

# DAC Peer Review

# NEW ZEALAND

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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**Examen du CAD par les pairs  
Nouvelle Zélande**

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## The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation policies and programmes of DAC members. The policies and efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Denmark and the European Commission for the Peer Review on 13 April 2005.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

*The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.*

## LIST OF ACRONYMS

ADAF	Asia Development Assistance Facility
APEC	Asia-Pacific Economic Cooperation
AsDB	Asian Development Bank
AusAID	Australian Agency for International Development
CER	Closer Economic Relations Trade Agreement
CID	Council for International Development
DAC	Development Assistance Committee (OECD)
ESP	Education Strategic Plan
FTA	Free trade agreement
GNI	Gross national income
HIPC	Heavily indebted poor countries
IDT	International Development Target
LDC	Least developed countries
MARAAF	Multilateral and Regional Agency Assessment Framework
MDGs	Millennium Development Goals
MFAT	Ministry of Foreign Affairs and Trade
NGO	Non-governmental organisation
NZAID	New Zealand Agency for International Development
NZODA	New Zealand Official Development Assistance
ODA	Official development assistance
PACER	Pacific Agreement on Closer Economic Relations
PIA	Participatory impact assessment
PICTA	Pacific Island Countries Trade Agreement
PRIDE	Pacific Regional Initiative for the Delivery of Basic Education
RAMSI	Regional Assistance Mission to Solomon Islands
SPS	Sanitary and phyto-sanitary
SWAp	Sector-wide approach
UN	United Nations
VASS	Voluntary Agency Support Scheme
WTO	World Trade Organisation

**Exchange rates (NZD per USD)**

<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
2.2047	2.3817	2.1633	1.7240

**Signs used**

NZD	New Zealand dollar
USD	United States dollar
..	Not available
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

## Aid at a glance

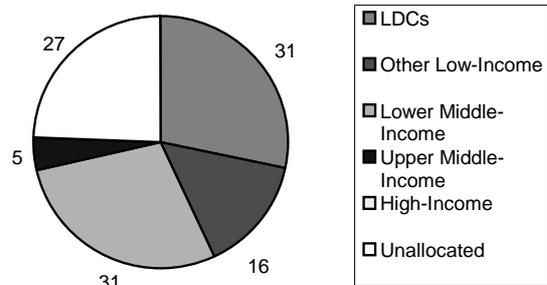
### NEW ZEALAND

*Gross Bilateral ODA, 2002-03 average, unless otherwise shown*

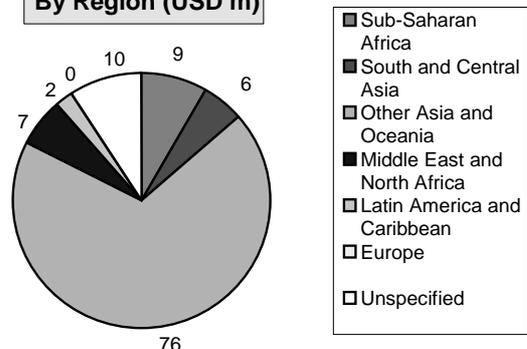
Net ODA	2003	2004	Change 2003/04
Current (USD m)	165	210	27.2%
Constant (2003 USD m) (a)	165	179	8.2%
In NZL Dollars (million)	285	317	11.3%
ODA/GNI	0.23%	0.23%	
Bilateral share	78%	75%	
<b>Net Official Aid (OA)</b>			
Current (USD m)	1	1	-13.8%

Top Ten Recipients of Gross ODA/OA (USD million)	
1 Papua New Guinea	7
2 Niue	6
3 Iraq	6
4 Tokelau	5
5 Solomon Islands	5
6 Samoa	5
7 Indonesia	5
8 Vanuatu	4
9 Tonga	4
10 Cook Islands	3

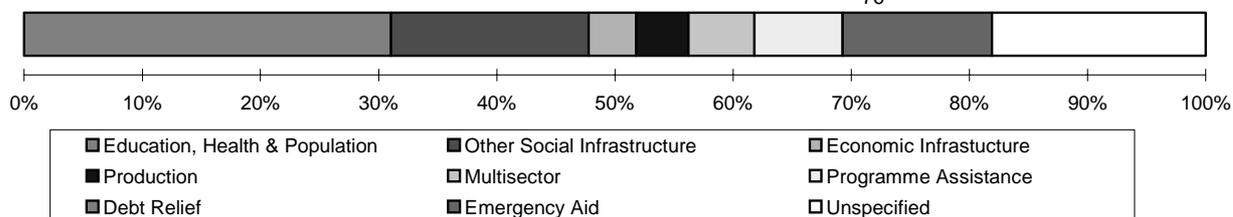
**By Income Group (USD m)**



**By Region (USD m)**



**By Sector**



a. Taking into account inflation and exchange rate effect.

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## THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Development co-operation is an important dimension of the New Zealand government's commitment to being a good international citizen and neighbour and to fostering a peaceful and stable environment in the Pacific and beyond. New Zealand's Pacific Islands neighbours are grappling with diversification of narrowly-based economies and some are in the midst of major governance challenges ranging from consolidation of fragile democracies to civil strife and open conflict which undermine development achievements and threaten regional stability. Most of them face serious challenges in achieving the Millennium Development Goals (MDGs).

While the last Development Assistance Committee (DAC) Peer Review of New Zealand's development co-operation, held in 2000, concluded that New Zealand had a serious and credible aid programme, it pointed out fundamental dysfunctions which would need to be resolved. Two problems were particularly clear: first, the programme suffered from a profusion of small unrelated projects and a lack of strategic focus; and second, the staffing structure, based largely on short-term rotation of diplomatic personnel, could not generate the corporate capacities and professionalism needed for New Zealand to function as a development partner in the new results-based international aid effort. The government subsequently commissioned an independent review of its official development assistance (ODA) which carried this diagnosis further and recommended the establishment of an independent agency. At that point, development co-operation was administered by a division of the Ministry of Foreign Affairs and Trade (MFAT). On the basis of the independent review's recommendations, the government decided in 2001 to build a programme with a distinctive profile and new focus on poverty elimination.

In 2002, this review process resulted in the creation of the New Zealand Agency for International Development (NZ Aid) as a semi-autonomous body attached to MFAT. The reorientation of New Zealand's development co-operation has been impressive:

- The establishment of NZ Aid has enabled the building up of a competent and dedicated team of development specialists with extensive expertise and experience able to have significant impact on development and development-related policies in New Zealand and in international forums.
- Poverty elimination has been designated as the central objective of NZ Aid. This focus, which stands as a proxy for a successful, broadly-based development process, has implications for priority setting and delivery modalities, providing a guiding principle for the agency in its efforts to be effective and achieve measurable results.
- The new agency has created a range of new policies and systemic capacities and a strong culture of results-based programming and implementation.
- NZ Aid has the capacity to deliver state-of-the-art programmes, working with the priorities and the decision-making processes in place in developing country partners, even when

policies and institutions are weak. In the education sector in Solomon Islands, New Zealand is demonstrating that the best way to enable the government to function in this post-conflict state is to deliver ODA in support of the sector plan and medium-term expenditure framework.

- The emphasis on primary education, with the objective of strengthening policies and the government's capacities to implement education programmes, is a major and welcome shift. Historically, New Zealand's aid programme was founded on tertiary scholarships for education in New Zealand with unclear links with the development needs in developing country partners. While this focus had broadened into a more comprehensive aid programme before the new Cabinet directives, the tertiary scholarship legacy still dominated New Zealand's aid to the education sector.
- NZAID is committed to sharpening the focus of its assistance for better development results. This in practice involves "bigger, fewer, deeper and longer" engagements both with developing country partners and international agencies.

These significant changes result from intensive consultations within and outside the government. Opinions have been divided whether this was the way to go. One question has been whether the poverty elimination mandate was broad enough to encompass the whole range of objectives that New Zealand seeks in its relations with developing countries. The poverty reduction agenda adopted by the international community is indeed broad. It includes trade and private sector development, peace building and conflict prevention and the wider aspects of governance. Hence there is no inherent restriction on the scope of donor activities apart from the requirement to shape aid programmes around poverty reducing development outcomes, which provides a discipline on aid priorities and delivery modalities. *The Paris Declaration on Aid Effectiveness* adopted by over 100 major donors, international organisations and developing countries at a High-Level Forum in March 2005, illustrates the new degree of discipline and co-ordination being demanded of both donors and developing countries today. NZAID, which was part of the preparation process leading to the adoption of this declaration, enables New Zealand to be a constructive player in this process.

The relationship with MFAT remains close. NZAID's chief executive is appointed by and reports regularly to the ministry's chief executive, while having direct access to the Associate Minister of Foreign Affairs and Trade who is responsible for ODA and has the authority to send papers to Cabinet through the minister. In practice, the two chief executives meet weekly as a rule and consultation between NZAID and MFAT continues down the line. With the creation of NZAID, there are now two distinct cultures and policy development processes, so that the foreign policy/development policy relationship is subject to more debate. MFAT, however, plays the primary role in key political relationships such as the participation of New Zealand in the strategic direction of the Regional Assistance Mission to Solomon Islands (RAMSI). It is therefore important that close consultation between NZAID and MFAT continues at all levels.

The political momentum that has been generated with the establishment of NZAID will need to continue as the agency confronts the challenges involved in carrying its programme forward. These challenges, which are well recognised by the New Zealand authorities, include:

- Matching New Zealand's global citizen ambition with more adequate funding for development co-operation.
- Reconciling the new policy and programme focus with the current dispersion of New Zealand's aid across too many partner countries and funding windows.

- Strengthening further its field presence so as to engage fully in policy dialogue and concrete collaborative efforts with developing country partners and other donors.

## **Overall framework and new orientations**

### ***A new agency with a distinctive role and focus***

NZAID has the mandate but also the ambition to be more than just an aid delivery organisation. As a semi-autonomous body, NZAID reports directly to ministers on policy and operational matters related to ODA. It has demonstrated its capacity to influence the broader government agenda in the area of trade policy. It engages with partner countries on policy dialogue as well as programme management. At the global level, NZAID seeks a more strategically focused engagement with international organisations. NZAID is playing a key role in promoting harmonisation of donor procedures and practices in the Pacific in support of the international community's efforts to increase the impact of aid, as reflected in the *Paris Declaration on Aid Effectiveness*.

NZAID has its own budget vote and the head of the agency is responsible for its staff and human resources policies. Its capacity has been established through an intensive recruitment process of personnel with extensive development expertise and experience. The involvement of the entire NZAID staff in the process of policy development has contributed to enhance the agency's capacity and create ownership. Management processes have been streamlined and some of NZAID's practices have become models within the government as a whole, notably for the management of relationships with civil society organisations.

The creation of NZAID can be considered a success. In practice, its semi-autonomous status has been appropriate, allowing the agency to focus on poverty reduction and ensuring that the development programme is separate from - albeit coherent with - the foreign policy agenda. Because of impressive achievements in a short period of time, the agency benefits from strong support within the government and among the various non-governmental organisations (NGOs) involved in development co-operation.

### ***Focusing on poverty elimination***

The government's decision to create NZAID constitutes an unequivocal commitment to poverty reduction and is reflected in the agency's overarching policy framework *Towards a safe and just world free of poverty*. Emphasis on basic education is an important result of the policy overhaul around the poverty elimination objective. New Zealand's commitment to achieve development outcomes has led to a major shift in aid implementation modalities from projects to programmes. In the health and education sectors, for example, NZAID contributes to the overall strengthening of policies and systems in developing countries.

Whether, when and how New Zealand may be able to respond to the growing international consensus that additional ODA is required to support the achievement of the MDGs are questions that remain unanswered. New Zealand is among the few DAC member countries that did not make any commitment to increase ODA during the International Conference on Financing for Development held in Monterrey in 2002, despite its commitment to achieving the MDGs.

NZAID considers that growth is important for poverty reduction but that it is also necessary to see this translated into improvements in the lives of poor people. The social statistics for many of New Zealand's Pacific Islands neighbours indicate that poverty is a reality of growing concern in a number of them. NZAID's growth and livelihoods policy, currently under preparation, suggests a

holistic and people-centered approach. The policy will encompass economic growth, private sector development, food security and trade. NZAID has yet to decide how to focus these activities - at the community level, on government policy and delivery or on the private sector itself. Too much of a micro-focus could lead to a wide range of distinct activities, in contradiction with the agency's overall commitment to more programmatic approaches in aid delivery. NZAID will also need to consider how it can best contribute to the promotion of policy and institutional reforms conducive to private sector development, as part of a consultation process - ideally within the framework of partner country-led poverty reduction strategies - between state, private sector and civil society stakeholders.

### ***Contributing to aid effectiveness in fragile states***

NZAID shares with other development agencies the challenge of finding effective ways to remain engaged in countries where institutions and policies are weak. Valuable lessons learnt are emerging from New Zealand's experience in the Pacific, where several countries face cumulative stress arising from population growth, ethnic tensions and widening socio-economic disparities. RAMSI is innovative because of its comprehensiveness in addressing security, economic reform and delivery of services through a whole-of-government approach in close co-operation with members of the Pacific Islands Forum. New Zealand's support, in coalition with the European Commission, for education in Solomon Islands builds local capacity to manage the processes involved in implementing a comprehensive national sector plan, working to improve planning and accountability systems as part of this process. This commendable approach involves a learning process which creates capacity among Solomon Islanders and in their institutions. NZAID's experience in this context could usefully contribute to good practice emerging from current DAC discussion on development effectiveness in fragile states.

New Zealand has adopted a pragmatic but comprehensive approach to peace building and conflict prevention through its involvement in several crises in the Pacific. The challenge in the future will be to achieve the same level of engagement in conflict prevention as in conflict resolution and stabilisation. As other ministries get more directly involved in aid delivery to fragile states in the region in the context of a whole-of-government approach, it could be useful to consider a more structured inter-government co-ordination process on aid management so as to ensure a common understanding and adoption of good development practices.

### ***Strengthening public information***

New Zealand's development co-operation programme has benefited from increasing public support in recent years. According to a public opinion survey conducted in 2004, 76% of New Zealanders supported the government giving aid and 61% of them were in favour of increasing the aid budget to 0.7% of gross national income (GNI). Despite this favourable environment, NZAID's objectives, approaches and achievements are not well known nor understood by the public: 30% of respondents knew what NZAID actually does and 60% of them had doubts about the effectiveness of the government's programme.

In order to encourage public knowledge of and support for its work, NZAID has updated its communication strategy to make it more effective. Key messages highlight two aspects of New Zealand's aid programme: New Zealand gives aid in order to be a good global citizen; and the focus lies on the Pacific, where New Zealand can be most effective. The agency plans to make better use of concrete examples of achievements. NZAID's efforts to strengthen the evaluation and measurement of results are useful in this context. NZAID's communication should also cover New Zealand's contributions to multilateral organisations which deserve greater support given the role

that these organisations can play in achieving the MDGs worldwide and in supporting the country's ambition of being a responsible global citizen.

### ***Recommendations***

- The understandably heavy emphasis on policy development during NZAID's first years of operating existence has begun to carry through to the translation of policies into programming decisions, with enhanced performance assessment and results measurement. This momentum should continue as more new and revised policies and strategies are agreed and begin to be implemented.
- NZAID's approach to growth and livelihoods is promising but will require clearer focus. Promoting appropriate country-specific institutional and policy reforms is key for improving the enabling environment that will lead to more inclusive and sustainable growth patterns and will help partner countries' efforts to mobilise more domestic and foreign investment for development.
- New Zealand's engagement in fragile states is commendable and highlights the importance of a whole-of-government approach and close co-ordination with other donors. New Zealand's experience deserves to be shared broadly to support good practice by the donor community.
- NZAID is encouraged to continue with the implementation of its communication strategy. Proper attention should be given to the need to ensure a better public understanding of what the agency does and of development issues and outcomes in general, including the rationale underlying new delivery modalities and New Zealand's engagement with multilateral organisations.

### **Aid volume and distribution**

#### ***Underperforming on ODA volume***

Over the past 15 years, the ODA/GNI ratio of New Zealand - which was at 0.23% in 2004 - has never been higher than 0.27% nor has it been on a clear upward trend. This has to be seen in line with New Zealand's longstanding commitment to the United Nations ODA/GNI target of 0.7%, which is reiterated in NZAID's overarching policy statement *Towards a safe and just world free of poverty*. In 2004, the ODA/GNI ratio was slightly below the total DAC ratio (0.25%) but was lagging behind the DAC average country effort (0.42%). With 210 million USD in 2004, New Zealand had the smallest programme within the DAC but remains an important donor in the Pacific.

As in most other DAC member countries, the logic for an increase in ODA volume has become inescapable and New Zealand needs to match its ambitions with more adequate funding for development. The establishment of an effective agency, the declared aspiration by government and the population for global citizenship and commitment to the MDGs, have raised expectations domestically and internationally. However, the government has not adopted a medium-term expenditure framework that would enable progress in this respect. A significant improvement was the introduction during the fiscal year 2003-04 of a multi-year appropriation for the ODA budget vote, which enables NZAID to provide more predictable and long-term commitments on aid flows to partner countries. New Zealand could be seen as capable of a significantly larger fiscal effort for ODA. Raising New Zealand's aid over time to meet the current DAC average country effort (0.42%) as an intermediate target would

imply that ODA becomes New Zealand's fastest growing budget line. This would require establishing a strong political consensus.

New Zealand's official response to tsunami relief and reconstruction efforts in Indian Ocean countries has been generous - about USD 48 million, nearly a quarter of its current ODA level. Three-quarters of the funds are to be spent in 2005 as a one-off appropriation of additional funding to the existing annual budget. The DAC encourages New Zealand to seize the opportunity of considerable mobilisation for tsunami relief and reconstruction as a basis for a sustained and significant increase in ODA as part of this year's budget approval process.

