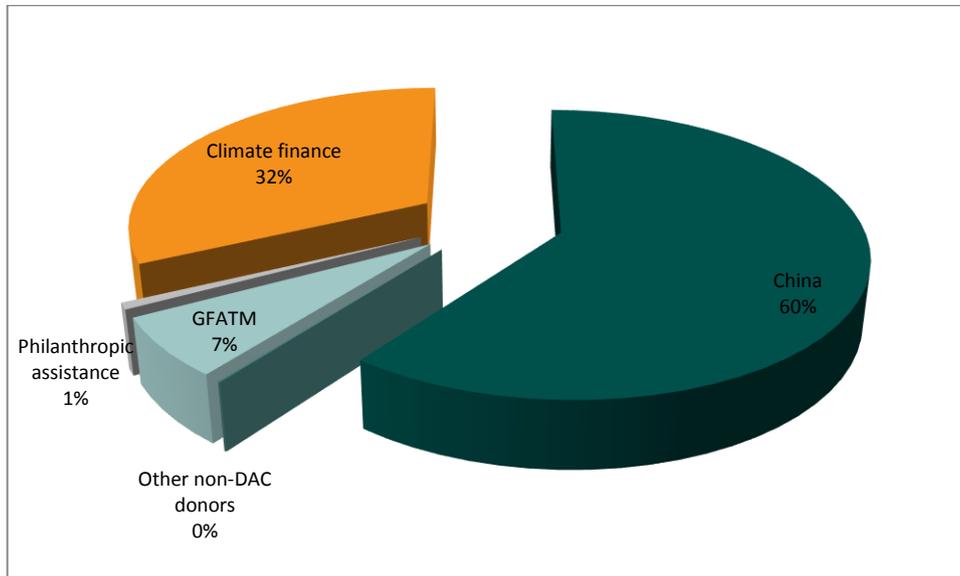
Sources: GOV (2009a, 2009b); OECD (2014); <http://foundationcenter.org>; [www.climatefundsupdate.org](http://www.climatefundsupdate.org); <http://aid.dfat.gov.au/countries/pacific/vanuatu/Documents/malaria-action-plan-map-2011-updated-15July11.pdf>.

We estimate that NTDA flows in 2012 (see Appendix 1, Table A2 ) stood at 14% of total development assistance in Vanuatu; non-DAC donors represented only 0.2% of total NTDA flows, philanthropic assistance 0.1% and climate finance 99.7% (see Greenhill et al., 2013 for definitions of NTDA).

However, the composition changes over time, as loans – the biggest part of NTDA – are accounted for in the year of the loan agreement, as we have no disbursement information. If the average for the period 2009-12 is considered (Figure 7), the share of NTDA from non-DAC sovereign donors reaches 60%: in 2009 Vanuatu negotiated

a two-loan agreement with the China Eximbank for an e-government system and the purchase of two aircraft (see below).

**Figure 7: Share of different types of non-traditional assistance, Vanuatu, 2009-2012**



*Note: GFATM data included only for 2011 as by-country allocation is not clear due to multi-country mechanism. Sources: GOV (2009a, 2009b); OECD (2014); <http://foundationcenter.org/www.climatefundsupdate.org>; <http://aid.dfat.gov.au/countries/pacific/vanuatu/Documents/malaria-action-plan-map-2011-updated-15July11.pdf>.*

### 3.2.1 Bilateral official non-traditional providers

**China is the main non-traditional sovereign donor active in Vanuatu.** China and Vanuatu established bilateral relations in 1982, with China providing aid based on GOV's demand. At the beginning, cooperation focused mainly on capacity development, but over time the provision of grants and concessional loans has become a substantial part of development assistance. Cooperation covers infrastructure, health, education and agriculture.

**When it comes to technical cooperation,** China provides assistance in the health sector by sending approximately eight doctors who stay in the country for a two-year period. These doctors work in different fields based on requests from GOV. In addition, China offers short-term seminars on different topics in China for around 60 government officials and private-sector technicians. Another form of knowledge transfer occurs through technical cooperation projects in the agriculture sector, for example through rice and palm oil production projects. In addition to this, China provides in-kind aid in the form of vehicles for the government, medication, medical equipment, university scholarships, etc.

