Empowering the region: a proposal for a Pacific Islands Investment Development Fund

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Henningham and Oh (Pacific Economic Bulletin, November 1996) propose the establishment of a Fund (Pacific Islands Investment Development Fund) by the diversion of monies from Australia’s (and any other donor wishing to participate) aid budget to the Pacific region. The Fund would be built up over time by contributions from Australia’s aid allocation and from the island countries themselves. Its investments, presumably offshore, would be managed by a Board of Governors made up of country representatives, representatives from the major multilateral financial agencies and from the donor countries, who would oversee its investment management and the activities of a small administrative unit which would be responsible for recommending loans and grants for projects in the island countries to be financed by the Fund.

The rationale for this rearrangement of the distribution of aid funds seems in the main to be that this form of distribution would not appear to be as patronising as under present arrangements. This rationale seems rather dubious. With the voting of the Board of Governors weighted in terms of contributions to the Fund, the Fund would be very similar to the Tuvalu Trust Fund. The Tuvalu Trust Fund is comprised largely of contributions by donors and has a governing board dominated by the donors. Given this management arrangement, the Tuvalu Trust Fund is seen as largely a creature of the donors rather than of Tuvalu.

The emphasis of the proposal on the form of distribution of aid funds appears to do little to overcome the major obstacles to the improvement of economic policies in the Pacific island countries. These obstacles are largely to do with creating a more stable, market-friendly environment for private investors. Given such an environment, there will be much less need for donor funds. Private investment would flow in much more vigorously and, as a result of development of the private sector, the governments would have an enhanced revenue base from which to fund public infrastructure needs.