### ***Towards a strategically more selective and active multilateral engagement***

Recognising the important contribution of multilateral organisations to global debates about development, New Zealand intends to engage more strategically with selected international agencies. To this end, NZAID has adopted an evaluative framework, the Multilateral and Regional Agency Assessment Framework (MARAAF) and is preparing a multilateral engagement strategy. In this context, NZAID conducts regular assessments of agencies receiving its funding in order to inform its allocation decision-making process. NZAID has started to reprioritise its engagement with several organisations, a process that has led to increased core funding to agencies like the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA). NZAID is also strengthening links between its engagements at national, regional and global levels with a view to ensuring that the field performance of international agencies can be influenced through New Zealand's participation in global forums and decision-making bodies of these agencies.

NZAID should reflect on the desired level of its multilateral assistance. On average, about a quarter of New Zealand's ODA has been disbursed multilaterally, broadly in line with the current DAC average. Despite New Zealand's steps towards more intensive co-operation with international organisations, multilateral ODA has slightly decreased both in volume and as a share of total ODA since 1999. A significant increase in ODA would allow NZAID to selectively boost its contribution to and voice in multilateral agencies.

### ***Need for enhanced geographic focus***

NZAID works with 11 partner countries in the Pacific and 7 partner countries in south east Asia, South Africa being the only partner country outside these two regions. NZAID is also engaged in another 20 or so other countries in south Asia, southern Africa and Latin America with regional programmes that are delivered through the multilateral, regional and NGO channels. NZAID should reassess the number of its core bilateral partner countries. The question remains whether the agency has the capacity to ensure an adequate strategic management of programmes in 19 core bilateral partner countries. NZAID is currently reconsidering its definition of core bilateral partners with a view to making a clearer distinction between a first tier of in-depth engagements (reflected in the share of budget and management resources) with a more limited number of countries and a second tier of country programmes (with a smaller share of budget and management resources).

An engagement in fewer countries would enable NZAID to have more significant country programmes and reach the critical mass necessary to intensify its participation in county-led policy dialogue and donor co-ordinated efforts. This is an issue of particular importance in Asian core bilateral partner countries where resources are spread thinly in many countries and in each country, over many sectors. The potential value added of New Zealand's modest contribution has also to be considered in the context of joint efforts by the donor community and partner countries to make progress on alignment and harmonisation. This includes the need for donors to concentrate on fewer

countries and fewer sectors in each country with the objective of reducing transaction costs associated with the management of aid. With its new strategy for Asia, NZAID has taken steps to strengthen its role as a “strategic niche” player by focusing on rural livelihoods. It is too early to assess the success of these steps in terms of reducing dispersal and putting into practice NZAID’s commitment to “bigger, fewer, deeper and longer” engagements.

Overall, New Zealand’s ODA is dispersed over 100 countries given the existence of numerous funding windows, the main one being the Emergency Management and Disaster Relief, the Voluntary Agency Support Scheme (for co-funding of NGOs projects) and under the scholarship schemes. There is an opportunity cost in having such a large number of countries where funds are disbursed on discrete activities rather than being channelled through or complementing core bilateral country programmes. Typically these funding windows are centrally managed and run the risk of activities being donor-driven rather than supporting country-led poverty reduction strategies. NZAID is currently examining to what extent, and in which cases, specific funding windows should be aligned with its core bilateral priorities.

### ***Increased focus on basic education***

Education remains the most important sector of New Zealand’s development co-operation (nearly half of bilateral ODA in 2003). The education sector was singled out by Cabinet in 2001 as the area needing a new policy that would give greater prominence to basic education needs. The new education policy is accompanied by a welcome shift in delivery from individual projects to broader sector support strengthening education policies and systems in partner countries. There is now a clear trend in favour of basic education with an increase from 5% of total bilateral ODA to the education sector in 1999 to 11% in 2003 and to 30% in 2004, as sector approaches to education come on stream as in Solomon Islands. This is in line with the 50% desired target set in NZAID’s education policy statement.

Post-secondary education, mostly in the form of scholarships for study in New Zealand, benefited from more than two-thirds of total education sector disbursements in 2003. In implementing its new education policy, NZAID has taken into consideration the main lessons learnt over two decades in providing scholarships to students from developing countries. As a result, scholarships need to be more effectively linked with partner countries’ strategies and to take into account labour market and human resource development needs. In-country or regional training and scholarships have become the preferred options as they are more cost-effective and efficient in terms of completion and return rates. Finally, in the Pacific, NZAID intends to move from several distinct scholarship schemes, each with a different set of administrative arrangements, to a single more flexible scheme under a shared set of guidelines aligned with the Australian Agency for International Development (AusAID) regional award scheme.

### ***Recommendations***

- In order to match New Zealand’s ambitions with adequate funding for development and make the commitment to the United Nations target of 0.7% credible, the government should set a medium-term target which is both realistic and ambitious and which clearly establishes a path towards reaching an ODA/GNI ratio of 0.7%.
- Given its intention of engaging more actively with selected international organisations, NZAID should use part of any significant increase in ODA to strengthen its contribution to, and voice in, selected multilateral development agencies.

- NZAID should maintain its focus on the Pacific where it has demonstrated that it can be most effective. The agency should also consider how to deepen its engagement in fewer core bilateral countries in Asia so as to participate in a more meaningful way in co-ordination and harmonisation efforts and contribute to decreasing the aid management burden for partner countries.
- In line with its commitment to devote half of its education support to basic education, NZAID is encouraged to maintain the focus on basic education and increase aid allocations significantly for this purpose. At the same time, NZAID should continue reviewing its scholarship schemes by increasing their development impact and cost-effectiveness.

### ***Policy coherence for development***

The OECD and its members recognise that sustainably reducing poverty in developing countries and attaining the MDGs will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues. This can create challenges because specific issues commonly involve domestic interest groups and government departments with primary interests and responsibilities other than that of reducing global poverty.

### ***New Zealand's commitment reflected in its trade policy***

New Zealand is committed to advancing development issues as a key outcome of the multilateral trade negotiations round launched at the Doha Ministerial Conference in 2001 and supports developing country interests in areas such as improved market access and other reforms in agricultural policies such as trade-distorting domestic support and export subsidies, special and differential treatment and capacity building, taking into account their priorities, constraints and vulnerabilities. The provision of technical assistance to enable developing countries to benefit from the outcome of multilateral trade negotiations is an important component of NZAID's trade and development programme. NZAID also helps developing countries to address supply constraints which inhibit their ability to benefit from trade opportunities.

### ***Becoming more systematic in enhancing policy coherence for development***

The complexity of the issues at stake in terms of policy coherence for development requires action to be taken systematically at the political and administrative levels. Several aspects of the New Zealand system are conducive to enhancing policy coherence. NZAID's policy advice mandate, which enables the agency to report directly to ministers, places it in a position to advocate for development within the government as a whole. The Associate Minister of Foreign Affairs and Trade with responsibility for ODA is a member of Cabinet, which ensures that development issues can be addressed at the highest level of government. The whole-of-government approach prevailing in the New Zealand government rests on an integrated decision-making process which requires shared analysis and co-ordination. A primary reason for establishing NZAID as a semi-autonomous body attached to MFAT was to enhance the standing of development perspectives in policy advice while facilitating coherence between development and other aspects of foreign policy. Co-ordination between NZAID and MFAT is based on explicit co-ordination frameworks and regular working-level meetings and informal consultations.

The range of issues that impinge on developing countries is wide and evolving, particularly for Pacific Islands countries which face special challenges in the areas of migration, education, environment, trade and investment. New Zealand's commitment in this respect has not been explicitly endorsed in the form of a political statement in which policy coherence for development is identified

as an objective for overall government action. Beyond the area of trade, issues are being addressed as needs arise. While NZAID has been able to influence the trade agenda it will require more resources to play a proactive role in this and other areas of policy coherence.

### ***Recommendations***

- Given its policy advice mandate and its credibility as a development agency, NZAID is well positioned to promote policy coherence for development across the government. The agency should continue to play a proactive role in influencing the whole-of-government agenda and should strengthen its analytical capacities further.
- A more explicit government statement on policy coherence for development would be useful as a basis for more systematic inter-departmental co-ordination. The scope of action in this domain could be reinforced by setting objectives in specific policy areas and requiring regular reporting on policy coherence actions.

### **Aid management and implementation**

#### ***Carrying the harmonisation and alignment agenda forward***

NZAID is playing a key role in promoting the harmonisation agenda in the Pacific through a range of initiatives ranging from raising awareness at various levels to piloting sector-wide approaches in the education and health sectors. At the partner country level, systematic discussions increasingly take place among AusAID, NZAID and partner governments on how the donors can work together more effectively to enable better co-ordination and to lessen the burden of aid management. Progress is under way in the following areas: joint country strategies in Samoa and Kiribati; joint public sector improvement programme in Samoa; and joint administration of scholarships. Common efforts have culminated in the establishment of the first joint country programme in the Cook Islands, with delegated authority from Australia to New Zealand for day-to-day management.

As a new organisation which had to establish its overall capacity (from policy development to staff recruitment), NZAID has been in a unique position to seize the opportunity of adopting the changes in culture and behaviour that are required for the implementation of the aid effectiveness agenda. The agency's commitment to harmonisation is embedded in its policy framework and strategic plan as well as human resources policies, including staff performance management. NZAID has opted for the preparation of a harmonisation and alignment action plan through an iterative process, allowing for practical experience to feed into the process. In finalising its action plan, NZAID should consider how to demonstrate tangible results in the field in terms of reduced transaction costs by better linking specific actions with measurable benefits. In carrying the aid effectiveness agenda forward, NZAID will have to address several constraints which include the geographical and sectoral dispersion of its programme and its limited presence in the field.

#### ***Taking the lead in promoting sector-wide approaches in the Pacific***

NZAID's commitment to increasingly deliver its aid in an aligned and harmonised way is evidenced in Solomon Islands and Papua New Guinea where sector support absorbs a significant share of New Zealand's ODA: 50% and 30% respectively. Building on joint government and donor efforts to develop an education sector plan and a medium-term expenditure framework, as well as improved financial management achieved through RAMSI technical assistance, NZAID provides budget support to the education sector in accordance with the Solomon Islands government's own systems, procedures and schedules. In Papua New Guinea, NZAID has been asked to take the lead in

co-ordinating discussions among donors and their collaboration with the government in implementing the national health plan. Funding from various donors is pooled in a trust fund to support the medium term expenditure framework for the health sector.

These two examples constitute major new approaches in what remain difficult political, social and economic circumstances and could pave the way for sector support approaches in fragile states more generally. In countries where there are national sector plans and medium-term expenditure frameworks, NZAID intends to deliver its aid support through sector-wide approaches. The only pre-condition required for NZAID to consider sector support is the commitment by the partner country and its willingness to change, with the assumption that the need for credible planning frameworks and sound accountability mechanisms can be fixed through capacity building as part of the preparatory process for a sector approach.

### ***Scope for stronger alignment in country programming***

NZAID's country strategies cover mainly core bilateral support, namely government-to-government co-operation. They could be more comprehensive and integrate the whole range of funding available through various NZAID channels and initiatives to ensure that different activities are mutually reinforcing and all support country-led poverty reduction strategies. Regional programmes, which account for about a third of NZAID's budget allocation to the Pacific, may be a more efficient and effective delivery channel within the context of a large group of small countries. However, because regional programmes rely on a wide range of organisations and various initiatives, each with their own logic and approaches, NZAID needs to encourage regional organisations to participate in on-going efforts in partner countries to ensure that regional assistance is also aligned and harmonised. Dialogue between NZAID and NGOs is important in order to capture synergies among their respective activities, and this should include any New Zealand NGOs operating in the field.

### ***Need for a greater field presence***

The establishment of NZAID has enabled the building up of a competent and dedicated team with extensive development expertise and experience. The agency's recruitment process has been intensive with 70% of its staff (90 persons at the end of 2004) having been recruited over the past two years. At this stage, apart from five NZAID staff members serving overseas, personnel from New Zealand embassies and high commissions in developing countries are responsible for the implementation of development co-operation programmes. With a few exceptions, overall management of NZAID's programmes rests with Wellington-based staff. The establishment of "virtual" country teams involving staff from headquarters and the field has proven effective for managing NZAID's programmes and enabled field posts to access expertise in headquarters. Strengthening field presence remains critical in enhancing the agency's ability to ensure an active participation in policy dialogue with local partners and co-ordination with other donors. Providing sufficient field exposure for staff would also be essential for helping the agency to understand and adjust to local circumstances on an on-going basis.

### ***Emphasis on learning***

NZAID has been designed as a lean and integrated structure, with inclusive and participatory decision-making processes, in order to encourage synergies and learning across the organisation. There is no strict distinction between policy and programming which are shared responsibilities across the agency. The emphasis on policy development as an agency-wide function results from a strategic choice aimed at establishing institutional capacity and maximising staff development potential in a relatively small organisation.

Similarly, the responsibility for the monitoring and evaluation systems that are being established to measure the impact of New Zealand aid is shared between a team of evaluation advisors and programme managers. The integration of evaluation within NZAID's overall programme design will ensure real time learning and adjustment in on-going programmes. Together with learning, accountability is a key function of evaluation that NZAID will have to strengthen in its evaluation policy and guidelines. There is provision for independent evaluation alongside the programme integrated approach to monitoring and evaluation. This includes scope for the evaluation team to identify and implement sectoral and thematic evaluations independently from programme managers and report directly to NZAID's Evaluation Committee.

### ***Recommendations***

- NZAID will need to ensure that staffing levels and skill mixes, especially at the field level, are continuously adjusted as the agency progressively shifts towards sector-wide approaches and gets more engaged in policy dialogue and co-ordination processes in partner countries. This implies more field postings of NZAID staff.
- NZAID is encouraged to consider ways of increasing local ownership by reviewing how various funding windows, regional programmes and NGO co-financing, can be complementary to core bilateral country programmes based on country-led development policies and programmes.
- Given the potential contribution of SWAps to the strengthening of local ownership and capacity building, New Zealand is encouraged to continue taking a lead role in promoting the development and implementation of such approaches, including in fragile states.
- The integration of evaluation within NZAID's overall programme design and the sharing of evaluation responsibility among programme staff are key to ensuring timely dissemination of evaluation findings and integration of lessons learnt into programme management. Alongside this approach, the programme of independent evaluation is important to guarantee objectivity and critical judgment.

## SECRETARIAT REPORT

### CHAPTER 1

#### STRATEGIC CONTEXT AND NEW ORIENTATIONS

##### **The context for New Zealand's development co-operation**

Development co-operation is an important dimension of the New Zealand government's commitment to being a good international citizen and neighbour and to fostering a peaceful and stable environment in the Pacific and beyond. The main interface between the New Zealand government and developing countries is now the New Zealand Agency for International Development (NZAID). The agency's central focus is the elimination of poverty through working with partners to achieve sustainable and equitable development for those most in need.

Because of its geographic location within the Pacific, New Zealand has a strong interest in seeing the region become prosperous and stable, based on sustainable social and economic policies, respect for human rights, participation of civil society and effective governance. Close historic and human ties exist between New Zealand and many countries of the South Pacific. New Zealand has a constitutional relationship with the Cook Islands, Niue and Tokelau.<sup>1</sup> People from these countries are also New Zealand citizens and have the right to live in New Zealand. As a result, 6.5% of the resident population of New Zealand come from Pacific Island countries. New Zealand's engagement with its Pacific Island neighbours includes an important dimension of cultural sensitivity because of the special links with several Polynesian groups as well as its own Maori heritage. This is a valuable asset given its dominant position as an economic and financial partner to these small countries.

##### ***A major reorientation of New Zealand's development co-operation***

The previous Development Assistance Committee (DAC) peer review in early 2000 concluded that New Zealand had a serious and credible aid programme but pointed out a number of challenges. Despite the programme's sound rationale of helping to maintain peace, security and stability, to advance international prosperity and to protect the global environment, the DAC recommended a sharper focus by making poverty reduction a clearer objective. Another important recommendation was related to the organisational structure of New Zealand development co-operation, which at that time was integrated into the Ministry of Foreign Affairs and Trade (MFAT). The DAC suggested that it could be beneficial to review the existing structure in light of the need to build a core group of staff with in-depth development expertise and experience in the context of more integrated and co-ordinated partner country-led development strategies. A summary of the full set of DAC recommendations and progress achieved is available in Annex A to this report.

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1. Tokelau is a New Zealand territory while the Cook Islands and Niue are self-governing in free association with New Zealand. In addition, New Zealand administered Samoa from 1920 until it gained independence in 1962 and, since then, relations have been based on a Treaty of Friendship which entails for New Zealand a responsibility for technical, administrative and other assistance.

Since 2000, New Zealand's development co-operation has been radically reoriented with a distinctive profile and new focus. The coalition government elected in 1999 created a window of opportunity for mapping out a mid-term agenda for New Zealand's official development assistance (ODA) as both coalition parties had indicated their commitment to development co-operation in their election manifestos. In 2000, the Minister of Foreign Affairs and Trade, with the support of the Associate Minister with responsibility for ODA, commissioned a review of New Zealand ODA which was conducted by two development experts. The resulting report *Towards Excellence in Aid Delivery* (Ministerial Review, 2001) echoed many of the DAC recommendations, but was more critical in questioning the systems in place and their ability to support effective development co-operation. The government established an inter-agency working party under the chair of the Department of the Prime Minister and Cabinet to consider the recommendations from the ministerial review.

In 2001, Cabinet agreed that the government should renew its commitment to ODA and build a programme that would seek excellence in aid delivery with a distinctive profile and new focus (see Box 1). In this context, it was decided to establish a semi-autonomous body attached to MFAT, that would be subsequently named the New Zealand Agency for International Development. The ministerial review had recommended a stand-alone agency but Cabinet decided otherwise so as to facilitate greater coherence between development and foreign policy.