**Financial cooperation with China has become more and more important in recent years.** China has provided several grants to different government investment projects. Among other things, these have been to construct an agricultural college in Santo, a building for the parliament, the campus of the University of the South Pacific and a national convention centre. The grants for the parliament and the university campus originally were interest-free loans and later were converted to grants (Dornan and Brant, 2014). The convention centre was planned for an African Caribbean and Pacific–EU meeting in 2012 but was not ready in time, so the prime minister asked China to stop the project so Vanuatu could use the grant for other priority projects. China was not willing to accept this and is still constructing the centre. Currently,

two new grants are under consideration, for the renovation of Malapoa College (VT 1 billion) and an extension to the Office of the Prime Minister.<sup>15</sup>

**In 2009, after resumption of external borrowing, Vanuatu agreed to new loans with China.** Two loans from the China Eximbank had a total value of almost \$40 million. These two loans were for the establishment of an e-government system (\$29.5 million) and the purchase of two Y12 aircraft for the national airline, Air Vanuatu. The agreement for the aircraft was negotiated in 2007, but it was approved only at the end of 2009. In addition to the purchase of two aircraft, Vanuatu received one aircraft via a grant. Both loans have the same conditions, with an interest rate of 2%, a 5-year grace period and a repayment period of 15 years (GOV, 2009a, 2009b). The government has started to repay the e-government loan, although it was not fully satisfied with implementation of the project, which needed to be finalised with the support of Australia.<sup>16</sup>

**Recently, Vanuatu signed a Memorandum of Understanding with China to borrow about \$53 million.** This new loan, if approved, is expected to finance the construction of roads and bridges on the islands of Tanna and Malekula.<sup>17</sup>

**Apart from China, other non-traditional official donors have only small aid programmes.** India is supporting capacity-building through its ITEC programme, sending 15 officials from Vanuatu yearly to training programmes in India. In addition, India provided grants to Vanuatu of \$0.3 million over the 2008-2012 period for equipment and materials.<sup>18</sup> Furthermore, Vanuatu, like Fiji, is a recipient country for the \$50 million UAE–Pacific Partnership Fund, which is expected to finance renewable energy projects.<sup>19</sup>

### 3.2.2 Climate Finance

**Vanuatu received about \$5.1 million from external sources for climate change response per year between 2008 and 2012.** These funds are a mix of bilateral and regional programmes.

**Vanuatu accesses funds from the GEF's Least Developed Countries Fund (LDCF).** The total indicative allocation by 2014 for national projects with a climate change focus was \$15.5 million; for regional such projects it was \$52.3 million (GEF Evaluation Office, 2014). However, a major share of these allocations has not yet been disbursed, as projects are still in a pipeline stage: 93.8% of national allocation is for projects not yet started (GEF Evaluation Office, 2014). In addition to the LDCF, Vanuatu has to date received \$0.9 million under the GEF SGP. The majority of SGP funds have been spent on biodiversity and multifocal projects, though, with only a minor share on climate change (9%) (GEF Evaluation Office, 2014). The SGP is managed by the Vanuatu Association for NGOs (VANGO), with government part of the steering committee.

**In the future, the Ministry of Climate Change will probably work with the Clinton Foundation on the use of renewable energies.** Apart from this, the

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<sup>15</sup> <http://www.abc.net.au/news/2013-08-20/vanuatu-bows-to-chinese-demands-to-secure/4900846>

<sup>16</sup> This experience led to a strengthening of oversight by the GOV of projects delivered by Chinese contractors.

<sup>17</sup> According to an interview with government officials, the financial conditions deviate from the usual conditions of China Eximbank by having a 7-year grace period instead of the common 5 years. The other conditions, a 2% interest rate and a 20-year loan term, are standard for China Eximbank loans (Radio Australia 2014; Fiji Times Online 2014). However, there are no official documents stating the loan conditions.

<sup>18</sup> <http://www.mea.gov.in/Portal/ForeignRelation/Vanuatu.pdf>

<sup>19</sup> Since 2008, there has also been small-scale cooperation with Cuba, with around three doctors sent to Vanuatu. Turkey started cooperation with Fiji in 2013 with a donation of 50 computers (Republic of Turkey, 2013).

ministry does not receive any funds from philanthropic organisations. Further, it has no cooperation with private companies in the form of public-private partnerships or impact investments.

