

Taking matters into our own hands: aid dependency in the Pacific



A newly-installed water tank at the Government Middle School, Nuku'alofa.

Photo Credit: UNDP

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There has been a marked **decline in Pacific development** and **progress against the SDGs** since the early 2000s, attributable to the impacts of major disaster events, remoteness of Pacific Island countries (PICs) and distance to markets, and the constrained size of Pacific economies, private sectors, government administrations and populations.

The region remains the **most aid-dependent globally** based on per-capita aid and reliance on external support. Likely related to the development challenges just mentioned, data also shows that **aid projects are less effective** on average in the Pacific than elsewhere in the developing world.

The ongoing lack of development progress despite a growing array of projects and donor engagements in the Pacific continues to raise uncomfortable questions around both development and **aid effectiveness**, and the modalities used for aid delivery in PICs.

Over the last five years, discussions about the effectiveness of development financing modalities and the need to **reform the global financial architecture** have gained momentum. From calls for multilateral banks to reform, to initiatives like **Bridgetown** and ongoing dialogue around the **Green Climate Fund**, there is a growing recognition that developing countries continue to face substantial challenges in accessing finance. These challenges are often linked to structural issues in **how aid is designed, programmed and delivered**, including concerns around high transaction costs.

PICs face major barriers to climate finance, which is poorly aligned with Pacific priorities. Over the last decade, climate financing has continued to be characterised by a proliferation of multilateral initiatives, funds, facilities, project management firms, consultants and development coalitions tasked with addressing a colourful array of different and sometimes overlapping issues. Accessing funds from this web

of opportunities means navigating a range of processes, requirements, meetings, committees and launch events which must be bolted onto existing national processes and responsibilities.

Duplication is prevalent, the burden on small administrations is significant and the transaction costs are always high. Most concerning of all, though, is the fragmentation. In the Pacific, urgent measures to **improve the effectiveness of climate finance** have been called for by leaders for a number of years and this is now an increasing focus of policy and dialogue.

The ultimate aim of any aid should be to support **institutional transformation and a transition** toward the use of a country's own systems for service delivery. However, one of many problems that persist in the Pacific is the difficulty of combining existing sources of finance with aid. Utilising national systems would allow countries to produce focused yet robust programs of work aligned with national results frameworks.

Imagine being given a complicated task such as building a house — but then being told that each type of material must be sourced from a different location, that multiple shops sold the same materials but that each would only sell the materials for specific purposes and that, on top of that, only specific delivery companies could be used to deliver the materials to the building site. At what point would the actual construction begin?

For PICs, the limited time and resources of small administrations are expended on accessing climate finance and navigating the parameters of multiple funds, only to find that the available resources can't be easily combined to produce coherent outcomes. Even once finance is secured, the ability to deliver results is often compromised by the complexity of managing multiple agreements, delivery partners and external project implementation units.

Despite these challenges, the need for cooperation among PICs to reshape and re-scale financing to suit their needs has never been more prevalent within the regional narrative. The Pacific's push for **country-owned approaches** had a direct influence on the governing instrument for the new **Fund for responding to Loss and Damage**. The Pacific Leaders' recent endorsement of the establishment treaty for the **Pacific Resilience Facility** has marked a further shift toward improving the Pacific's collective ability to shape financing arrangements that suit the needs and circumstances of the PICs. Recent efforts **to access the Green Climate Fund** as a single region demonstrate a desire to achieve scale through collective action.

In a world under pressure to demonstrate “proof of concept” in relation to enhancing

community resilience, it is especially difficult to rationalise why countries with populations and land areas equivalent to those of small towns or villages in larger countries have not achieved access to **transformative levels of financing to demonstrate potential**. Instead, whether it be in Tuvalu or Bangladesh, finance is accessed in project-sized chunks.

While the climate-finance status quo is problematic, it is also clear that institutional capacity within Pacific administrations is **a core driver of the problem**. Yet, paradoxically, this institutional capacity is further eroded as aid dependency increases.

Reducing aid dependency requires greater use of national systems and more flexibility to facilitate country ownership, and recognition that finance spent on improving institutional capacity has far greater value than investments in “reliable” but expensive and ineffective third-party oversight. From a national standpoint, investment in sound public financial management (PFM) is imperative for improving the effectiveness of aid in addition to furthering the achievement of development objectives. In advancing PFM reform agendas for the Pacific, it goes without saying that climate change and social inclusion will be key priorities.

Tonga is working toward empowering national systems to drive sustainable reform. An inter-ministerial group including the Prime Minister’s office and the ministries of finance and climate change is strengthening coordination to ensure that policies and plans are effectively integrated with budgetary processes. In parallel, the ministry responsible for environment and climate change is operationalising the **Tonga Climate Change Trust Fund**, which will support the implementation of the Joint National Action Plan for climate action across sectors and for communities.

As part of the initial activities of the Trust Fund, a national water-tank initiative is being rolled out with the support of the New Zealand government. This initiative has been used to pilot a new way of working to embed climate change, disaster risk reduction and gender and social inclusion into all community development projects. This “risk informing” of the initiative has included a process of comprehensive consultation with the school communities receiving the tanks and has resulted in safer and more accessible drinking water for all school students, including those with a disability. The climate change ministry is now working with the infrastructure ministry on an addendum to the National Building Codes. This process also helps estimate the cost of risk mitigation as an input for future resource mobilisation.

The government of Tonga is demonstrating nationally led and programmatic approaches to accessing and utilising climate finance, working across government to connect this financing with community priorities in a risk-informed manner.

Against the backdrop of intensifying geopolitical tensions, the significant challenges facing reforms such as the Bridgetown Initiative, and the watered-down climate finance commitment that emerged from COP29, there is an increasing imperative for PICs to take matters into their own hands.

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