### ***The creation of a new agency***

The review process launched in 2000 culminated in the formal establishment of NZAID in 2002 (see Chapter 5). The new agency came into existence following an intensive one-year process of consultations involving both the staff of its predecessor, the development co-operation division of MFAT, and other relevant government departments and agencies. The involvement of staff in shaping the future organisation and the appointment through a competitive process of the previous director of development co-operation as the first executive director of NZAID are considered to have contributed to a smooth organisational transition.

Within its first two years of operating existence, NZAID has developed an entirely new policy framework. Its capacity has been established through a participatory process involving its own staff as well as an intensive external consultative process. The resulting organisational culture is quite unique and conducive to making NZAID an effective learning organisation. Aid management processes have been streamlined and some of NZAID's practices have become models within the government as a whole, notably for the management of relationships with civil society organisations. NZAID has the ambition as well as the mandate to be not just an aid delivery organisation but a development agency; it has demonstrated its capacity to influence the broader government agenda in the area of trade policy. It intends to increasingly engage with partner countries on policy as well as programme management. This has implications at the global level where NZAID seeks a strategically more focused engagement with international organisations. NZAID is also playing a key role in promoting alignment and harmonisation of donor procedures and practices in the Pacific, in support of the international community's efforts to increase the impact of aid - as reflected in the *Paris Declaration on Aid Effectiveness* adopted at the High-Level Forum on Aid Harmonisation, Alignment and Results in March 2005,<sup>2</sup> which builds on commitments previously made at the High-Level Forum on Harmonisation held in Rome in 2003.

NZAID can be considered now as a new but serious player, both domestically and internationally. Because of impressive achievements in a short period of time, the agency benefits from strong support

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2. The Paris Declaration on Aid Effectiveness is available on the following website: [www.aidharmonisation.org](http://www.aidharmonisation.org)

within the government and among the various non-governmental organisations (NGOs) involved in development co-operation. A ministerial review to assess progress in implementing the Cabinet's decision to establish NZAID will be completed in May 2005.

#### **Box 1. Mandate for New Zealand official development assistance**

When establishing NZAID in 2001, the government set new policy directions for New Zealand ODA which included the following major orientations (New Zealand Cabinet, 2001):

- Elimination of poverty as the central focus of NZAID which would need to be incorporated in a new policy framework.
- Integration of the International Development Targets (IDTs) - incorporated in the meantime into the Millennium Development Goals (MDGs) – within the new policy framework and in Pacific regional strategy papers.
- A complete overhaul of the policy framework that would need to be strategic, accountable and focused, based on international best practice.
- Bilateral programmes to be hinged on country-based poverty analysis and country programme strategies.
- Core focus on the Pacific maintained.
- The development of a bilateral assessment framework to help consider the degree to which the programme was too dispersed and the adoption of a strategic approach to funding bilateral allocations.
- A new education strategy to be developed that would give greater prominence to basic education needs and individual country circumstances.
- Mainstreaming of human rights, gender and environment.
- A framework to be developed for determining the level of contributions to regional and multilateral institutions.
- The establishment of monitoring and evaluation systems to measure the impact of New Zealand ODA.

At the institutional level, the government's decision provided for:

- New Zealand's ODA to be managed by a new semi-autonomous body attached to MFAT, with a separate budget vote for ODA.
- A top executive to be appointed by, and reporting to, the Secretary of Foreign Affairs and Trade, but with responsibility for providing ODA policy advice direct to ministers.
- All other staff appointed by the top executive, with human resource policies and pay scales internal to NZAID.
- Domestic and offshore service arrangements shared with MFAT.

#### ***Challenges ahead***

An important remaining issue for the government is the level of its aid effort. New Zealand is among the few DAC members that did not make any commitment to increase ODA during the International Conference on Financing for Development, held in Monterrey in 2002. New Zealand NGOs are concerned that the country is far from reaching the United Nations (UN) target of 0.7% ODA/gross national income (GNI) ratio. Significant ODA growth would also be important in view of ensuring adequate resources to deliver results in light of the significant and sometimes difficult development challenges in the Pacific and New Zealand's stated development co-operation objectives.

Increasing ODA will require political leadership and consolidated public support. This could be achieved through better communication on what NZAID programmes are about, how they are managed and results obtained. Announcements should also include New Zealand's contributions to multilateral organisations - which deserve greater support given the country's ambition of being a responsible global citizen - and the role that these organisations can play in achieving the MDGs worldwide. Efforts under way to strengthen evaluation and results measurement are useful in this context but will need to be consolidated. NZAID's commitment to greater effectiveness is demonstrated by its active engagement with partner countries and other donors to promote partnership approaches which are more aligned with partner country priorities and ensure country-led decision making, with emphasis on local capacity development. As such approaches may require an intensive policy dialogue at the field level, NZAID continues to face the challenges in ensuring adequate field capacity. The dispersion of New Zealand's programme across 19 core bilateral partner countries and a range of funding windows also makes it difficult to implement NZAID's commitment to promote partnership approaches.

The policy overhaul around the poverty elimination objective and its translation notably in the education sector, with a shift in favour of basic education, is quite impressive. Tensions remain within the New Zealand government regarding the centrality of the poverty elimination focus *vis-à-vis* foreign policy objectives and the relative weight of associated activities - such as scholarships, for instance, which may be more in the interest of constituency building. These lead to a healthy debate which is useful in the perspective of enhancing policy coherence for development. The international understanding of the poverty reduction objective is a broad one; it includes policy and institutional reforms to promote trade and private sector development as well as supporting more general governance improvements and peace and security. These are areas in which NZAID is very active and innovative.

## **The objectives and principles of New Zealand's development co-operation**

### ***Poverty elimination as a core focus***

The foundations of New Zealand development co-operation are laid out in the policy statement *Towards a safe and just world free of poverty*. This is NZAID's new overarching policy framework which was mandated by Cabinet in 2001 and subsequently approved in 2002. It sets out the agency's vision, mission, values, strategic outcomes, core business and operating principles, which place the elimination of poverty as a central focus for NZAID (see Box 2). This policy statement is supported by other more detailed strategy and policy documents, including: the *Five Year Strategy (2004/05-2009/10)*; annual business plans; regional, country and sectoral strategies; and draft strategies for cross-cutting issues such as human rights, governance, gender and environment that need to be mainstreamed.

#### **Box 2. The guiding principles of New Zealand's development co-operation**

*Towards a safe and just world free of poverty* guides NZAID to:

- Have a central focus on eliminating poverty in developing countries.
- Work with local partners and with other agencies including government, civil society organisations, communities and other donors.
- Use medium- to long-term horizons in its planning.
- Focus its programmes on the following outcomes: i) fulfilment of basic needs; ii) sustainable livelihoods; iii) sustainable and equitable development; and iv) safe, just and inclusive societies.

Source: NZAID (n.d.)

New Zealand's commitment to the MDGs is embedded in NZAID's policy framework (see Chapter 3). The agency's policies and strategies aim to empower poor people to improve their lives, strengthen governance and reduce vulnerability to poverty. In this context, NZAID is committed to bringing together international standards and principles of human rights within development policies, strategies and processes. As a development agency, NZAID is committed to long-term results and effectiveness, with outcomes that fulfil basic needs, sustain livelihoods and develop safe, just and inclusive societies. NZAID acknowledges that a robust private sector is a necessary condition for reducing poverty sustainably. NZAID also recognises the major contribution made by civil society and the importance of transparent and inclusive processes.

During its first two years of operating existence, NZAID has pursued an impressive policy development agenda. This was a necessary step for a new agency with a new policy focus. A number of policy areas required early action because they were areas in which New Zealand had not been involved in the past or called for a change of direction. The policy development process in itself was equally important for building the agency's own capability (see Chapter 5). NZAID's new policies include: *Human Rights Policy Statement*; *Harnessing International Trade for Development*; *Achieving Education for All*; and *Preventing Conflict and Building Peace*.<sup>3</sup> A draft health policy should be completed soon. A policy on economic growth and livelihoods is under preparation, and policies on gender and environment are being updated.

### ***Regional focus on the Pacific***

Despite a high level of political, social and cultural diversity, Pacific Island countries share some common characteristics: small and ethnically diverse populations dispersed over large distances in the Pacific Ocean but occupying small land areas; high vulnerability to natural disasters and climate change; low growth exacerbated by small market size, isolation and transport costs; high levels of emigration and remittances in much of Polynesia contrasted with high rates of domestic population growth in Melanesia. Although Pacific Island countries rank in the medium range in terms of their human development index, most of them face major challenges in achieving the MDGs (see Box 3) and will continue to need external assistance.

In setting new policy directions for New Zealand's ODA, the government agreed that a core focus should be retained on the Pacific. NZAID was mandated to prepare a Pacific regional strategy focused on poverty elimination and the sustainability of aid. The process of finalising NZAID's draft strategy *Towards a Strategy for the Pacific Islands Region* has been delayed pending the outcome of on-going work on other policy documents. In addition, a review of the Pacific Islands Forum, endorsed in 2004 by the leaders of the Forum members in the *Auckland Declaration*, identified new areas of focus for regional co-operation which may need to be integrated into NZAID's draft document.

New Zealand has an integrated whole-of-government approach to its relations with Pacific Island countries because of the broader trade, economic and security issues affecting the region. In addition to helping Pacific Island countries address their development challenges with ODA, New Zealand plays a key role in assisting the countries in this region to integrate into the global economy at different levels, notably through the South Pacific Forum and multilateral trade agreements (see Chapter 4). Using ODA strategically to mobilise more domestic and foreign investment in Pacific Island countries should be seen as an integral part of ensuring a prosperous and stable future for these countries.

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3. All documents are available on NZAID's website : [www.nzaid.govt.nz/library/policies/index.html](http://www.nzaid.govt.nz/library/policies/index.html).

### Box 3. The challenges in achieving the MDGs in the Pacific

The first account of the state of development in the Pacific Island countries with respect to the MDGs\* and their associated indicators and targets (Secretariat of the Pacific Community, 2004) shows that substantial progress has been made against some indicators and that some targets will be met. Slow progress in other areas indicates that greater efforts are needed if the Pacific Island countries are to achieve the MDGs. Progress also varies significantly across the region and even within some of the countries. Due to the lack of reliable data, different studies come to different results and interpretation. According to the UN Millennium Project (United Nations, 2005), Oceania's developing countries are off track for nearly every goal and falling back in some areas. Even where there is progress, it is too slow to achieve the goals. Only Sub-Saharan Africa is lagging behind on more indicators.

In all Pacific Island countries, there are problems with the reliability, comparability and consistency of data. There is also a need for disaggregated information that can highlight differences between regions and sub-regions, age groups, gender, ethnic groups, etc. Some additional indicators and targets might be warranted (e.g. on non-communicable diseases) while other indicators may be less relevant.

Poverty and hardship have emerged as significant concerns in a number of Pacific Island countries where they were considered irrelevant concepts a decade ago. A conclusion from participatory poverty assessments conducted by the Asian Development Bank (AsDB) in several countries indicates that the term "**hardship**" reflects better the nature of poverty in most communities of the Pacific, the term "**poverty**" being perceived to have the connotation of hunger and destitution. Hardship translates to "an inadequate level of sustainable human development manifested by the lack of access to basic services, the lack of opportunities to participate fully in the socioeconomic life of the community, and the lack of adequate resources to meet basic household needs and customary obligations to the extended family, village community, and the church" (AsDB, 2003). Poverty-related data for Pacific Island countries are incomplete but suggest that the incidence of poverty is rising in a number of countries. Data on **hunger** indicate that a significant proportion of children are undernourished and that the prevalence of underweight children is constant or slightly increasing.

**Primary school enrolment** is relatively high although significant room for improvement remains in some countries. Ensuring that education effectively addresses both individual and societal needs remains a problem across the region.

Significant progress has been made towards **gender equality and empowerment of women**. Still, women remain disadvantaged in many areas such as education, employment and political representation. Violence against women is also an issue of serious concern in the region.

**Children's health** has improved significantly from the 1960s, although regional and sub-regional disparities remain. Under-five mortality rates in all countries are currently below the developing country average. However, significant rates of underweight children remain an issue of concern.

Despite general improvements in recent decades, **maternal health** remains a serious concern across the region.

Although the incidence of **HIV/AIDS** remains comparatively low in the Pacific, the current level of HIV infection is of significant concern. In Papua New Guinea, there is already an HIV/AIDS epidemic where the 50% annual increase in the infection rate is similar to that prevailing in southern Africa in 1992. There is a real risk that the incidence could substantially and rapidly increase in the future. **Malaria** and **tuberculosis** constitute a significant disease burden in a number of Pacific Island countries. In most countries, there has been a significant increase in the incidence of **non-communicable diseases** such as diabetes and hypertension.

The importance of **environmental sustainability** is widely recognised and reflected in regional and national policies. For instance, climate change is an important issue for the region, and all countries have committed to phase out the use of ozone-depleting substances by the end of 2005 and to increase the use of alternative energy sources.

\*See Annex B for the details on the MDGs.

### ***Engaging with fragile countries***

Pacific Island countries face cumulative stress arising from population growth, ethnic tensions and widening socio-economic disparities. A number of them are grappling with major governance challenges (ranging from lawlessness to open conflict) which undermine fragile development achievements and threaten regional stability. The end of the colonial era left these countries for the most part with weak foundations of modern nation-state institutions further eroded by the re-assertion of traditional political and social systems. Centralisation of power has not been effective in service delivery and led to uneven development between urban and rural areas as well as between the capital and outer islands. Some incompetent and corrupt governments have not contributed to the state legitimacy. The need to help maintain peace, security and stability in the Pacific has been dramatically demonstrated in recent years with the Bougainville conflict in the 1990s, the Fiji coups in 1987 and 2000 and the escalation of ethnic-related violence in Solomon Islands which led the Prime Minister to call for regional assistance in 2003 (see Chapter 3).

As few bilateral donors are involved in the Pacific, New Zealand is an important donor in this region even though it has the smallest programme within the DAC. In promoting alignment and harmonisation of donor practices including through sector-wide approaches in fragile states like Solomon Islands and Papua New Guinea, New Zealand has demonstrated that it can play a leading role in promoting partnership approaches and donor co-ordination (see Chapter 6).

### **Public support for development co-operation**

#### ***Growing public support for ODA***

In 2004, a joint survey of public opinion was carried out by NZAID and the Council for International Development (CID), the umbrella organisation for New Zealand NGOs. It found that 76% of New Zealanders support the government giving aid, up from 71% in 1999. The proportion of respondents in favour of increasing the aid budget to 0.7% of GNI rose from 58% to 61%. Being a good global citizen has emerged as the strongest reason for giving aid. Nearly 60% of people surveyed agreed that giving aid is more important as the world increasingly becomes a global community. They also believed that aid must be given to avert the risk of terrorism and epidemics like the Severe Acute Respiratory Syndrome (SARS). Given a choice of regions, 71% of the respondents selected the Pacific as the area that should get most of the overseas aid (in 1999, 55% of them selected the Pacific). The most common reasons against providing aid were that poor people in New Zealand should be helped first and the risk of corruption in developing countries. Despite overall strong support, there are still large numbers of New Zealanders (about 60% of the people surveyed) who have doubts about the effectiveness of the government's programme.

The results of the poll were announced by ministers in parliament to an audience of diverse stakeholders, and received substantial media coverage. A series of events and initiatives around this theme were planned during the following months. Another example of a key communication event which was covered by the media was the NZAID campaign's *Trade can Reduce Poverty* to promote the links between trade and aid (see Chapter 4). In general, however, as in many other DAC member countries, international development issues do not receive wide or deep coverage in the New Zealand media. There is little public debate about development issues apart from initiatives taken by NGOs. When politicians in parliament raise issues, it is mainly in relation to individual countries and from a political rather than a development co-operation perspective.

### ***Strengthening communication***

Both the NZAID's policy statement and its five-year strategy include a commitment to increase public awareness and understanding of, and support for, development through working with a wide range of organisations and groups. The findings of the public opinion poll have served as a basis for NZAID to update its communication strategy in 2004 and to make it more effective. The objectives of the *Communications Strategy and Action Programme: Building Support for Development* are to: i) close the gap between high support for the government giving aid (76% of the population) and little knowledge of what NZAID actually does (30% of the population); ii) encourage public knowledge of and support for the work of NZAID; iii) ensure all key audiences are kept informed about the government's overseas development programmes and its objectives; and iv) encourage within the New Zealand public the growth of awareness, knowledge and support for international development. The communication strategy is built around two key messages, which highlight that aid is given for New Zealand to be a good global citizen and explain that the focus lies on the Pacific because NZAID can be most effective in this region. The *Communications Strategy and Action Programme* includes a commitment to mainstream communication across NZAID, so that staff collect examples of good practice to demonstrate effectiveness. NZAID will measure the success of the strategy in the number of times the key messages appear in the media, and in how this is reflected in increased public understanding and support for NZAID programmes.

The budget for information, development education and training has increased over the past five years. The major component of current development education funding consists of core support to the Development Resource Centre. This is a centre specialised in information and education on development and global issues which provides information services to NGOs, consultants, universities, community groups, government departments, libraries and businesses operating in the field of overseas aid and development. Training and resources on global awareness programmes are also provided to the formal and informal education sectors, including community groups.

### **Considerations for the future**

- The establishment of an effective agency, the declared aspiration by the government and the population for global citizenship and commitment to the MDGs, including the fostering of processes for more effective poverty reduction, have raised domestic and international expectations. As in most other DAC member countries, the logic for an increase in ODA volume has become inescapable and New Zealand needs to match its ambitions with more adequate funding for development.
- The understandably heavy emphasis on policy development during NZAID's first years of operating existence has begun to carry through to the translation of policies into programming decisions, with enhanced performance assessment and results measurement. Momentum should continue as more new and revised policies and strategies are agreed and begin to be implemented.
- Most developing countries in the Pacific face complex development challenges. It is important for NZAID to maintain a strong focus on this region and support partner countries in their efforts to achieve the MDGs.
- NZAID is encouraged to continue with the implementation of its communication strategy. Proper attention should be given to the need to ensure a better public understanding of what the agency does and of development issues and outcomes in general, including the rationale underlying new delivery modalities and New Zealand's engagement with multilateral organisations.