### 3.2.3 Vertical health funds

**Global Fund money to Vanuatu will be cut in the next round to about one third, owing to massive reductions in malaria funds.** As reported during interviews, Vanuatu has to date received about \$2 million per year for its fight against malaria,<sup>20</sup> but its increased income level means it will receive only \$0.6-0.7 million in the future for the malaria programme. While in the past a great deal of money was available for anti-malaria interventions, Vanuatu will now have to prioritise in its use of funds to ensure previous achievements are not jeopardised.

### 3.2.4 Philanthropic assistance

**GOV has received no funds from philanthropic organisations so far.** At the beginning of this year, it did sign a Memorandum of Understanding with the Clinton Foundation for legal advice on the use of renewable energy (see also Section 3.2.1). Apart from this, there is no reported engagement of international philanthropic organisations with the government. Vanuatu might have the same problem as that reported in Fiji: its needs are too small compared with the additional administrative costs for the foundation, with the consequence that foundations do not become active in the country. However, in previous case studies of this project we also could not identify much philanthropic engagement, independent of the size of the country.

**Civil society organisations have received \$1 million from US-based foundations since 2003 (Foundation Center, 2014).** This is very small compared with the \$58 million disbursed by DAC donors since 2004. One reason might be that there are many NGOs and charity organisations in Vanuatu, and their umbrella organisation (VANGO) lacks the institutional strength to represent them in an effective way. If improved, such an organisation could help access funds from international foundations.

## 3.3 Government priorities and outcomes

Having reviewed the volume of and trends in NTDA flows, we now outline our findings from interviews and key documents concerning priorities and preferences with regard to the ‘terms and conditions’ of traditional and non-traditional development assistance for Vanuatu. By ‘terms and conditions’ we mean elements of aid quality, such as predictability, alignment, and concessionality.

**The Priorities and Action Agenda, Vanuatu’s development strategy, is silent on priorities regarding characteristics of aid flows.** However, it counts aid flows as one source of funding for the stated priorities. During the country visit, it became clear that political instability and limited capacity in the ministries prevent the government from formulating its own priorities.

**Frequent changes in government cause a preference for flexible and fast-disbursed funds.** Government instability reduces the possibilities for long-term planning and makes the *ad hoc* use of windows of opportunity more important. In consequence, GOV has a preference for flexible and fast-disbursed funding. This is also a reason why the government prefers bilateral to multilateral funds, as the latter

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<sup>20</sup> Unfortunately we do not have specific information about the funds received by Vanuatu from the Global Fund through the multi-country mechanism.

usually have much more time-consuming procedures. Multilateral funds are preferred for large and long-term projects like infrastructure investments. Australia's Governance for Growth Programme offers a flexible structure for aid provision. The programme focuses on capacity development and can allocate the funds flexibly according to current government demand. The programme is managed by a committee that consists of representatives from GOV and Australia. Advisors paid via the programme are managed by the respective line ministries. These features of the programme – flexibility, knowledge transfer and fast reaction to government demands – mean it is held in good regard by GOV.

**China scores well in relation to the priority for fast-disbursed funds.** In addition, Vanuatu values Chinese aid as it is very responsive to government's needs and does not put additional demands on already-stretched government officials, as with turnkey projects. However, concerns regarding Chinese loans were raised, in relation to quality standards and the lack of additional multiplier effects in the economy. Nevertheless, concerns regarding these, especially the lack of a multiplier effect, were not as intensely discussed as in Fiji for example. It was even said that it was positive that money is not spent in Vanuatu, as this reduces the risks of Dutch disease. Perceptions of Chinese aid in the government seem in general to be relatively positive, though there was some criticism about lack of transparency in the negotiation process.<sup>21</sup>

**Fast and flexible disbursement is preferred to good financial conditions.** This is another reason for the rapidly increasing number of loans from China while there are no new International Development Association loans, although the latter would be much cheaper. The lengthy preparation process for project agreements, owing to the need for feasibility studies, etc., increases the risk of missing windows of opportunity. However, GOV considers these financial costs by keeping the rate of return in mind when borrowing money, and by borrowing only for investment projects.

**Limited capacity of civil servants is one of the reasons easily accessible funds and low reporting requirements are preferred, at least by mid-level government officials.** We understand that mid-level government officials privilege the use of project implementation units, as projects are managed directly by the donors. At senior-government level, the use of implementation units is not the preferred option, as it gives the donor agency superior knowledge, in the sense that donor-paid consultants are better involved and have higher technical knowledge than other officers. This could allow them to influence decisions on the project through their propositions. Furthermore, these systems do not contribute to developing capacities and accountability in the ministries.

**General budget support is the preferred aid modality.** General budget support allows for flexible use of money and ensures consistent policies despite changing governments. Central government agencies prefer general budget support over sector budget support as it is more flexible in its use. Australia and New Zealand provided joint budget support in the education sector between 2010 and 2013. However, restricted capacity in the Ministry of Education and restricted donor knowledge of local administrative systems led to difficulties spending the money. The ministry and donors have therefore agreed to use a contractor for the next phase to ensure effective spending of the funds. Another negative experience for Vanuatu was EU support via the 10<sup>th</sup> European Development Fund (EDF10). A share of €8.6 million of the EDF envelop (total of €21.6 million) had been planned for budget support. However,

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<sup>21</sup> A detailed description of these processes and the interaction between politicians and Chinese companies can be found in Doman and Brant (2014).

because of coordination problems within the EU and a lack of responsiveness to government preferences by local representatives, only one tranche of €1.2 million was disbursed. Meanwhile, GOV had a successful experience with MCA budget support. DSPPAC is trying to increase the use of government systems by making it a requirement for qualification as an aid project, which is a precondition for receiving tax exemptions.

**GOV wants to strengthen ownership of development programmes.** GOV wants to decide on the division of labour among donors, and also does not appreciate independent donor coordination rounds where donors can discuss the division of labour without its knowledge. It is felt that decisions on where donors channel their resources should be made by GOV, to ensure country leadership. GOV tries to enforce this leadership by stating that it will cancel any project that is agreed among donors but that does not fit with its preferences, in terms of either content or financiers. GOV has a clear perception of the strengths of each donor and thus wants to decide which donor supports which project. For example, projects that react to windows of opportunity should not be implemented by multilateral organisations as their processes are usually too time-consuming. For GOV, management of these different donors and their expectations is a challenge.

**In terms of sectors – infrastructure, health and education emerged in interviews as the preferred sectors for intervention and climate change as a cross-cutting dimension.** Several new donor-financed infrastructure investments are underway to improve roads, the capital's sewage system and interisland shipping, and to build a new wharf. These investments come from China, Japan, Australia, New Zealand and ADB.

**Although a separate Ministry of Climate Change exists, Vanuatu still does not access a great deal of climate change financing and has capacity constraints in relation to spending funds.** Limited capacity is the reason the ministry currently approaches donors to include some kind of climate change aspect in their projects in order to spend committed funds for climate change, as well as having project proposals to access additional climate change funds. However, there are some concerns that the current *ad hoc* use of funds goes along with a reduced effectiveness. The lack of a strategic plan, by now, for the Ministry of Climate Change contributes to problems in this area. However, a plan has now been developed and is about to become operative.

**Vanuatu is planning to establish its own National Implementing Entity (NIE) to better access UNFCCC adaptation fund money.** With the aid of UNDP, Vanuatu has completed a Climate Public Expenditure and Institutional Review. This provides a good overview of the structure of responsibilities on climate change in the country and the respective challenges, and also an analysis of possible NIE accreditation. Reportedly, establishment of an NIE is the top priority for the country and will receive donor support. The hope is to make accessing climate change funds easier, as the current situation of application through regional bodies slows the process down and makes it even more difficult to get money disbursed. So far, Vanuatu has received hardly any funding through the adaptation fund.

### **3.4 Arenas for negotiation with traditional and non-traditional providers of development assistance**

**Aid coordination meetings with donors at central level take place only rarely.** GOV seems to give donor–government coordination meetings no priority, instead seeing them as a kind of tick-the-box exercise. Yearly bilateral donor meetings, on the other hand, seem to be the main tool for coordination on the government side.