## CHAPTER 2

### AID VOLUME, CHANNELS AND DISTRIBUTION

#### Overall aid volume

##### *Stagnating official development assistance*

New Zealand's ODA slightly increased from USD 126 million in 1999 to USD 130 million in 2003<sup>4</sup> (see Table C.2 in Annex C). Given New Zealand's strong economic performance<sup>5</sup> but limited progress in increasing ODA volume, ODA/GNI target fell from 0.27% in 1999 (its peak in the last decade) to 0.23% in 2003. This was below the DAC average of 0.25%, which has risen in recent years following increased efforts by a number of DAC members to fulfil their commitments made at Monterrey in 2002 during the International Conference on Financing for Development. New Zealand's ODA/GNI ratio was also below the DAC average country effort, which was at 0.41%. New Zealand has the smallest ODA programme among the 22 DAC member countries (compared to the second smallest at the time of the last DAC peer review) but is in the 16<sup>th</sup> position in terms of ODA/GNI.

NZAID's overarching policy statement *Towards a safe and just world free of poverty* reiterates New Zealand's commitment to the long standing United Nations ODA/GNI target of 0.7%. Although successive governments have expressed their intention to meet the target, there have never been concrete plans in the form of a medium-term expenditure framework to make progress in this respect. Over the past 15 years, the ODA/GNI ratio has never been higher than 0.27% (see graph under Table C.1) nor has it been on a clear upward trend. Achieving the target of 0.7% would require a massive expansion of New Zealand's ODA. In 2003, the target would have implied spending of approximately USD 510 million, which was more than triple the actual spending of USD 165 million. The size of the gap between actual ODA spending and the target means that the target cannot serve as a meaningful tool in planning medium-term allocations. New Zealand might therefore wish to consider drawing on the experience of other DAC members, which suggests that progress on ODA volume is most likely to be achieved through setting a firm medium-term ODA/GNI target. This would need to be set at a realistic level, taking into account New Zealand's budgetary outlook and growth prospects. The expenditure path towards the target would also need to take into account the need to ensure adequate staff resources to manage an expanding programme.

New Zealand's official response to the post-tsunami relief and reconstruction efforts for Indian Ocean countries amounts to NZD 68 million (about USD 48 million). This is the largest ever response to an international relief and reconstruction programme and consists of the following components: 29% for UN relief efforts; 29% for NZAID's bilateral programme in Indonesia to be spent over the next five years to support relief and reconstruction work in Sumatra (representing an increase in annual ODA allocations of close to 50%); 28% for New Zealand NGOs; 7% for other government

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4. In constant 2002 prices and exchange rates.

5. New Zealand has been one of the fastest growing economies within the OECD with an average annual growth rate of 3.6% between 1992 and 2002 (OECD, 2003).

departments such as the police; and 6% to meet specific requests such as those from the Commonwealth and the Red Cross. New Zealand's generous response will, however, not affect New Zealand ODA in the long term since three-quarters of the funds are to be spent in 2005 as a one-off appropriation of additional funding to the existing annual ODA budget.

### ***The introduction of multi-year appropriation for ODA budget***

New Zealand's ODA has its own budget vote which is managed separately from the wider MFAT budget. The ODA vote provides funding for most of New Zealand's bilateral and multilateral activities (including New Zealand's contributions to international financial institutions). It consists of two components linked to NZAID programming and administrative budgets respectively. ODA reportable expenditures by other government agencies represented 12% of ODA in 2003.<sup>6</sup> During the financial year 2003-04, a multi-year appropriation for NZAID's funding was introduced on a trial basis. This is a welcome improvement since it provides the agency with a three-year planning horizon which enables it to provide more predictable and long-term commitments on aid flows to partner countries, in line with the *2005 Paris Declaration on Aid Effectiveness*. The rolling-over principle is also a significant advantage as it allows funds to remain earmarked for the activities for which they were intended even in case of delay in expenditure.

### **Bilateral assistance**

While more a practice than a firm policy position, New Zealand typically provides approximately three-quarters of its ODA bilaterally, which is broadly in line with the DAC average (as well as that of DAC members which are not European Union [EU] Member States). The bilateral share of New Zealand's ODA reached 78% in 2003 mainly because of the importance of its response to the crisis in Iraq.

New Zealand's ODA has always been provided in the form of grants. Until 2000, New Zealand did not have an export credit agency and therefore is not a current creditor country. New Zealand nevertheless participates in the discussions related to the Initiative for heavily indebted poor countries (HIPC) and contributes to the HIPC Trust Fund. It is also engaged in the international debate about debt sustainability for developing countries and non-HIPCs, such as post-conflict countries and low income countries under stress.

### ***The growing importance of humanitarian assistance***

The importance of emergency and disaster relief has increased from a level of 3% in 1999 to 10% in 2003 of New Zealand's bilateral ODA, compared to the DAC average of 7% (see Table C.2). Part of this increase can be explained by the costs of refugees during their first year in New Zealand, which have been reported to the DAC since 2002.<sup>7</sup> During the financial year 2003-04, NZAID established the multi-year Complex Emergencies Facility of NZD 10 million per year (about USD 5.5 million) to support reconstruction efforts in Afghanistan and Iraq. This assistance was channelled through United Nations agencies, the International Committee of the Red Cross (ICRC) and New Zealand NGOs and New Zealand Defence Force. The importance of emergency and disaster

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6. They included: expenditure on disaster relief and reconstruction by New Zealand Defence Force (5% of total ODA); first year refugee costs (4.5%); and contributions to various international organisations (2.5%).

7. These costs amounted to USD 8 million in 2003, about 60% of emergency assistance.

relief as a share of total ODA is likely to further increase, at least in 2005, because of the post-tsunami relief and reconstruction efforts for Indian Ocean countries (see above).

### *New Zealand NGOs*

DAC statistics (see Table C.2) indicate that ODA channelled to and through NGOs has been increasing and amounted to USD 10 million in 2003 (8% of total ODA). Support to NGOs includes the Voluntary Agencies Support Scheme (VASS), the largest co-funding scheme for the work of New Zealand NGOs supporting community development activities through in-country partners. It also includes core-funding provided to four major New Zealand NGOs and the International Development Advisory Committee (IDAC) on the basis of multi-year strategic relationship agreements. (See Chapter 5 for the relations between NZAID and NGOs). The amount reported to the DAC as support to NGOs underestimates the total funding channelled through New Zealand, international and partner countries' NGOs. NZAID estimates that overall 14% of ODA is channelled through NGOs when taking into account the various NGO funding windows available within bilateral, regional and humanitarian programmes.

### *Geographic distribution - enhancing focus remains a challenge*

New Zealand aims to focus its aid on a limited number of countries and works with 19 core bilateral partner countries (see Table 1 below) located primarily on the Pacific and in South-East Asia. The previous DAC peer review had raised concerns about the relatively large number of partner countries and the resulting degree of dispersion of the programme. When establishing NZAID, Cabinet implicitly endorsed these concerns, which had been echoed by the 2001 ministerial review. NZAID was therefore mandated to assess the degree of dispersion of the programme. The internal review process resulted in 2002 with the validation of 20 core bilateral partner countries (see Table 1 below) - reduced to 19 countries in the meantime<sup>8</sup> - leaving their total number unchanged. Core bilateral partner countries are defined as countries in which there is a government-to-government programme determined by a jointly agreed country strategy and a three-year commitment of at least NZD 1 million per year. NZAID is currently reconsidering its definition of core bilateral partners with a view to making a clearer distinction between a first tier of in-depth engagements (reflected in the share of budget and management resources) with a more limited number of countries and a second tier of country programmes (with a smaller share of budget and management resources). In addition to core bilateral partner countries, NZAID is engaged in a number of other countries through its regional programmes for South Asia (with focus on Nepal and Sri Lanka), Africa (with focus on Zimbabwe, Zambia, Mozambique, Tanzania and Kenya) and Latin America (including Central America countries, Bolivia, Ecuador, Peru, Ecuador, Brazil and the Southern Cone – predominantly Chile and Argentina but including Uruguay and Paraguay for specific activities). Programmes in these three regions rely on multilateral, regional and NGO delivery mechanisms.

New Zealand's stated geographic focus on the Pacific does not specify a desired target in terms of ODA volume or share. In 2003, 52% of bilateral ODA went to Oceania (see Table C.3). ODA to this region has continued to decrease between 1999 and 2003 both in volume terms (from USD 45 to 41 million) and as a share of total bilateral ODA (from 64% to 52%) – a share that used to be as high as 75% in the mid-1990s. Asia was the second highest recipient region, fluctuating between 24% and 29% during the period 1999-2003. Reconstruction assistance to Iraq (the 3<sup>rd</sup> most important recipient in 2002-03) under the Complex Emergencies Facility accounts for an increase in bilateral aid to the Middle East from 0% to 10%. The balance went to Africa (11%) and to America (3%).

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8. Thailand has graduated from a core bilateral relationship. The bilateral country programme in China is under review.

In terms of recipients' income level, the distribution of bilateral ODA is more or less similar to total DAC average (see Table C.3) and has been quite stable over the past five years. Although a number of New Zealand's core bilateral partner countries in the Pacific and in Asia belong to the categories of least developed countries (LDCs) and other low income countries, several core bilateral partner countries are in the middle income countries category. This explains the relatively high share of ODA to lower-middle income countries, which has increased from 35% to 39% between 1999 and 2003 because of the important support to Iraq.

**Table 1. New Zealand's 19 core bilateral partner countries**

	Pacific	Asia	Africa	Share of bilateral ODA (in 2003)
<b>Least-developed</b>	Kiribati Samoa Solomon Islands Tuvalu Vanuatu	Cambodia Laos Timor-Leste		37%
<b>Other low income</b>	Papua New Guinea	Indonesia Vietnam		18%
<b>Lower middle income</b>	Fiji Niue Tokelau Tonga	China Philippines	South Africa	39%
<b>Upper middle income</b>	Cook Islands			5%

Statistics indicate signs of growing dispersion (see Table C.4) although most of the core bilateral partner countries are among the main recipients of bilateral ODA. The share of bilateral aid directed to the 20 largest recipients has declined from 96% in 1992-93 to 86% in 1997-98 and 79% in 2002-03. In parallel, the total number of recipients has increased from 66 countries in 1992-93 to 92 in 1997-98 and 100 in 2002-03. The bulk of funds directed outside core bilateral programmes come from NZAID's increased humanitarian programmes and co-funding to NGOs. Although the majority of the other 80 recipients benefit from very small ODA amounts,<sup>9</sup> there is an opportunity cost in having such a large number of countries where funds are disbursed on discrete activities rather than being channelled through bilateral country programmes in support of country-led poverty reduction strategies. NZAID is examining to what extent, and in which cases, specific funding windows should be aligned to NZAID's core bilateral priorities, including in the context of the current reviews of the Asia Development Assistance Facility (see Chapter 3) and of the Head of Mission Funds (managed by diplomatic missions in countries with accreditation to New Zealand).

Another question that can be raised is whether NZAID has the capacity to ensure an adequate strategic management of programmes in 19 core bilateral partner countries and bring a meaningful contribution. There appear to be opportunity costs for both New Zealand and its partners. If New Zealand was focusing on fewer countries, it would be able to have more significant country programmes. This would enable NZAID to reach the critical mass necessary to justify increased country presence and intensify its participation in country-led policy dialogue and donor co-ordinated efforts. From the perspective of partner countries, more and more developing countries indicate a preference to deal with fewer donors through joint programming and implementation at least on a sector basis, in order to reduce transaction costs.

9. About half of those countries benefit from contributions of less than USD 0.1 million per year while 30% of them get contributions comprised between USD 0.1 and 0.5 million and the remainder 20% between USD 0.5 and 1 million.

There would be value in further reviewing New Zealand’s approach outside the Pacific where it is not a significant donor to any country. The low level of allocations to South east Asian countries in particular has to be seen alongside New Zealand’s stated aim in its Asia strategy of focusing on fewer, deeper and longer-term partnerships. Although NZAID intends to focus on sustainable rural livelihoods (with complementary programmes in health, education, trade and governance), such an approach can involve a broad range of development initiatives in a variety of sectors from agricultural development to eco tourism. Even if niche contributions can be identified, the question of the value-added of small contributions<sup>10</sup> needs to be considered in the context of joint efforts by the donor community and partner countries to make progress on the agenda of alignment and harmonisation. In fact, there is internationally growing recognition that the multiplicity and diversity of donors, each with its own programmes, projects and procedures, are leading to high transaction costs - owing for example to the numerous analyses, negotiations, agreements and reporting requirements - and create a substantial management and administrative burden on partners.

### *Sector distribution – a clear priority for education*

New Zealand’s strong support for “social infrastructure and services” (see Table C.5) provides an indication of the poverty reduction focus of its ODA. This sector absorbed nearly half of New Zealand’s bilateral sector allocable ODA in 2002-03, compared to the DAC average of less than one-third. Education remains the most important sector supported through New Zealand’s development co-operation programme (26% of bilateral ODA in 2002-03) despite a decrease from a level of 45% in 1998. Other significant sectors for the New Zealand aid programme in this category are “government and civil society” (9% of bilateral ODA in 2002-03) and health (5%).

Following Cabinet’s request in 2001 to give greater prominence to basic education needs, NZAID has adopted a new education policy (see Chapter 3). According to DAC statistics, New Zealand’s support to basic education has increased from 5.1% in 1999 to 11.4% in 2003 of total bilateral ODA to the education sector (see Table 2 below). This share reached 30% in 2004, as sector approaches to education come on stream as in Solomon Islands. This is in line with NZAID’s education policy which states that “NZAID works towards ensuring that the share of its education expenditures devoted to basic education is not less than 50%”. Despite this clear trend in favour of basic education, aid to post-secondary education, mostly in the form of scholarships, remains the single most important category with more than two-thirds of total education sector disbursements.

**Table 2. ODA disbursements in the education sector**

	1999	2000	2001	2002	2003
<b>Total bilateral ODA to Education, USD million</b>	35.5	27.2	28.2	26.3	30.8
of which (in %):					
<b>Basic Education</b>	5.1	5.4	7.4	9.4	11.4
<b>Secondary Education</b>	6.0	8.1	15.7	7.8	12.3
<b>Post-Secondary Education</b>	87.0	85.1	74.0	76.0	67.4
<b>Education, Level Unspecified</b>	1.9	1.4	2.8	6.9	8.9

10. With the exception of Indonesia, contributions to core bilateral countries in south east Asia amounted to USD 2 million spread over six sectors on average.

## Multilateral assistance

### *A modest contribution to international agencies*

New Zealand recognizes the importance of engaging with multilateral organisations because of their contribution to the global debate about development assistance, their norm setting functions, their regulatory roles and their expertise on development issues. New Zealand's multilateral engagement<sup>11</sup> is seen as complementing NZAID's geographical coverage by extending its reach in the global arena. New Zealand's support is also important because of the critical role of the multilateral system in achieving the MDGs. It also provides an opportunity for New Zealand to participate in global debates on development issues and in efforts of the international community towards a strengthened response to challenges that transcend national boundaries.

Yet the political constituency for multilateral organisations remains low and would not necessarily support an increase in multilateral assistance if such an opportunity was created through ODA growth.<sup>12</sup> Between 1999 and 2003, multilateral ODA has slightly decreased both in volume and as a share of total ODA (see Table C.2). On average, about a quarter of New Zealand's ODA has been disbursed multilaterally. Co-operation with international agencies is more important (about a third of total ODA) if bilateral ODA in the form of multi-bilateral contributions (co-financing of projects of international organisations) is taken into account. Reviewing the balance between the bilateral and multilateral channels will be necessary if the prospect of sustained ODA increase materialises in the near future.

Multilateral ODA is equally distributed between UN agencies and international finance institutions (see Table C.2). There is an increasing trend in favour of UN agencies (a rise from 7% to 9% of total ODA from 1999 to 2003) in comparison with the World Bank Group (a decline from 6% to 4%) and regional development banks (a decline from 4% to 3%) - the Asian Development Bank being the only regional development bank of which New Zealand is a member. New Zealand is in favour of increasing core funding to UN agencies, which is different from the wide-spread practice among many DAC members of earmarking contributions for particular activities. It is also committed to multi-year contributions to UN agencies where possible in order to provide them with budgeting security.

New Zealand's multilateral relationships are not managed exclusively by NZAID. Some UN organisations<sup>13</sup> fall under the responsibility of other ministries. Treasury is responsible for shareholding interests in international finance institutions with NZAID taking the lead for development issues. For instance, while Treasury has overall responsibility for the World Bank and AsDB, NZAID is responsible for leading the International Development Association (IDA) and the Asian Development Fund replenishment negotiations. From 2003 to 2005, New Zealand has held an executive director position at the World Bank representing its constituency. This has led to increased

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11. Under NZAID's terminology, multilateral aid also includes its engagement with some international voluntary agencies such as the Population Council and the International Planned Parenthood Federation and ICRC. These contributions are however not recorded as multilateral in DAC statistics but as contributions to NGOs under "other (bilateral) grants" (See table C.2).

12. The tsunami event may have increased the public's appreciation of the importance of multilateral institutions and its readiness to support them.

13. These include among others: Food and Agriculture Organisation (FAO), International Labour Organisation (ILO), UN Drug Control Programme (UNDCP), UN Educational, Scientific and Cultural Organisation (UNESCO) and World Health Organisation (WHO).

engagement involving intensive team work between NZAID and Treasury. The two institutions are also engaged together with NGOs in a working group on debt.