During these meetings, planning for the following year, including future projects, is carried out. These are, however, only one-to-one meetings between DSPPAC and the relevant country representative. In some sectors, for example education, health and tourism, sector working groups exist. Further, for the infrastructure sector, the VPMU coordinates with those donors that provide projects with a value of more than VT10 million. The lack of an effective central-level coordination mechanism could be one reason for a lack of transparency on existing aid activities and, in consequence, a lack of oversight by government.

**Donors organise separate coordination rounds every one to three months.** As the country is very small, this often happens on an informal basis. In general, donors are well informed about each other's projects. Recently, China has also started participating in these donor coordination meetings and sharing information about ongoing projects. We understand there are also some first signals that China is open to coordinating or even cooperating with the more traditional donors.<sup>22</sup>

**Chinese engagement is managed differently from that of traditional donors.** While traditional donors finance projects that are based on the national development strategy or its three-to-four-year operational plan (*Plan Long Act Short*), Chinese assistance responds to specific demands by the government (the prime minister, the minister of foreign affairs and the minister of finance). The main partner on the government side in interactions with China is the Ministry of Foreign Affairs, which initiates contact with the Chinese Embassy and gives it a list of projects the government or separate ministers would be interested in. We understand that Chinese companies pitched projects during their country missions which were then included in this list. These projects are not based on the existing strategies, however.

**New loan agreements are approved by the Council of Ministers.** During the country visit, several people raised the issue that recommendations regarding taking up new loans and briefs about the debt situation are not taken into account when agreeing on new loans. Furthermore, there was a change in law in 2012: loans no longer need approval from the parliament (PiPP, 2013).

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<sup>22</sup> China seems to be becoming more open regarding cooperation with DAC donors, as cooperation with the New Zealand Agency for International Development to improve water quality in the Cook Islands shows. See <http://www.aid.govt.nz/media-and-publications/development-stories/september-2012/new-zealand-and-china-collaborate-world-fi>.

# 4 Conclusions

We have outlined here, for the cases of Fiji and Vanuatu, key elements of the economic, political, governance and aid management context; trends in NTDA flows; priorities for the terms and conditions of development assistance flows; and the arenas where negotiations take place. The two countries have in common their geographic location and small size, a narrow number of development partners active at country level, and high-risk exposure to natural disasters and the consequences of climate change. However, their economic performance and development, diplomatic relations with traditional partners, government stability and geostrategic relevance are quite opposite. These differences influence, in various ways and directions, the negotiating power of each government vis-à-vis providers of development assistance, and as a result there are differences in the two countries' access to non-traditional development finance flows, priorities and capacity. However, some common patterns emerge, especially when it comes to climate change financing and philanthropic assistance. To summarise, the main messages emerging from the case studies of Fiji and Vanuatu are as follows:

- While traditional donors are still the main providers of development aid, less traditional sovereign donors, especially China, are becoming more and more important. In the case of GOF, access to China Eximbank loans has been driven by limited financing options, but GOV has followed a similar strategy, despite the availability of less financially expensive options from multilateral development banks. Both governments value the flexibility of these funds and how easy they are to access. These characteristics have been mentioned as advantages compared to bilateral and multilateral assistance, where, especially for the latter, decision and disbursement processes are often perceived as burdensome and lengthy. In consequence, the countries, especially Vanuatu, seem to shy away from using assistance from donors with complicated requirements, low predictability or lengthy processes.
- Technical assistance and capacity-building components are priorities for both governments. Limited capacity in line ministries, especially in Vanuatu, motivates preference for projects that include capacity-building activities. Transfer of knowledge on how to manage projects from donor consultants in implementation units is important to ensure governments can successfully manage and sustain such projects in the future. But there is a need for general capacity development in line ministries, not just development of capacity on project management. Australia's Governance for Growth Programme in Vanuatu is an example of a project that reacts to the need for capacity development and at the same time offers a flexible and fast response to government demand. It seems to fit well with government preferences and might be an example for other capacity-constrained countries, as well helping overcome constraints in the short term and building up capacities in the medium to long term.
- Coordination between traditional and non-traditional donors has been weak but is improving. In both countries – though the situation in Fiji is unique owing to reduced engagement with the government – policy dialogue

between traditional bilateral donors and China seems to be improving. Programmes of other non-traditional donors, on the other hand, are often very small, so these donors do not participate in coordination rounds. However, the fact that China has started to participate in donor meetings is an important development, as its infrastructure programmes are very big in both countries, and coordination with other donors, or joint programmes in the future, might be a way to make interventions more consistent and effective.

- Philanthropic organisations do not seem to play a major role in these PICs. There may be different reasons for this – the first being that the Pacific is not the focal area for most of the big international foundations. In addition, both countries are middle-income countries, which again might put them out of the focus of international players. Also, local NGOs seem to have limited access to these funds as they are too small and cannot absorb the minimum amount of funding philanthropic organisations give.
- The amount of climate finance that reaches the countries through new mechanisms is small. Although both countries face high risks through climate change, they do not receive much in terms of GEF funds. Reasons for this seem to be difficulties in fulfilling requirements to access the funds and in identifying and designing fundable projects. For both countries this is a priority issue, and they aim to improve the situation. However, absorptive capacity might compromise the use of additional funds.
- The case of Fiji is a special one, presenting itself as a kind of natural experiment. Following the coup in 2006, GOF found itself with a narrower set of directly accessible financing possibilities. It intensified its Look North Policy in consequence, in order to develop new partnerships. Over this period, China has emerged as the second most important development partner for Fiji after Australia. However, these new partnerships owe to strategic decisions resulting from exogenous factors rather than independent decisions.
- Apart from intensified cooperation with new sovereign donors, Fiji has accessed the Global Fund and the GEF as new sectoral sources of finance since 2007. These new sources help fill funding gaps, but they represent only a very minor share of the aid Fiji receives.
- In the case of Fiji, most of the traditional donors plan to reengage with the government and increase funding after the elections in September 2014. It will be of interest to see how this change will influence the donor landscape in the future, especially as increased borrowing from non-traditional donors is not seen in an entirely positive way.
- Especially for Vanuatu, lack of capacity in line ministries is a relevant challenge. Although the country wants to access donor funding, it struggles with managing these funds. Even though GOV wants ownership of its aid policy, capacity constraints and the unstable political situation can lead to a preference for donors having general agreements with the government on aid but then designing projects independently and implementing them through separate units. This lack of capacity also leads to a rising demand for Chinese aid, as Chinese projects come as turnkey projects and do not demand extensive reporting. Capacity constraints also limit Vanuatu's ability to access climate finance funds.
- Less demanding application and reporting procedures would improve Vanuatu's access to climate funds but still not solve its problems on the spending side. Limited capacity makes it difficult for the government to design and implement projects to make good use of funds. Easier processes

of application and reporting are therefore not the final solution for Vanuatu in terms of using new sources of development finance.

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# Appendix 1: Development assistance flows

Table A1: Development assistance flows in USD, Fiji, 2000-2012

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Traditional development assistance flows</b>													
Bilateral	28.9	24.2	31.5	43.2	36.8	39.2	40.2	33.1	34.3	49.7	62.4	64.4	87.0
Multilateral	0.2	1.7	2.9	7.9	28.8	27.0	15.5	17.7	10.9	21.2	13.4	14.2	20.1
Total traditional development assistance flows	29.1	25.9	34.0	51.1	65.3	65.9	55.6	50.7	45.2	66.6	71.9	73.3	103.4
<b>Non-traditional development assistance flows</b>													
Non-DAC donors	1.34	2.80	1.28	0.02	0.01	0.19	50.83	11.70	10.91	26.77	12.72	52.77	58.98
China	1.3	2.7	1.3	0.0	0.0	0.2	0.8	11.1	10.9	26.0	12.1	39.3	50.5
Other non-DAC donors	0.05	0.05	0.02	0.02	0.01	0.01	50.02	0.61	0.05	0.74	0.57	13.45	8.46
Vertical health funds													
GFATM										0.00	2.92	1.58	1.16
Philanthropic assistance	0.00	0.00	0.00	0.47	4.19	0.30	0.42	2.61	0.77	0.66	1.04	0.64	0.32
Climate finance			0.38		0.24	0.23				4.28	1.00	3.74	2.51
Total non-traditional development assistance flows	1.34	2.80	1.66	0.49	4.44	0.71	51.26	14.31	11.68	31.71	17.67	58.74	62.97
<b>Total development assistance</b>	<b>30.4</b>	<b>28.7</b>	<b>35.7</b>	<b>51.6</b>	<b>69.7</b>	<b>66.6</b>	<b>106.9</b>	<b>65.0</b>	<b>56.9</b>	<b>98.3</b>	<b>89.6</b>	<b>132.0</b>	<b>166.4</b>
Share of traditional development assistance	95.6%	90.3%	95.4%	99.1%	93.6%	98.9%	52.0%	78.0%	79.5%	67.8%	80.3%	55.5%	62.2%
Share of non-traditional development assistance	4.4%	9.7%	4.6%	0.9%	6.4%	1.1%	48.0%	22.0%	20.5%	32.2%	19.7%	44.5%	37.8%
<b>Memorandum item</b>													
Other official flows	-6.3	-3.4	-3.2	1.0	5.5	10.2	0.0	5.9	28.6	2.5	14.2	21.6	20.3