### *Towards a more strategically selective and active engagement*

The previous DAC peer review noted that New Zealand's multilateral assistance was covering some 40 organisations, in some cases with quite modest contributions. The 2001 ministerial review also noted the dispersion of New Zealand multilateral assistance and the lack of clarity in informing the allocation criteria to the various organisations which were mainly historically driven.

Increased multilateral focus was also part of the Cabinet's decision in 2001 that led to the creation of NZAID. The Multilateral and Regional Agency Assessment Framework (MARAAF) has been developed to this end. This is an evaluative framework used for advising ministers on the level of contributions to regional and multilateral organisations on the basis of NZAID's guiding principles and sectoral priorities, New Zealand's national priorities and interests, and other donors' and partners' views of the agency. The assessment process takes into account the efficiency and effectiveness of the organisations under consideration. The review process involves a desk study and consultation with the agency being reviewed. NZAID also draws considerably on existing multi-donor assessments of multilateral performance when conducting its own assessments. Each agency receiving NZAID funding is to be assessed on a regular basis as part of a planned three-yearly rolling schedule with results feeding into the NZAID funding allocation process. A formal review process is already under way to determine whether the MARAAF is meeting its stated objectives on the basis of the first ten agency reviews completed, with consultation also underway with like-minded donors on multilateral assessment good practice.

To date, the MARAAF process has resulted in New Zealand withdrawing from a number of agencies and programmes and reprioritising its engagement with several other organisations. For example, New Zealand has ceased to fund some trust funds with the World Bank and the International Finance Corporation (IFC). In 2003, NZAID has suspended funding to the International Fund for Agricultural Development (IFAD) because of serious concerns about internal governance and relevance to the Pacific. As a result of the MARAAF process, NZAID has been able to increase core funding to the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) and has started to provide core funding to UNAIDS.

Building on the MARAAF process, a multilateral engagement strategy is under preparation. While the MARAAF is enabling New Zealand to review the number of agencies it supports, the purpose of the strategy is to establish priorities among agencies and issues. Because of limited organisational capacity, NZAID intends to focus on issues where it can bring value-added. NZAID is trying to be more active in the decision-making process of international organisations and selectively to increase their interest for and the quality of their involvement in the Pacific. NZAID has placed priority on strengthening links between its engagements at national, regional and global levels, with a particular view to ensuring that the field performance of international agencies can be reflected through New Zealand's participation in global forums and decision-making processes of those agencies. This is especially important in NZAID country programmes outside the Pacific where international agencies often provide the primary delivery mechanism for New Zealand ODA. New Zealand's NGOs are also encouraged by NZAID to provide field-based feedback to inform New Zealand's role within global agencies. In finalising its strategy, it will be important for NZAID to include organisations for which it does not have responsibility but which play a key role in promoting the MDGs (e.g. WHO or UNESCO). Finally, NZAID should consider how greater political support can be built, including through its communication strategy.

## Considerations for the future

- To make their commitment to the UN target of 0.7% credible, New Zealand authorities should set a realistic medium-term target which clearly establishes a path towards reaching an ODA/GNI ratio of 0.7%.
- Given New Zealand's commitment to aid effectiveness, NZAID should reassess the number of its core bilateral partner countries. NZAID should maintain its focus on the Pacific where it has demonstrated that it can be most effective. The agency should also consider how to deepen its engagement in fewer core bilateral countries in Asia so as to participate in a more meaningful way in donor co-ordination and harmonisation efforts, therefore contributing to decreasing the aid management burden for partner countries.
- In line with its commitment to devote half of its education support to basic education, NZAID is encouraged to maintain the focus on basic education and increase aid allocations significantly for this purpose.
- The New Zealand government should reflect on the decline of core funding to multilateral agencies. Given the intention of engaging more actively with selected international organisations, the New Zealand government is encouraged to consider the strategic value of increased support for multilateral organisations in the finalisation process of NZAID's multilateral strategy.

## CHAPTER 3

### SELECTED KEY ISSUES

This chapter covers three issues of high priority and special importance for New Zealand's development co-operation programme. These are: i) poverty reduction, a key priority for NZAID; ii) NZAID's approach to education, which is going through a major transformation; and iii) engagement in fragile states, an important aspect of New Zealand's aid programme and of growing political importance and public visibility given the situation prevailing in the Pacific.

#### **Poverty reduction**

##### *A major reorientation*

When it established NZAID in 2001 with poverty elimination as its central focus, the government of New Zealand unequivocally demonstrated its commitment to reducing poverty in developing countries. New Zealand's approach is presented in NZAID's overarching policy statement entitled *Towards a safe and just world free of poverty* and other subsequent policy documents and strategies. The stronger focus on poverty reduction constitutes a major departure from the situation prevailing at the time of the previous DAC peer review. The DAC had noted that despite an explicit commitment to poverty reduction in its overall policy framework of the time, *Investing in a Common Future*, pursuing multiple objectives could run the risk of compromising the poverty reduction objective. For example, while two-thirds of bilateral ODA was supporting social infrastructure and services, this was mostly directed to secondary and tertiary education for students from developing countries studying in New Zealand. The DAC recommended that New Zealand sharpen the programme's focus by making poverty reduction a clearer objective of its development programme. In particular, it was felt that more policy guidance was needed on what the relative priorities should be in regard to the approach in the education sector.

Poverty is multidimensional and NZAID recognises that reducing poverty is complex and challenging. Distinction is made between: i) extreme poverty (where basic needs cannot be met); ii) poverty of opportunity (where individuals and communities have limited skills, opportunities or infrastructure to improve their own lives); and iii) vulnerability to poverty (where individuals, communities and countries are vulnerable to circumstances which can damage their livelihoods or ability to meet basic needs). NZAID is committed to support activities that contribute to poverty elimination at many levels - from working with civil society and communities at grass roots, to support the development of national, regional and international policy frameworks. In its view, an effective approach requires both direct and indirect assistance. The purpose of direct assistance is to empower communities and individuals to improve their lives with activities aiming to address basic needs (education, health and sustainable livelihoods). Indirect assistance aims to create and sustain social, cultural, environmental and economic conditions conducive to the elimination of poverty and include a range of activities that address governance issues and promote economic development. An additional dimension of assistance is to reduce vulnerability to poverty resulting from conflict, poor governance and environmental disasters; this is to be achieved through peace building and conflict prevention and humanitarian support.

In formulating its policies and implementation strategies, NZAID is keen to ensure that its activities take account of their likely contribution to reducing poverty and to achieving the MDGs. The principles of partnership and co-ordination, focused on locally owned development strategies, are now at the core of New Zealand's relationship with developing country partners. This has led to a major shift in aid implementation modalities. While at the time of the previous DAC peer review most implementation rested on a system involving management service consultants, NZAID is now increasingly trying to promote donor support for partner country-led national development strategies and programmatic approaches to aid delivery, including sector-wide type of approaches (see Chapter 6).

### *Promoting economic growth and sustainable livelihoods*

Stepping up support for economic development in the Pacific has been identified by NZAID as a key challenge for the future. In line with the approach currently being developed in the DAC Network on Poverty Reduction (POVNET) on accelerating pro-poor growth, NZAID recognises that a robust and vibrant private sector is vital for an improved quality of life in its partner countries and is a necessary condition for reducing poverty sustainably. Pacific Island countries face a number of specific constraints due to small market size, remoteness and vulnerability to natural disasters. The challenge is to address these and other more general constraints and create an enabling environment for private sector activity through policy and institutional reforms that result in greater opportunities for poor men and women to participate in the growth process, as consumers, workers and entrepreneurs.

NZAID considers that growth is important for poverty reduction but that it is necessary to see this translated into benefits for poor people rather than just economies. NZAID is in the process of developing a growth and livelihoods policy that will cover micro- as well as macro-level objectives and activities and which recognises the importance of other non-economic considerations. Such an approach is holistic and people-centered and entails a vulnerability dimension. The policy will encompass economic growth, private sector development, food security and trade (including the present trade and development policy, see Chapter 4). NZAID has yet to decide whether it should focus its activities at the community level, on government policy and delivery or on the private sector itself. NZAID should be alert to the risk that too much of a micro-focus could lead to support for a wide range of distinct activities, in contradiction with the agency's overall commitment to more programmatic approaches in aid delivery. In addition, NZAID will also need to consider how it can best contribute to the promotion of policy and especially institutional reforms conducive to private sector development. Such reforms can touch on issues of political economy and require a sensitive and long-term engagement, with donors facilitating a continuous process of consultation, ideally within the framework of partner country-led poverty reduction strategies, between state, private sector and civil society stakeholders. Finally, recent DAC work stresses the importance of donors focusing on catalysing the development of markets, intervening pre- and post-delivery to ensure that the sustainability of interventions will be driven by market forces.

One example of New Zealand's direct support to private sector development has been through the Asia Development Assistance Facility (ADAF). Its goal is to contribute to poverty reduction in Asia by fostering private and institutional partnerships that respond to development needs and initiatives in partner countries and build local capacity and self-reliance. Funding is provided to development initiatives that are identified by in-country groups and their New Zealand partners, which can be individuals, consultants, firms or organisations. Proposals are increasingly linked to broader investment projects (e.g. a feasibility study in view of a World Bank funded road safety project in Vietnam). All proposals must clearly state how the outcomes of the activities will result in poverty reduction and gender issues, and environmental protection and human rights have to be taken into account. ADAF has already been reviewed twice in the past to ensure a better integration between development objectives and commercial interests of New Zealand partners, and is currently undergoing another review.

### ***Promoting the MDGs***

When it decided to establish NZAID in 2001, the Cabinet specifically mandated the new agency to integrate the International Development Targets (IDTs) in its policies. New Zealand's commitment to the MDGs and the IDTs is embedded in its policy statement *Towards a safe and just world free of poverty*. This commitment is in turn reflected in NZAID's strategies and policies which aim at working with partners and the international community to achieve the MDGs. Sectoral policies (notably for health and education) establish the link with the MDGs and are to be complemented by strategies that detail more specifically how sectoral policies will be operationalised. With NZAID's involvement in sector wide type of support, the MDGs are increasingly used as a basis for targeting assistance and measuring effectiveness. Whether, when and how New Zealand may be able to respond to the growing international consensus that additional ODA is required in order to support the achievement of the MDGs are questions that remain to be answered (see Chapter 2).

The lack of reliable, comparable and consistent data has so far prevented a good overview of the MDG situation in the Pacific, but progress appears to be mixed (see Box 3 in Chapter 1). NZAID provides support to various initiatives aiming at developing the necessary analysis for a better understanding of the challenges in achieving the MDGs in the Pacific and to put in place systems to monitor progress. New Zealand contributes to strengthening data collection and tracking systems through its involvement in sector approaches in a number of countries in the region. NZAID participates in a co-ordinated regional approach to poverty analysis in which AsDB has taken the lead. The resulting Pacific Regional Poverty Programme is a multi-donor initiative which aims at building capacity for poverty analysis and pro-poor planning and budgeting. The programme is located in the Secretariat of the Pacific Community, a regional development organisation with a technical advisory, training and research mandate. NZAID has provided funding for consultants from the Pacific to join the AsDB team responsible for designing the programme and to make it a regional capacity strengthening process.

### **NZAID's support to the education sector**

The biggest shift in approach following NZAID's policy overhaul can be seen in the education sector. This was singled out by Cabinet in 2001 as an area needing a new policy that would give greater prominence to basic education needs.

Education has historically accounted for about-one third of New Zealand's total annual bilateral ODA and hence has been the single biggest sector of its ODA. Support to basic education has been low because of the importance of support to tertiary education notably through scholarship schemes. Both the last DAC peer review in 2000 and the ministerial review of New Zealand ODA in 2001 recommended placing increased emphasis on the primary and secondary levels of education, where the greatest social and economic benefits could be realised.

### ***A reorientation in favour of education systems in partner countries***

NZAID's education policy *Achieving Education for All* provides for focus on both basic and tertiary education in partner countries with particular emphasis on achieving gender equality in education by 2015. While post-basic and tertiary education will remain one of the two priorities in the programme, NZAID has committed to devote 50% of its education expenditure to basic education (without specifying a time-frame for reaching this target). More importantly, NZAID's education policy gives priority to development aspects in the education sector. NZAID's rationale for giving priority to education is now based on the following principles: i) education is a human right; ii) education is an end in itself; iii) the international community has a collective commitment to ensuring human rights and achieving the *Education for All* goal; and iv) education contributes to

poverty elimination, effective governance and leadership and the achievement of other development goals. This is in contrast with New Zealand's previous education policy that stated that "the broad rationale for assistance for education and training is grounded in foreign policy and in New Zealand's wish to establish co-operative bilateral and regional relationships" (MFAT, 1993).

The most important and recent change in the design of New Zealand educational support has been a shift towards providing broad financial aid to the education sector as a whole within the framework of sector wide approaches (SWAp).<sup>14</sup> The new education policy states that "where a core bilateral partner country has a strong and credible education strategy aimed at increasing access and improving quality, but lacks the resources to implement this, NZAID moves towards direct support for the plan through providing financial support, technical assistance, scholarships and training, preferably within the framework of a SWAp". The move towards SWAps reflects the recognition that sectoral programmes can address problems in education caused by a shortage of financial resources and provide effective support to policy reform. NZAID is currently implementing the first education SWAp in Solomon Islands (see Box 12 in Chapter 6). With total funding of NZD 33 million over the next three years (about USD 20 million), it is the largest commitment ever for New Zealand's development co-operation. In Tonga, Kiribati and the Cook Islands, which do not yet have a fully developed education plan in place, NZAID is helping prepare the ground for potential SWAps. NZAID is also exploring engagement in education SWAps in Vietnam and Timor Leste.

NZAID contributes to Pacific education at the regional level. The Pacific Regional Initiative for the Delivery of Basic Education (PRIDE) is an interesting example in this regard. PRIDE seeks to enhance the capacity of Pacific education agencies to effectively plan and deliver quality basic education within the context of the *Pacific Islands Forum Basic Education Action Plan*. Within this context, PRIDE aims to improve the co-ordination of donor support to assist countries implement their plans through sector-wide type of approaches. It is implemented by the University of the South Pacific and funded by New Zealand and the European Commission (EC). The first phase of the initiative, launched in 2004, will assist countries with strategic planning and information systems, through analysis of current status and assessment of country needs. A second phase will involve funding of national and regional projects. NZAID also supports the University of the South Pacific and the South Pacific Board of Educational Assessment. NZAID has continued to support the multi-year *Rethinking Pacific Education Initiative*, which aims at promoting leadership for education in Pacific Islands countries. Furthermore, NZAID participates in the Pacific Islands Forum Ministers of Education Meetings and associated events in partnership with New Zealand's Ministry of Education.

### *Towards more effective scholarships*

Scholarships are granted to students mostly from countries in Asia and the Pacific, but also from Latin America and Africa, for education in New Zealand or their own countries' universities or in regional institutions. According to NZAID, scholarships accounted for approximately 80% of total ODA expenditure on education and about 30% of total bilateral ODA over the past two decades. The volume of ODA spent on New Zealand scholarship awards has decreased in recent years while there has been an increase in the number of regional awards, which is in line with NZAID's new education policy.<sup>15</sup>

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14. A sector-wide approach consists of focusing on a sector as a whole for policy, expenditure planning and donor co-ordination under government leadership. The resulting sector programme includes: an approved sector strategy, a medium-term expenditure framework and government systems and processes for donor co-ordination, including for audit, monitoring and evaluation reports.
  15. The total expenditure on scholarships has declined by 39% from NZD 55.8 million in 1999-2000 to NZD 34.2 million in 2003-04.

An overall success rating for scholarship schemes is difficult to establish because the objectives of the various schemes have been too general to enable a sound judgement. A number of criticisms and recommendations on scholarships were expressed during the 2001 ministerial review (see Box 4), which are supported by the findings from a recent tracer study commissioned by NZAID. Main lessons learnt over the past two decades have been taken into consideration in implementing NZAID's education policy. Firstly, scholarships need to be integrated more effectively with country programme strategies, local labour markets and human resource development needs. Secondly, the in-country or regional training programmes and scholarships have proven to be a more cost-effective and efficient approach than study in New Zealand in terms of programme completion and student return rates. Thirdly, simplification of procedures, harmonisation with other development partners and alignment of NZAID's support with partner government efforts is important in order to reduce transaction costs and increase the effectiveness of this kind of assistance.

#### **Box 4. Scholarships and awards funded by New Zealand ODA – main lessons learnt**

Stakeholders during the 2001 ministerial review process raised the following issues on New Zealand's work in the education sector, in particular on the scholarship schemes:

- Foreign policy is the main driver behind scholarship provision. The linkage of educational assistance to a development agenda needs to be strengthened.
- Greater emphasis should be placed on regional and in-country training and tertiary assistance.
- There are significant equity issues surrounding the provision of scholarships both in New Zealand and regionally as tertiary education most often benefits the elites.
- Responding to partner country requests has often been cited as the rationale for scholarship schemes. Although this is an important consideration, decisions should be based on a range of factors, including analysis of who benefits and how, and linkages to equitable and productive ODA.
- If scholarships are intended to meet specific development needs, targeting should rely on accurate national planning, human resource development and labor market analyses, which are often not available.
- Poor completion rates and failure of students to return to their home countries is a significant problem.
- The measurement of outcomes or value added from scholarships is difficult as no goals were set for individual awards. Only a few tracer studies have been undertaken over the past ten years.

The ministerial review recommended that all future education and training assistance, including scholarships, provided by NZAID should be placed in the context of country based poverty analysis and country programme strategies which holistically examine educational needs. A strategy for measuring benefits should be developed.