Source: Ministry of Finance, Fiji (2011); OECD (2014); [www.pmooffice.gov.fj](http://www.pmooffice.gov.fj); [aiddata.org](http://aiddata.org); [www.theglobalfund.org/en/](http://www.theglobalfund.org/en/); <http://foundationcenter.org>; <http://www.foreignaffairs.gov.fj/trade-policy/international-cooperation/oda-trend>

**Table A2: Development assistance flows in USD, Vanuatu, 2000-2012**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Traditional development assistance flows</b>													
Bilateral	28.3	24.1	22.4	28.2	34.6	33.4	41.4	52.2	89.2	98.1	107.5	91.3	98.4
Multilateral	17.5	7.6	5.1	4.6	4.1	6.1	7.4	4.5	3.1	5.1	0.8	0.8	3.0
Total traditional development assistance flows	45.8	31.7	27.5	32.6	38.7	39.5	48.8	56.7	87.9	97.4	107.2	87.7	87.1
<b>Non-traditional development assistance flows</b>													
Non-DAC donors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	40.00	0.00	0.05	0.03
China										40.0	0.0	0.0	0.0
Other non-DAC donors								0.01		0.0	0.0	0.05	0.03
<b>Vertical health funds</b>													
<b>GFATM</b>													
Philanthropic assistance	0.00	0.00	0.00	0.10	0.05	0.00	0.00	0.00	0.37	0.33	0.09	0.04	0.02
Climate finance	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.00	4.42	5.78	1.11	0.00	14.33
Total non-traditional development assistance flows	0.00	0.00	0.00	0.30	0.05	0.00	0.00	0.01	4.79	46.11	1.20	4.49	14.38
<b>Total development assistance</b>	<b>45.8</b>	<b>31.7</b>	<b>27.5</b>	<b>32.9</b>	<b>38.8</b>	<b>39.5</b>	<b>48.8</b>	<b>56.7</b>	<b>92.6</b>	<b>143.5</b>	<b>108.4</b>	<b>92.2</b>	<b>101.4</b>
<b>Share of traditional development assistance</b>													
Share of traditional development assistance	100.0%	100.0%	100.0%	99.1%	99.9%	100.0%	100.0%	100.0%	94.8%	67.9%	98.9%	95.1%	85.8%
<b>Share of non-traditional development assistance</b>													
Share of non-traditional development assistance	0.0%	0.0%	0.0%	0.9%	0.1%	0.0%	0.0%	0.0%	5.2%	32.1%	1.1%	4.9%	14.2%
<b>Memorandum item</b>													
Other official flows	-0.7	-1.1	-0.5	-0.7	0.7	0.8	1.3	1.5	9.4	7.2	1.3	1.3	2.3

Sources: GOV (2009a, 2009b); OECD (2014); <http://foundationcenter.org>; [www.climatefundsupdate.org](http://www.climatefundsupdate.org); <http://aid.dfat.gov.au/countries/pacific/vanuatu/Documents/malaria-action-plan-map-2011-updated-15July11.pdf>.