In the meantime, NZAID commissioned a study (Davenport and Low, 2004) to explore the issue of development impact of scholarships and awards involving 1374 persons in four countries (the Cook Islands, Samoa, Tonga and Vanuatu) from 1990 to 1999. The findings of the case studies indicated that 72% of tertiary level scholarship and award holders completed their programme of study. Unsuccessful completion was increasing the cost of each successful completion. Low rates of return of scholarship students in some countries further eroded the cost effectiveness of the programme: Vanuatu had the highest proportion of students known to have returned (86%); and Tonga the lowest proportion (56%). Interviews were conducted with a sample of 124 respondents; the majority of them, now in full time, paid employment, gave a high rating of the usefulness of skills learnt through New Zealand's ODA-funded study for their professional and civic life.

As part of the recommendations from the study, NZAID was advised to establish regular and systematic assessment, monitoring and evaluation procedures for each of the remaining scholarship and award schemes. Also, in order to meet the human resource development needs in partner countries, best practices should be identified in the alignment of human resources needs and scholarships/award programmes.

Until recently there were seven scholarship and award schemes supported by NZAID. Three have been, or are being, closed or wound down because of their unsatisfactory performance or decreased relevance to current, targeted development outcomes; one of these schemes had a combined non-completion and failure rate of over 50%. NZAID is moving from the former more numerous schemes to one main scheme comprising New Zealand Development Scholarships (New Zealand-based and accessible via bilateral or open application channels) and New Zealand Regional Development Scholarships (regionally-based). A high degree of alignment between advertisement and selection processes and conditions has been agreed with the Australian Agency for International Development (AusAID). Once fully implemented in 2006, this will permit AusAID and NZAID to run a single application and selection process in partner countries. No pooled funding has been considered yet, except for regional awards in some countries. The other main schemes which NZAID will continue to support are Commonwealth Scholarships and Short Term Training Awards.

### **New Zealand's approach in fragile states**

Peace and security are fundamental to meeting basic needs and sustainable and equitable development in New Zealand's partner countries. However, conflicts and instability have emerged in the Pacific in a number of these states: civil war in Bougainville (Papua New Guinea), the collapse of effective governance in Solomon Islands, coups in Fiji and signs of growing instability in Vanuatu. While conflicts have multiple causes, they are deeply-rooted in, and perpetuate, poverty and economic stagnation, inequality and poor governance. In many cases, conflicts highlight a poor fit between forms of governance inherited from former colonial powers and traditional systems.

NZAID's overarching operating principles as stated in *Towards a safe and just world free of poverty* highlight core elements of conflict prevention and peace-building work in fragile states. These include: supporting governance and respect for human rights; addressing gender issues, and encouraging participation of all relevant groups within a society; improving basic social services; and promoting economic development. NZAID assists partners to address grievances and support local capacities for conflict prevention, mediation and resolution, through the following means: developing leadership, valuing women, educating young people, preventing HIV/AIDS, informing communities, and strengthening law and justice. The importance of co-ordination, both within New Zealand and amongst other donors, international organisations, and civil society, as well as the accountability of NZAID for its action, is underlined.

NZAID has developed a policy *Building Peace and Preventing Conflict*, which was launched at the end of 2004. This recognises that the underlying causes of conflict need to be carefully addressed and that preventative measures are far less costly, in human and economic terms, than addressing conflict through military intervention and post-conflict rehabilitation. NZAID's long-term development commitment seeks to prevent conflict by helping its partners build structural stability in their societies. A forthcoming challenge will be the development of operational guidelines to implement this policy. Separate operational guidelines address NZAID's response to complex emergencies and disaster relief.

### ***Addressing development effectiveness in fragile states***

There is growing recognition that the over-simple concept of "failed states" could be misleading as a guide to state building. Many of the so-called failing states could hardly be regarded as functioning states even before the emergence of a crisis. Such a shift in thinking has major implications for the approach to adopt and the time-frame required in dealing with these countries. The question is not so much about state rebuilding that could possibly be achieved through massive support and expertise targeted on state structures. Rather the underlying causes of conflict need to be

carefully addressed, including the often dysfunctional character of relations between states and societies.

NZAID shares with other development agencies the objective of finding effective ways to remain engaged in countries where institutions and policies are weak, and where poverty reduction partnerships are difficult to establish. The basic challenges in fragile states are how to adapt the concepts of aid effectiveness models to different realities where preconditions for pursuing good practice do not exist, and how to build consensus among donors and the way to proceed.

A number of valuable lessons learnt are emerging from New Zealand's experience in the Pacific. The innovation in the Regional Assistance Mission to Solomon Islands (RAMSI) (see Box 5) is its comprehensiveness in addressing security, economic reform and delivery of services through a whole-of-government approach and close co-operation between members of the Pacific Islands Forum. However, the challenges continue to be significant given the extent of external involvement, both in terms of human and financial resources. There remains a risk of encouraging substitution rather than empowerment. In such a context, New Zealand can be commended for taking the lead in promoting local ownership through alignment and harmonisation in the education sector (see Chapter 6). This demonstrates NZAID's capacity to respond flexibly to conditions prevailing in developing countries while taking advantage of windows of opportunities, which is in line with best practice emerging from current DAC discussions on development effectiveness in fragile states.

#### ***A comprehensive approach to peace building and conflict prevention: the security and development perspectives***

New Zealand has adopted a pragmatic approach to peace building and conflict prevention in the Pacific and elsewhere. This has most visibly involved reactive engagement as exemplified by its participation in RAMSI. The challenge in implementing its peace building and conflict prevention policy will be how to achieve the same level of engagement in upstream conflict prevention activities as in conflict resolution and stabilisation.

There is no doubt that an intervention on the scale of the RAMSI was necessary to restore law and order after the conflict. At the same time, there are critical questions regarding the way forward and the sequencing and time-frame of continued support. It will be essential to address the real problems such as land ownership, unequal development and lack of economic opportunities and, particularly, trust in the government. Equally essential, and perhaps the most immediate challenge, is the need to build capacity and ensure national ownership of the reconstruction process. The sustainability of the successes to date in Solomon Islands will depend on firm progress towards these objectives.

In addition to the dynamic, multi-party and multi-sector engagement in RAMSI, New Zealand has benefited from lessons learned elsewhere in the Pacific. NZAID's experience from the 1988-97 civil war in Bougainville revealed the critical role that civil society can play in sustaining the peace process. Part of the success in Bougainville was made possible by support from communities (notably women's and church groups) and NZAID will continue to focus on community level. Together with AusAID, it will continue to provide support in the law and justice sector, as the province moves toward autonomy within Papua New Guinea. A key focus of its engagement has been the establishment of village courts aimed at reintroducing a legal system based on community ownership, while support for community policing, in collaboration with New Zealand police, will remain essential for longer-term stability. Recognising too the importance of action to support gender equality and the empowerment of women, NZAID is funding a partnership between OXFAM New Zealand and a local organisation that is engaged in combating family violence and promoting women's and children's rights.

### **Box 5. New Zealand's participation in the Regional Assistance Mission to Solomon Islands**

**Background.** In 2003 the Solomon Islands Government asked for regional assistance to help resolve the on-going consequences of an ethnic conflict that had begun in 1999. This conflict had its roots in a complex mix of development and ethnic issues but came to be expressed in intermittent conflict between groups of loosely aligned ethnic factions from two peoples of Solomon Islands - those from Malaita and those from Guadalcanal. Over time, these factions increasingly used their military power to threaten and raid the coffers of the state. As a result by 2003 the state had become weakened to the point at which it could no longer function.

Outside efforts to address the situation were first made through Commonwealth Secretariat mediation in 1999 and the deployment of a Multinational (Fiji and Vanuatu) Police Peace Monitoring Group. In 2000, following a partial peace settlement between the combatants an unarmed Australia/New Zealand "International Peace Monitoring Team" was established to monitor the settlement. While the immediate conflict between peoples from Malaita and Guadalcanal was settled down, inter-factional disputes arose and the factions turned their attention to raids on the Government's finances, backed up by their possession of high-powered weapons. The situation continued to fester and deteriorate with increasing impacts on the ability of the government to operate. The government, paralysed by fear, and compromised by its own connections and dependence upon certain of the armed groups, was reduced to rubber stamping outrageous claims for compensation from parties claiming to have been wronged. Police officers themselves often were involved in demanding huge sums of cash at gunpoint from a beleaguered Treasury. With a weak and divided government, which was essentially bankrupt, the prime minister wrote to the Australian prime minister to ask for assistance.

**The regional intervention.** Following extensive consultation in the region, Pacific Forum foreign ministers meeting in Sydney on 30 June 2003 agreed that the extent of the problems facing Solomon Islands called for a concerted regional response, as envisaged in the Biketawa Declaration,<sup>16</sup> and endorsed the provision of a package of strengthened assistance to Solomon Islands. Australian, New Zealand and Pacific Island police and troops arrived in the Solomon Islands in July 2003, as part of the Australian-led Regional RAMSI. The mission was debated in the Solomon Islands Parliament, and the Facilitation of International Assistance Act 2003 passed unanimously. The mission was subsequently endorsed by the UN Security Council. RAMSI is an interesting example of a regional approach to conflict management. Ten Pacific Islands Forum members contribute police and military personnel. Operations started with an intervention force, made up initially of 330 police officers (down to 246 at the end of 2004) and 1 800 military personnel (down to 100 at the end of 2004). RAMSI is designed as a comprehensive package of assistance with elements addressing law and justice, the effective operation of government and economic development. Given the long-term development issues at the heart of the conflict, RAMSI seeks to address not only the immediate law and order conflict-related issues but also to help create an on-going basis for peace. While restoration of law and order and stabilisation of the budget was the immediate priority, work began quickly on all three elements. In addition to police and military personnel around 80 officials drawn mainly from different departments of the Australian government, are working in the finance and justice sectors. Some of them are serving in line positions of the Solomon Islands government while others have an advisory capacity.

**Achievements.** Within a year of its launch, RAMSI could largely be considered as a success. Security had been restored and the military component had gradually been reduced. Key insurgents had been arrested and almost 4 000 small arms and light weapons had been collected and destroyed. Reconstruction of the national police service was under way. Justice and prison infrastructure had been significantly upgraded to support the restoration of the rule of law. In addition, significant gains had been made in stabilising government finances by introducing budget discipline, controlling expenditure, enhancing revenue collection and meeting financial obligations.

**Next steps.** By mid-2004, the operation entered a second phase which had to address the long-term aspects of state building. A major programme to reform the machinery of government has been launched, including the strengthening of key accountability institutions and the building of an efficient and effective public service. In this context, it is crucial to identify and manage ways to empower Solomon Islanders to build on initial successes and implement a comprehensive reform agenda. Donors, particularly Australia and New Zealand, have a crucial role to play in supporting the government to articulate strategies geared to development outcomes that rest on a sound participatory process involving civil society. The organisation of the second high-level meeting between the government and development partners in November 2004 is promising and should be seen as an incentive for donors to help in the consolidation of the National Economic Recovery Reform and Development Plan (2003-06) and align their aid effort with priorities identified in the plan.

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16. The Pacific Forum Biketawa Declaration agreed in 2000 that action would be taken "within the Pacific family" in times of crisis.

The integration of experience and expertise within the development and security communities is a core challenge for improving development co-operation and facilitating the planning and management of the transition from humanitarian and post-conflict situation to longer-term development. In this vein, New Zealand has taken steps to formalise a growing interaction between defence/police forces and NZAID.<sup>17</sup> With New Zealand's involvement in Afghanistan and Iraq, MFAT, NZAID and NGOs are fully involved in the briefing and training of personnel being sent overseas to ensure that collective experience and best practice are being shared and mainstreamed. In further developing its policy, NZAID should consider how it could integrate the co-operation with other departments involved in peace building and conflict prevention. As regards co-operation between NZAID and defence/police forces on security system reforms, a clear distinction between the institutional and governance aspects of security and those designed to strengthen operational capacities of security forces must underpin policy development and operational practice.

### **Considerations for the future**

- NZAID's approach to growth and livelihoods is promising but will require clearer focus. Promoting appropriate country-specific institutional and policy reforms is key for improving the enabling environment that will lead to more inclusive and sustainable growth patterns and will help partner countries' efforts to mobilise more domestic and foreign investment for development.
- The shift in the education sector, with increased focus on strengthening education policies and systems in partner countries is welcome. NZAID is encouraged to continue reviewing its scholarship schemes by increasing their development impact and cost-effectiveness.
- Remaining engaged in fragile countries is critical for the achievement of the MDGs and global security reasons. New Zealand's engagement in fragile states is commendable and highlights the importance of a whole-of-government approach and close co-ordination with other donors. New Zealand's experience deserves to be shared broadly to contribute to emerging international good practice in fragile states.

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17. Participation of police and defence is funded under their own budget votes. Expenditure such as that related to police capacity building is being counted as part of New Zealand's ODA in line with DAC reporting guidelines.

## CHAPTER 4

### POLICY COHERENCE FOR DEVELOPMENT

The OECD and its members recognise that sustainably reducing poverty in developing countries and achieving the MDGs will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues. When agreeing to the *Action for a Shared Development Agenda* in 2002, OECD members acknowledged the importance of industrialised countries giving increased attention to the impacts of their policies on developing countries. This built on previous DAC undertakings to elevate policy coherence for development as a general concern in government policies and to develop the necessary means for promoting it across government and within international forums.<sup>18</sup>

#### Examples of policy coherence

Enhancing policy coherence for development involves taking account of the needs and interests of developing countries in the evolution of the global economy. As for other DAC members, this can create challenges for New Zealand because specific issues involve domestic interest groups and government departments with primary interests and responsibilities other than that of reducing global poverty. The selection of examples below highlights the complexity of enhancing policy coherence as fundamental domestic interests can be touched upon. New Zealand worked hard to reform the farming sector two decades ago. Despite the total removal of subsidies in the mid-1980s, the sector has grown and is more dynamic than ever, a fact which indicates that conflicts of interests have to be assessed against short- and long-term perspectives.

#### *Trade*

##### *An active player in the world trading system*

With exports of goods and services equivalent to almost 35% of New Zealand's gross domestic product (GDP), trade policy is a fundamental component of the government's broader economic policies designed to promote sustainable economic growth. New Zealand is committed to removing barriers to trade and pursues trade liberalisation through multilateral, bilateral and regional initiatives. In the Pacific, economic and trade relations are complex because of the existence of a multiplicity of overlapping arrangements of different nature with varying membership and conflicting timelines (see Box 6).

The Doha Development Agenda is an important trade priority for the New Zealand government. There is a considerable overlap between the objectives of New Zealand and developing countries in the Doha Round. Against this background, the government is committed to advancing development issues as a key outcome of the round. New Zealand supports pro-development outcomes in areas such as improved market access and other ambitious reforms in agricultural policies, such as trade-distorting domestic support and export subsidies, special and differential treatment, capacity building

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18. In 1996, when adopting the *Shaping the 21<sup>st</sup> Century* strategy, DAC members collectively set out their aim to ensure that the entire range of relevant industrialised country policies are consistent with, and do not undermine, development objectives. *The DAC Guidelines: Poverty Reduction*, endorsed by the DAC in 2001, highlighted the importance of overall coherence between the policies of OECD member governments as a key factor influencing the effectiveness of development co-operation policies.

and negotiation of arrangements which take account of developing country priorities, capacity constraints, vulnerabilities and other national conditions. Recognising that many developing countries face special challenges in liberalising trade, New Zealand is in favour of targeted, transparent and minimally trade-distorting special and differential treatment in the implementation of agreements so that developing countries can follow their own pace of reform and the necessary gradual adjustment process. The provision of technical assistance and capacity building to enable developing countries to cope with the multilateral trade negotiations and to benefit from their outcome is an important component of NZAID's trade and development programme (see below).

#### **Box 6. A complex trade architecture in the Pacific**

The Pacific Agreement on Closer Economic Relations (PACER), which came into force in 2002, sets out the basis for the development of trade relations among the 16 member countries of the Pacific Islands Forum.<sup>1</sup> PACER provides for financial and technical assistance on trade facilitation and promotion, capacity building and structural adjustment. It gives assurance to New Zealand and Australia that they will not be disadvantaged in the markets of Forum Island countries as a result of free trade negotiations these countries might engage in with other trade partners, notably EU Member States.

The Pacific Island Countries Trade Agreement (PICTA), which came into force in 2003, provides for progressive liberalisation of trade in goods among the Forum Island countries.

The EU is an important player in the region as part of the 2000 Cotonou Agreement between the EU and Africa–Caribbean–Pacific (ACP) states. To retain access to EU markets, ACP countries will have to sign economic partnership agreements (EPA) with the EU by the end of 2007 that are compatible with WTO (World Trade Organisation) policies. Negotiations have been launched in 2004 between six Pacific Island countries and the European Commission for new trade preferential arrangements. According to PACER, such negotiations between Pacific Island countries and the EU will trigger similar negotiations with Australia and New Zealand although originally it was not before 2011 that Australia and New Zealand would be invited to launch free trade discussions in the context of PICTA.

Apart from Australia and New Zealand, only Fiji, Solomon Islands and Papua New Guinea are WTO members but several other Pacific Island countries (Samoa, Tonga and Vanuatu) are accession candidates.

As a major exporter of agricultural products, New Zealand is committed to working closely with the Cairns Group<sup>2</sup> to ensure a successful outcome of the Doha Round on agriculture including: the elimination of all export subsidies; significant increases to market access for agricultural exports; and significant cuts to trade distorting domestic support.

New Zealand is a member of the Asia-Pacific Economic Cooperation (APEC) forum.<sup>3</sup> The purpose of APEC is to enhance stability, security and prosperity in the region through sustainable and equitable development by means of trade liberalisation and facilitation together with economic and technical co-operation. An agreement commits members to remove trade and investment barriers by 2010 for developed countries and 2020 for developing countries.

Under the Australia-New Zealand Closer Economic Relations Trade Agreement (CER), dialogue was established in 1995 with the free trade area (AFTA) of the Association of South East Asian Nations (ASEAN) to reduce impediments to trade and investment between the two groups of countries.

While multilateral trade remains New Zealand's top priority, the government recognises that free trade agreements (FTA) with key trading partners can open up important new opportunities for New Zealand exporters and in a shorter timeframe than through multilateral processes. In addition to the CER agreement with Australia and a Closer Economic Partnership (CEP) with Singapore, New Zealand is expected to shortly conclude a CEP with Thailand and has stepped up bilateral trade negotiations with other countries, including Chile (through the Pacific-Three negotiations) and ASEAN members. In 2004, New Zealand agreed with China to start negotiations for a FTA in 2005 on the basis of a feasibility study which concluded that the two countries would benefit from such an agreement. Work is also under way on the possibility of a FTA with Malaysia.

1. The Pacific Islands Forum groups all the independent and self-governing Pacific Island countries, Australia and New Zealand.
2. 14 of the 17 group members are developing countries but none is a Pacific Island country.
3. APEC encompasses 21 countries; of the Pacific Island countries, only Papua New Guinea is a member.

### *Facilitating market access for developing country products*

Following two decades of unilateral liberalisation, New Zealand has one of the most open markets in the world. According to the Commitment to Development Index (Center for Global Development, 2004), New Zealand ranks second with regard to trade policy, having the lowest protection against imports from developing countries. Under New Zealand's Generalised System of Preferences Scheme there are two categories of developing countries: least developed countries, which have duty free entry on all products into New Zealand; and LDCs, which pay 80% of the generally low tariff, except for a list of items including clothing, footwear, some electrical goods, certain motor vehicle parts and accessories. In addition, agricultural products enter quota-free with an average tariff of 2.1% (and a zero rate for LDCs). As part of the non-reciprocal South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), New Zealand also provides duty free and unrestricted access to all products originating in the Pacific Island countries subject to the prescribed rules of origin. Concerning the agricultural sector, New Zealand offers much better import access for developing countries than does any other OECD country. Producer support is almost non-existent in New Zealand, and there are no export subsidies depressing the world prices received by exporting farmers in developing countries.

The share of products from developing countries in New Zealand imports (17.2% in total imports in 2001) is above the OECD median and growing rapidly (12.6% average nominal growth from 1990 to 2001). Soaring trade with China<sup>19</sup> was up to 2002 the main driving force behind the high annual growth for imports from low-income countries. However, New Zealand still has one of the lowest proportions of imports from LDCs (0.1% in total imports in 2001) among OECD countries and average nominal growth has been only 4.2% over the period 1990 to 2001 (OECD, 2003). Explanatory factors for such a result include the fact that New Zealand is a relatively small and distant market. In addition, one of the primary sectors of interest to exporters in LDCs is agricultural products, a sector in which New Zealand is highly competitive.

Farmers in developing countries must comply with New Zealand's sanitary and phyto-sanitary (SPS) regulations<sup>20</sup> and the Codex Alimentarius in order to export agricultural products to New Zealand. These science-based measures are applied to protect New Zealand's human, plant and animal health status. New Zealand recognises that compliance with SPS requirements is a major area where developing countries need help with capacity building and infrastructure development. New Zealand assists developing countries to comply with SPS standards through the provision of technical assistance bilaterally as well as multilaterally. Textiles, clothing and leather goods is another group of products of particular importance to developing countries but which faces higher barriers of trade. While New Zealand's average applied Most Favoured Nation (MFN) tariff rate is at 4.1%, applied average rates for textiles and clothing are at 9.5% with significant tariff peaks and escalation.<sup>21</sup>

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19. In January 2003, China moved from the 'low income' category to the 'lower middle-income' category on the DAC list of aid recipients.

20. Under the WTO Agreement on the Application of SPS Measures, New Zealand has the sovereign right to determine its own level of protection if there is sufficient scientific justification for the measures taken.

21. A further phase of tariff reduction is planned for the period 2006-2009, including on textile and clothing. Ahead of this, from mid-2005, all alternative specific tariffs (prevailing in the textile, clothing and footwear sectors) will revert to *ad valorem* rates.

### *NZAID's influential role*

While trade policy is a responsibility of MFAT, NZAID works with MFAT to ensure that pro-poor development considerations are taken into account in the formulation of New Zealand's trade policy. In 2003, in order to promote the links between trade and aid, NZAID developed the campaign *Trade Can Reduce Poverty*. This involved the ministerial launch in Parliament of NZAID's trade policy *Harnessing International Trade for Development*. The policy, which was developed in close consultation with MFAT and other ministries, outlines the view that trade can reduce poverty, but trade delivers best when critical economic and governance factors are in place. NZAID's operating principles for trade and development assistance include the protection and promotion of human rights, sustainability, equity and participation.

NZAID actively supports the strengthening of developing countries' capacities to reap the benefits from a fairer international trading system. NZAID works with MFAT to develop common positions on key trade policy issues. For instance, this collaboration included the preparation of a common position on development issues in the current WTO Doha Development Round. NZAID is also engaged with MFAT to ensure that development aspects are taken into account in trade related discussions within the Asian and Pacific regions, for example in the AFTA/CER, APEC and PICTA/PACER contexts (see Box 6). In addition, NZAID works closely with other ministries to monitor SPS regulations, rules of origin, food safety and other requirements to see that, while retaining appropriate safeguards to support New Zealand bio security, food safety, and other priorities, these do not unduly constrain imports from developing countries.

NZAID is to be commended for its efforts in launching its trade policy *Harnessing International Trade for Development* and for highlighting the important link between trade and development. Enhancing coherence between New Zealand's broader international trade policies and NZAID trade and development policy remains a challenge given the complexity of processes under way and issues to be considered. Different policy perspectives between MFAT, NZAID and other ministries call for consultation and the necessary analysis to inform discussions. The potential impact of trade liberalisation on Pacific Island countries, as well as benefits and adverse effects on poor population groups, remains to be better assessed. The proposed FTA with China also raises concerns related to how issues such as human rights and internationally-agreed labour standards will be addressed. New Zealand works for a fairer deal for developing countries by holding multilateral negotiations and by negotiating bilateral agreements with them.

NZAID recognises that improving the multilateral trading system is only part of the process towards reducing poverty. Developing countries have significant supply to market constraints that inhibit their ability to benefit from trade opportunities. Consequently, considerable emphasis has been placed by NZAID on trade and development assistance as part of its trade and development programme (see Box 7). According to the WTO/OECD database on trade and development activities, NZAID spent 8% of its entire budget on more than 100 trade-related activities in 2003-04. A review of NZAID's trade and development programme is scheduled in 2006. It will be important to assess the impact of trade capacity building activities. It would also be interesting to get an indication of how far NZAID has succeeded in influencing trade policy and bringing a pro-poor development perspective.

### **Box 7. Trade and development activities**

Bilateral programmes include support to local economic development, small and medium-sized enterprise development and private sector development. The approach being taken is to look at the entire value chain of production to identify barriers to poor people in increasing their stake in trading systems. Assistance includes building capabilities through: skills training; improving access to finance; providing selective support for critical infrastructure; facilitating collective action by community groups; and promoting environmentally sustainable production.

In the Pacific, NZAID supports various initiatives: i) the Pacific Enterprise Development Facility which facilitates small and medium-sized enterprise development in the region; ii) the Pacific Islands Trade and Investment Commission in Auckland, which is responsible for promoting Pacific exports into New Zealand and Australia; iii) the Pacific Regional Trade Facilitation Programme, which assists Pacific Island countries in the areas of quarantine, customs and product standards. In South-East Asia, NZAID has focused on the Mekong region, providing assistance in collaboration with other donors for activities related to: food safety and quality; customs training; small and medium-size enterprise; and agri-business. Capacity building was concentrated on developing a computerised information/management system for the issuance of import and export SPS certificates necessary for international trade, raising awareness of the countries' international obligations in SPS standards, and developing strategic plans for the further development of national plant quarantine and inspection systems.

At the multilateral level, NZAID provides contributions to the WTO Global Trust Fund (with funding earmarked for Pacific Island countries) and the Commonwealth Trade and Investment Access Facility. These two facilities aim to build developing countries' capabilities in, and understanding of, international trade rules and negotiations.

### ***Immigration***

New Zealand is a country of immigration. According to the 2001 census, there were almost 232 000 people of Pacific ethnicity living in New Zealand (6.5% of the total population), an increase of 39% from the 1991 census. Most of the populations from the Cook Islands, Niue, Tokelau and Samoa live in New Zealand.<sup>22</sup> With the largest numbers of Pacific population, Auckland is referred to as the biggest Polynesian city. Important migration flows stem from developing countries (notably China and India) with skilled migrants specifically targeted for sectors facing workforce shortages.

There is internationally growing recognition of the multi-faceted implications of migration for sending countries, notably developing countries. The interaction between developing countries and their diasporas in industrialized countries can create new development dynamics. Remittances as well as the flow of know-how linked to return migration and business contacts with diasporas may fuel private sector development in developing countries of origin. While migrants often look for better opportunities outside their home countries, the departure of much-needed human capital can be detrimental to developing countries especially small island developing states. This is especially important in key areas of social services such as health care and education. For example, many OECD countries, including New Zealand, are recruiting health care workers from developing countries to meet a growing domestic shortage. As a result, some sending countries may be left depleted of a scarce resource when improvements in their own health systems are badly needed and often require significant funding from donors. In general, there is an opportunity cost for developing countries, which are losing human resources that they have invested in through post-secondary education, sometimes at the expense of allocating scarce resources to primary and secondary education.

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22. In 2001, the New Zealand population consisted of: 52 569 Cook Islanders – nearly three times the resident population on the Cook Islands; 20 148 Niueans – nearly eight times the population of Niue; 6 204 people from Tokelau – 3 times its population; and 115 017 residents of Samoan descent.

While freedom of movement is fundamental in a globalised and democratic world, OECD countries should ensure that their immigration policies are also designed to reduce rather than aggravate poverty in developing countries. New Zealand has endorsed the *Commonwealth Code of Practice for the International Recruitment of Health Workers* adopted in 2003 by Commonwealth health ministers. The code provides guidelines for the international recruitment of health workers in a manner that takes into account the potential impact this will have on services in the source country. Recruiting governments are invited to consider how they might reciprocate for the advantages gained by such recruitment (*e.g.* through the transfer of technology, skills and technical and financial assistance; training programmes; and arrangements to facilitate the return of recruits). NZAID has engaged in the discussion on migration issues with other departments concerned. In order to encourage the return of students from developing countries who hold New Zealand citizenship<sup>23</sup> to their countries of origin, consideration is being given to allowing such students to access the New Zealand student loan scheme. These loans would then be reimbursed over successive years by the governments of countries concerned using NZAID funding when the students return to and remain in their home country following the completion of their studies. Discussions are also underway with the immigration authorities, which sometimes deliver a working visa to foreign students once they have completed their studies, a practice which can undermine the intention that students from developing countries benefiting from a scholarship should return home and put their newly acquired skills to good practice.

New Zealand should assess more comprehensively the potential contribution of its immigration policy to developing countries' human resources development, particularly in its neighbour countries which may face specific challenges. Because of the development-migration nexus, NZAID could play a significant role in this context and contribute to a better understanding of complex inter-linkages both domestically and internationally.

### ***Greenhouse gas emissions***

The management of natural resources and the environment are regional and global in scope and involve matters of policy coherence for donor countries. For example, global pollution perpetuates climate change and, while poor people in developing countries are more vulnerable to the consequences, emissions have so far been greatest in the OECD area. Pacific Island countries are environmentally fragile and highly vulnerable to natural hazards. Climate change and sea level rise could have a devastating impact on a number of these countries. At the World Summit on Sustainable Development held in Johannesburg in 2002, the Prime Minister reiterated New Zealand's commitment to promote economic growth that is both environmentally sustainable and socially beneficial and indicated that a firmer international commitment to action was needed, which would require political will. This suggests that New Zealand would be ready for the tougher action that is necessary to tackle climate change.

NZAID is committed to co-operate closely with partner countries in the Pacific in support of the long-term use and conservation of natural resources. However the agency's environment strategy - inherited from its predecessor, the development co-operation division of MFAT - has yet to be updated. Priority is given to disaster mitigation and preparedness as an integral component of long-term development planning and comprehensive risk management. The Associate Minister of Foreign Affairs and Trade with ODA responsibility announced in Johannesburg in 2002 NZAID's commitment to contribute to 10 Partnership Initiatives for Sustainable Development, four of which are in support of the Pacific small island developing states' own regional climate change initiatives. Given the opportunities of such initiatives for aligned and harmonized support, they will become the

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23. This concerns students from the Cook Islands, Niue and Tokelau.

principal target for New Zealand's climate change assistance, in the context of the Pacific Framework for Climate Change. NZAID has also funded a capacity building programme for climate change in the Pacific involving a New Zealand University and the University of South Pacific.

New Zealand may face challenges in achieving its international commitments within the Kyoto Protocol to the United Nations Framework Convention on Climate Change. According to the latest greenhouse gas inventory, New Zealand's emissions are at 21% above their 1990 level (against a commitment of limiting them to their 1990 level by 2008-12). At the same time, greenhouse gas removals from forestry sinks over the same period are projected to be in the order of 95 million tons CO<sub>2</sub> equivalent. In its response to climate change, New Zealand has developed a range of policies and programmes to encourage greenhouse gas reductions. Because climate change is a global challenge and requires an international response, New Zealand has entered into bilateral partnerships with the United States and Australia to enhance dialogue and practical co-operation on climate change issues. In its climate change policy, New Zealand is considering the use of mechanisms of the Kyoto protocol devised to assist countries to fulfil their commitments in a flexible and co-operative manner such as the Clean Development Mechanism. This mechanism would provide for New Zealand companies to undertake projects in developing countries that both assist in the sustainable development of those countries and create tradeable emission credits that can help New Zealand to meet its emission reduction targets. In doing so, New Zealand will have to ensure that synergies exist between meeting its national target and the development priorities of the countries where investment is undertaken.

### **Enhancing policy coherence for development**

The challenges and complexities associated with promoting greater coherence for development in policies across government highlight the importance of DAC members being well organised to address policy coherence issues. *The DAC Guidelines: Poverty Reduction* suggest a number of ways of promoting policy coherence for development. A key step is a commitment by governments to better take into account the interests of developing countries in domestic policies with an impact on economic prospects and poverty reduction in these countries. The above DAC guidelines also recommend: establishing a political mechanism for exchange and consultation, within and across government ministries; systematically vetting legislation for its consistency with reducing poverty; and devoting adequate staff resources to the analysis of policy coherence issues.

#### ***A strong political commitment reinforced by the whole-of-government approach...***

In establishing NZAID as a semi-autonomous body with poverty reduction as a central focus, New Zealand's government demonstrated an unambiguous commitment to development. The principle of policy coherence implicitly underpins NZAID's policy statement *Towards a safe and just world free of poverty* which sets the overall framework for New Zealand's development co-operation (see Chapter 1). Some policies, particularly *Harnessing Trade for Development*, clearly recognise that developing countries' prospects depend not only on ODA but also on the trade, investment, environment and other policies pursued by developed countries. Other policies, notably for the health sector, include a section on policy coherence highlighting issues that need to be addressed in this context. Policy coherence is also embedded in NZAID's five-year strategic plan in which 'engagement' together with 'agency capability' are the two pillars necessary to support the achievement of development impact. This engagement rests on effective whole-of-government approaches<sup>24</sup> where NZAID seeks to play an active role in influencing New Zealand's policies

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24. A "whole-of-government" approach is an "integrated" approach to policy-making and implementation involving close links among government departments and agencies concerned. Such an approach,

affecting developing countries. At the same time, whole-of-government approaches are increasingly being favoured in aid delivery, notably in the context of peace building and conflict prevention (see Chapter 3).

There are clear and significant advantages in the New Zealand system that are conducive to promoting policy coherence for development. Given its semi-autonomous status, NZAID has the mandate to provide policy advice to the government and is in a solid position to be an advocate for developing countries. In addition, the Associate Minister of Foreign Affairs and Trade with responsibility for ODA is a Cabinet member, which ensures that development issues can be addressed at the highest level of government. The whole-of-government approach is definitely key to ensure policy coherence. In this context, Cabinet procedures require that proposals submitted to Cabinet include the views of all interested departments to ensure that they are based on a comprehensive and co-ordinated analysis. One reason for the Cabinet's decision that NZAID would be a semi-autonomous body attached to MFAT was that this would facilitate coherence between development policy and other aspects of foreign policy. In practice, thanks to a healthy and robust dialogue between NZAID and MFAT, policy coherence has become progressively easier to achieve.

Policy coherence for development has not been explicitly endorsed as an objective for the New Zealand government. Such an endorsement could provide a more solid foundation for efforts by NZAID to ensure that developing countries' concerns are taken into account more systematically in the formulation of government policies. In this context, it would be useful for New Zealand to refer to *The DAC Guidelines: Poverty Reduction*, which contain an indicative list of strategic questions deserving in-depth analysis in the following key policy areas: international trade and foreign direct investment, international finance, food and agriculture, natural resources and environmental sustainability, social issues, and governance and conflicts. A rather immediate opportunity could be provided with the further development of NZAID's strategy for the Pacific. At the time of the DAC peer review team's visit to Wellington in November 2004, the available draft version of *Towards a Strategy for the Pacific Islands Region* hardly elaborated on the range of policy coherence issues that are key to ensure sustainable development for most countries in the region, including trade, investment, environment management and adaptation to climate change, migration, etc. The preparation of New Zealand's report on the MDGs could offer another opportunity for a specific government statement on policy coherence for development, provided that such a report does not remain a NZAID product. New Zealand could also consider introducing the requirement that all government decisions be assessed in terms of their potential impact on developing countries, particularly Pacific neighbors, as this is done for implications in terms of human rights.