# Appendix 2: Development assistance flows

**Table A3: List of interviewees, Fiji**

Surname	Name	Title	Organisation
Alifereti	Filipe P.	Permanent Secretary	Ministry of Rural & Maritime Development & National Disaster Management
Atalifo-Malo	Katarina	Sub Regional Coordinator GEF Small Grants Programme	The GEF Small Grants Programme
Buadromo	Virisila	Executive Director	Fiji Women's Rights Movement
Chand	Sameer	Analyst Financial System Development	Reserve Bank of Fiji
Chetty	Kamal	Senior Investment & Planning Officer	Investment Fiji
Choe	Joanne	Counsellor Development Cooperation	Australian High Commission
Currie	Caroline	Unit Head, Economics and Programming	Asian Development Bank
Embassy of the People's Republic of China			
Haque	Tobias	Economist	World Bank
High Commission of India			
Leslie	Helen	First Secretary (Regional Development)	New Zealand High Commission
Luveniyali	Marika	Deputy Secretary Administration and Finance	Ministry of Health
Mele	Renato	First Counsellor, Head of Cooperation	Delegation of the EU
Navuku	Josefo	Chief Economic Planning Officer	Office of the Prime Minister
Nawadra-Taylor	Vasiti	Grant Manager	Grant Management Unit, Ministry of Health
Wise	Pita	Permanent Secretary	Ministry of Strategic Planning, National Development and Statistics
Prasad	Roshni	Head, Governance and Accreditation	International Planned Parenthood Federation
Rafai	Eric	Deputy Secretary Public Health	Ministry of Health
Rokoua	Christina	Manager Financial System Development	Reserve Bank of Fiji

Sami	Michael	Manager	International Planned Parenthood Federation
Schuster	Alfred	Development Cooperation Advisor	Pacific Islands Forum Secretariat
Singh	Ratish	Director Planning and Policy Development	Ministry of Health
Tabunakawai	Kesaia	Representative - WWF SPPO	WWF South Pacific
Taloga	Kelera	Deputy Secretary Professional	Ministry of Education, National Heritage, Culture, Arts and Library Services
Vakololoma	Kelera	Deputy Secretary Finance (Budget)	Ministry of Finance
Voceduadua	Isikeli	Director Debt & Cash Flow Management Unit	Ministry of Finance
Waibuta	Mereseini Q.	Chief Economic Planning Officer	Ministry of Finance
Yauvoli	Amena V.	Permanent Secretary	Ministry of Foreign Affairs & International Cooperation

**Table A4: List of interviewees, Vanuatu**

Surname	Name	Title	Organisation
Andeng	Jimmy	Country Officer	International Finance Cooperation
Bulu	Siula	VCCM Chairperson and Acting PIRMCCM Chair	Wan Smol Bag
Dalesa	Malcom		Vanuatu Meteorology and Geo-hazards Department
Ericson	Dorothy	Deputy Director	Ministry of Finance and Economic Management
Flores	Simon	Counsellor Development Cooperation	Australian High Commission
Harding	Matthew	Director, Governance for Growth Program	Australian High Commission
Hawkes	Julie	Treasurer	Transparency International Vanuatu
Kaltongga	Alumeci	Senior Economist External Sector	Reserve Bank of Vanuatu
Liege	Philippe	Counsellor for Cooperation, Culture and Development	Embassy of France
Macfarlane	Margaret	Consultant, Ministry of Infrastructure	Advantage Management and Consultancy
Mathieson	Alex	Country Director	OXFAM
Moriya	Tsutomu	Resident Representative	JICA

Napat	Jotham	Director General	Ministry of Climate Change Adaptation, Meteorology, Geo-Hazards, Environment and Energy
Ngwero	Cobin	Monitoring Officer	Ministry of Education
Niroa	John	Acting Director	Ministry of Education
Nyman	Mikaela	Development Counsellor	New Zealand High Commission
Shing	Nebcevanhas Benjamin	Director	Department of Strategic Policy, Planning and Aid Coordination
Silas	Gelpen	Manager Certification	Vanuatu Investment Promotion Authority
Tagaro	Henderson	Economist	Ministry of Finance and Economic Management
Taurakoto	Michael	Chief Executive Officer	Wan Smol Bag
Wabaiat	Brian	Budget Accountant, Fiscal Policy Manager	Ministry of Finance and Economic Management
Wallace	Peter	Management Support to Ministry of Health	World Bank
Wells	Nancy	Development Coordinator	Asian Development Bank
Xuhong	Yang	First Secretary	The Embassy of People's Republic of China



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