As the previous selection of examples demonstrates, policy coherence issues go beyond the traditional responsibilities of a foreign affairs ministry; this points to a need to strengthen links with other departments. Formal government co-ordination mechanisms beyond Cabinet are limited. Increased co-ordination around development-related issues has taken place in recent years to support the whole-of-government approach prevailing in New Zealand (particularly on conflict prevention and peace building). Inter-government co-ordination takes place informally at the working level and in response to specific needs and issues. Dialogue and co-ordination across departments is facilitated in New Zealand by the compact size of the government and short lines of communication.

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which rests on appropriate co-ordination across the government, enables to address multi-dimension and complex issues holistically and to access a greater range of resources and expertise.

*... but limited capacity to address policy coherence pro-actively*

NZAID takes seriously its role in promoting policy coherence for development across New Zealand's interdepartmental system. Issues have emerged on a case by case basis and the discussion has been pursued on an issue basis in the area of education, health and environment as NZAID was approaching other departments as part of its consultative policy development process.

NZAID has been able to influence the trade agenda but may need more resources in light of the complexity of issues and the evolving range of other factors that can impinge on prospects of developing countries. NZAID should consider how it can play a more proactive role in bringing a policy coherence insight to the attention of the appropriate forums across the government. The option chosen by some other DAC members of establishing a specialised unit dedicated to analysing the impact of non-aid policies on developing countries may not be feasible in the organisational context of NZAID. However, there would be value in having a clearer focal point for policy coherence within the agency and considering how in-house capacity can be built. Trade is the only policy area which has a dedicated full-time position while overall policy coherence responsibility on other issues is spread across the agency. The full-time staff member in charge is, however, responsible for both trade-related policy and programme work, although several staff members have trade-related aspects to their roles.

To complement on-going efforts, New Zealand could commission independent assessments of specific policies to determine their impact on development prospects in developing countries. These assessments could help highlight areas where priority attention is required or be used to monitor the results of changes in policy. Such a process could also involve partnership with selected academic and research institutions and nurture policy dialogue with parliament and civil society.

**Considerations for the future**

- Given its policy advice mandate and its credibility as a development agency, NZAID is well positioned to promote policy coherence for development across the government. The agency should continue to play a proactive role in influencing the whole-of-government agenda and should strengthen its analytical capacities further.
- A more explicit government statement on policy coherence for development would be useful as a basis for more systematic inter-departmental co-ordination. The scope of action in this domain could be reinforced by setting objectives in specific policy areas.

## CHAPTER 5

### ORGANISATION, STAFFING AND MANAGEMENT SYSTEMS

#### Organisational arrangements

##### *Strategic oversight and guidance*

While overall responsibility for foreign policy lies with the Minister of Foreign Affairs and Trade, the Associate Minister of Foreign Affairs and Trade with delegated responsibility for ODA<sup>25</sup> is directly responsible for New Zealand's development co-operation and its budget. Development co-operation has its own budget known as "Vote ODA" which encompasses close to 90% of New Zealand's ODA and is administered by NZAID.

NZAID's mandate goes beyond aid management and implementation. Because of its semi-autonomous nature, NZAID reports directly to ministers on policy and operational matters related to ODA. In fact, the agency is in a position to provide "contestable" policy advice, which means that its views can differ from that of MFAT. In addition, the Associate Minister can also receive advice from the International Development Advisory Committee (IDAC). This Committee was established in early 2004 with the purpose of focusing on broader policy issues as compared to its predecessor, the Advisory Committee on External Aid and Development (ACEAD). The overall mandate of the Committee is to provide advice on major policy documents that have to be approved by the Associate Minister. While the Committee has to preserve an appropriate degree of independence from the government, it is liaising closely with NZAID in the early stages of policy development in order to contribute to the process. The Committee has a budget for covering its operating expenses as well as for undertaking public consultation and contracting research. It is composed of seven members who have been appointed by the Associate Minister on the basis of their professional and personal experience and background so as to represent the diversity of interests and attitudes prevailing within New Zealand's development community. The Associate Minister also meets regularly with representatives from CID, the umbrella organisation for New Zealand NGOs.

Parliament's oversight of the aid programme is limited and occurs through the Foreign Affairs, Defence and Trade Committee mainly during the annual budgetary approval process. The Associate Minister and senior officials of NZAID can also be invited to appear before this committee to respond to specific questions. An informal cross-party group of parliamentarians, established in 1998 in response to the Cairo International Conference on Population and Development and its Programme of Action (1995-2015), the Population and Development Group, serves as a broader ODA-lobbying group within parliament. Although its aim is to promote an informed debate around global population and development issues, including sexual and reproductive health, it contributes usefully to creating awareness of the role parliamentarians can play in shaping development policy.

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25. The same person is also Minister for Environment, Minister for Disarmament and Arms Control, Minister responsible for Archives New Zealand, for the Law Commission and for Urban Affairs as well as Associate Minister for Biosecurity and Associate Minister for Justice.

### ***A sound framework for co-ordination between NZAID and MFAT***

A major change since the last DAC peer review was the establishment of NZAID in 2002 as a semi-autonomous body attached to MFAT. Cabinet decided in 2001 that New Zealand's ODA should have a distinctive profile and new focus following the ministerial review *Towards Excellence in Aid Delivery* (see Chapter 1). The semi-autonomous nature of NZAID entails that the agency has its own vote. The Cabinet's decision further specified that the agency's top executive would be appointed by, and report to the Secretary of Foreign Affairs and Trade - the chief executive of MFAT - while all other staff would be appointed by the agency's top executive.

NZAID is formally and physically located within MFAT. The framework for the relationship between the two institutions is set out in two contractual documents. The *Letter of Expectation* sets out the relationship between the NZAID and MFAT at the policy level while the *Relationship Document* serves as a guide for staff of the two institutions in their daily operation. From a formal point of view, NZAID's executive director has delegated authority for the delivery of outcomes and for resources management.<sup>26</sup> NZAID's executive director is a member of MFAT's Senior Management Group and attends its weekly meetings. The top executives of the two institutions meet weekly. In addition, there are regular meetings at the working level and frequent informal consultations as needs arise. The procedures for NZAID's submission to ministers require systematic consultation with the relevant parts of MFAT and *vice versa*. Finally, the two institutions have a *Shared Services Agreement* to ensure the cost-effectiveness of certain common services.<sup>27</sup>

#### ***Role of other ministries***

Apart from MFAT, about ten other ministries are involved in development co-operation with cumulative DAC reportable expenditures amounting to 12% of ODA (see Chapter 2). Line ministries participate in annual ministerial meetings of the Pacific Islands Forum. There is shared responsibility between the Treasury and NZAID for the international financial institutions (see Chapter 2).

Formal government co-ordination beyond Cabinet is limited but informal co-ordination functions well at the working level and in response to specific needs and issues. A multilateral co-ordination committee meets every six months to take stock of New Zealand's action regarding multilateral institutions and specific meetings are organised to agree on the country's position in international meetings. Increased co-ordination has taken place in recent years given the whole-of-government culture prevailing in New Zealand, notably on conflict issues. NZAID acknowledges that potential expertise available in other ministries could be usefully tapped into but, at the same time, needs to ensure an endorsement of good development practices.

#### ***Close co-operation with NGOs***

In recognition of NGOs' expertise in working at grassroots level with the poor in developing countries and their experience at fostering self-reliance by supporting communities to help themselves, NZAID has established close relations with NGOs. A *Strategic Policy Framework for Relations between NZAID and New Zealand NGOs* was launched by the Prime Minister in 2000 to provide

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26. The executive director of NZAID is accountable to the Associate Minister in charge of ODA for policy and operations of the New Zealand's aid programme and accountable to the chief executive of MFAT in performance terms.
  27. Such services include for example: the provision of office space in Wellington and abroad; and services such as payroll and legal services.

guidelines for the growing and diverse relationships between - at the time - MFAT and NGOs. The framework, which is jointly reviewed by NZAID and NGOs on an annual basis, has influenced the overall government's statement on its relations with community and voluntary organisations and has provided a model in various aspects for other government departments in their relations with NGOs.

Dialogue between NZAID and NGOs on development policy and practice takes place at different levels including: an annual national meeting with representatives of the whole development community; quarterly meetings between NZAID's senior management and the executive committee of CID, the umbrella organisation for NGOs; and regular workshops and discussions on specific areas of policy interest. NZAID works with CID to ensure active NGO feedback on all its new policies and strategies. The rather intensive engagement process between NZAID and NGOs appears to be of mutual benefit.

There are several funding windows through which NGOs can access government funds for their projects in developing countries (see Chapter 2 for financial details). The Voluntary Agencies Scheme (VASS) is the main co-funding scheme that is jointly managed by NZAID and NGOs, with most of the funding channelled via multi-year block grants. Within NZAID's humanitarian programme, the NGO funding window for Emergency and Disaster Relief (EMDR) has been established to channel support via New Zealand NGOs to their partners in disaster and emergency situations. A number of NGO activities, including from civil society organisations in partner countries, can be funded directly under NZAID bilateral and regional programmes as well as the Head of Mission funds. Finally, NZAID has formal four-year strategic relationship agreements with four major organisations,<sup>28</sup> which include core-funding covering up to 95% of the organisations' budgets.

Although ODA channelled through NGOs (about 14% of total ODA) is relatively important, New Zealand NGOs do not seem to be dependent on funding from NZAID. According to CID's annual report, donations from the public represented 68% of total cumulative NGO income while funding from the government represented 27%. There are a number of NGOs where the government funding ratio is much higher but their independence is clearly established and their performance is monitored against agreed strategies. An important aspect is to ensure transparency and consistency in funding across the agency since different windows are managed by different parts of the organisation. Another important issue is whether and how alignment should be encouraged between the activities of NGOs co-funded by NZAID and the agency's regional and country strategies as well as priorities of partner countries. In this context, dialogue between NZAID and NGOs is important in order to capture synergies among their respective activities, and this should include any New Zealand NGOs operating in the field. For example, a joint NZAID-NGO working group on Solomon Islands meets every two months in Wellington to exchange views and learn from each other's experience.

## **Staffing and human resources management**

### *A useful degree of management flexibility*

The last DAC peer review identified some critical staffing and human resource management issues facing New Zealand development co-operation. The DAC noted that staff rotation, based on diplomatic posting schedules, and employment of development specialists on fixed-term contracts without a clear career perspective, presented a challenge to the emergence of a core group of staff with

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28. These include: (i) the Council for International Development (CID); (ii) the Volunteer Service Abroad (VSA), New Zealand's volunteer sending agency; (iii) the Development Resource Centre, which aims to increase awareness on international aid and development issues; and (iv) Trade Aid, an organisation responsible for promoting fair trade.

in-depth development expertise and the building up of institutional memory and continuity of aid programmes. The establishment of NZAID has enabled the government to make progress in addressing these issues.

According to the 2001 Cabinet's decision about the establishment of NZAID, recruitment is a responsibility of the agency's executive director who shapes human resources policies, including the pay scale. In addition, the executive director has the authority to determine the levels of staffing and the creation of new positions within the limits set by the administrative portion of Vote ODA. This is a key advantage as compared to many other DAC members where such authority often rests with ministries of finance or where any expansion in the civil service is being restrained so as to contain public expenditures.

Since its establishment, NZAID has been engaged in an intensive recruitment exercise, with 70% of its current staff having been recruited over the past two years. In 2004, NZAID comprised 90 staff in Wellington. This represents a significant increase from the level of staffing of the development co-operation division of MFAT (60 people in 1999) that was in charge of ODA before the establishment of NZAID. Because of NZAID's clear strategic focus and distinct organisational culture, the organisation is perceived as an attractive employer and has been able to recruit new staff with significant development experience. It has tapped into the existing pool of experts – many with considerable field or community development experience – available in NGOs, academic circles, other development agencies and the private sector. NZAID's own human resources have also been completed by staff seconded from the United Kingdom's Department for International Development (DFID), the Australian Agency for International Development (AusAID) and the Canadian International Development Agency (CIDA).

### *A strong learning culture*

NZAID has been designed as an integrated structure in order to encourage synergies and learning across the organisation, with no strict distinction between policy and programming responsibilities as a result. NZAID is structured into five groups (see organisational chart in Annex D): i) the Pacific Group; ii) the Global Group; iii) the Strategy, Advisory and Evaluation Group; iv) the Management Services Group; and v) the Professional and Organisational Development Team. Decision making takes place within the agency's management team, which comprises the executive director, the four group directors and the human resources manager and the communication manager from the Professional and Organisational Development Team. As compared to its predecessor's structure – MFAT's development co-operation division - an additional layer of management has been added with the designation of team leaders within each group. This was a necessary change to match the increased responsibilities and the larger size of the agency. Unlike Crown entities, NZAID does not have a board of directors but reports directly to its ministers.

During its first years of operating existence, a major challenge for NZAID has been to integrate new staff while at the same time deliver effectively on an intensive policy development agenda and continue programme implementation. Investment in orientation training for newcomers together with the promotion of learning and professional development have been a way of addressing this challenge. One of the key concerns of NZAID was also to promote an organisational culture that would reflect the principles of aid effectiveness. The following values have been identified as key for the agency's effective functioning and have been translated into management practice (NZAID, 2004): "operating in an open, responsive and team-based manner, with a focus on outcomes that are developed through participatory decision making and equitable partnerships."

Jobs have been designed so as to maximize learning and development opportunities in order to support career development and staff motivation. A relatively small agency like NZAID may have limited opportunities to offer career development in a traditional hierarchical sense. This is why special emphasis has been placed on developing policy through broad participation across the agency (see Box 8). A weekly slot is available to organise meetings devoted to the purpose of learning and exchange of information and experience. NZAID's size and structure also enable staff to be more directly engaged at the strategic level than it would be the case in other larger organisations. A key test whether this approach has been a successful strategic choice will be the staff retention rate in the coming years.

#### **Box 8. Policy development within NZAID**

When establishing NZAID in 2001, Cabinet mandated the agency to undertake a complete overhaul of its policy framework and to develop a strategic, accountable and focused framework based on international best practices and building on existing strengths of New Zealand's development co-operation. For the agency itself, the emphasis on policy development is regarded as an essential foundation for innovative and effective programme development as well as an important vehicle for agency learning.

During the discussions among staff from NZAID's predecessor leading to the creation of the new agency, a strong rationale for an inclusive and participatory process emerged. As a result, it was decided that policy development would be an agency-wide function rather than confined to a distinct group within the organisation. In doing so, the intention was to: link policy closely to practice; draw on a broad pool of knowledge; provide a means of sharing knowledge and experience thereby promoting learning across the agency; and create a higher sense of staff ownership for new policies. This approach has resulted in the creation of a "lean" and "integrated" organisation which is conducive to learning.

Staff can dedicate up to 20% of their time to policy development, a task that is included in individual staff performance appraisals. Overall co-ordination and analytical support are provided by the Strategy, Advisory and Evaluation Group. Sectoral or thematic teams have been established flexibly according to needs and circumstances. They are made up of staff from various groups of the agency and function through an iterative approach with practice informing policy and vice-versa. The process involves consultation with overseas staff and various stakeholders within the government and among civil society groups and also draws on international best practices, including DAC guidelines.

#### ***Limited field capacity***

As part of the *Shared Services Agreement* between NZAID and MFAT, personnel from New Zealand embassies and high commissions in developing countries are involved in the implementation of development co-operation programmes. There are 58.8 full time equivalent staff carrying out ODA work in diplomatic missions involving 262 individual staff in various percentages (from 5% to 100%) (see Table 3 below for a breakdown). The establishment of NZAID has made it possible to second professional development staff to overseas postings. There are currently five NZAID staff members serving overseas (in Fiji, Indonesia, Samoa, Solomon Islands and Thailand). NZAID is considering five additional overseas postings in the near future (in Fiji - to cover regional multilateral activities,<sup>29</sup> Papua New Guinea, Tonga, Vanuatu and Vietnam). Overall management of NZAID's programmes rests in principle with Wellington-based staff. NZAID is now, however, planning to devolve programme management responsibility to the field in South Africa and in some of its partner countries in Asia. This shift in responsibility concretely means that the programme managers for these countries will be based in the embassies or high commissions with supervision and back up on policy and strategy to be provided by team leaders and a smaller number of staff in Wellington.

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29. There is an increasing number of regional offices of various international organisations based in Fiji.

**Table 3. NZAID's overseas staffing**

Type	Full-time equivalent	Actual number of persons
NZAID	5.00	5
MFAT	13.13	88
Locally-recruited development staff	19.69	33
Locally-recruited staff (other)	20.94	137
<b>Total</b>	<b>58.76</b>	<b>263</b>

NZAID continues to face challenges in ensuring adequate field capacity and providing sufficient staff development opportunities. Overall, the number of professional staff working full time on development in the field appears to be small. Even with additional secondment of NZAID staff to overseas postings, NZAID will not have managers in each major partner country. Although the number of locally-recruited professional staff has increased in recent years, they remain spread quite thinly: on average, each of them works about 60% of their time on development. The shift away from project implementation to programme-based approaches means for NZAID, as for other DAC members, a more regular and direct engagement in the on-going policy dialogue taking place at the field level between partner governments and other bilateral and multilateral donors. In addition, providing sufficient field exposure to its staff, in particular newly recruited staff that may not have extensive field exposure, is important to enhance expertise and provide professional growth opportunities.

Considering the relatively small size of New Zealand's aid programme, full decentralisation of its organisation to the field may not be an appropriate option. It may indeed prove costly for the agency to devolve specialist expertise to each field representation in every sector while benefiting at the same time from efficient communication and decision-making lines. In the coming years, NZAID will have to continue to look strategically at the number and type of skills needed in each of its major partner countries from both a development effectiveness point of view and growth career development perspectives. Ultimately, insufficient staff numbers and an inappropriate skills mix combined with centralisation of authority in headquarters could undermine the effectiveness of New Zealand's ODA. This highlights even more the need to further focus both geographically and sectorally while considering the most effective allocation of human resources and the level of delegated authority between headquarters and field representations.

NZAID is addressing the constraint of limited field presence through an interesting team approach (see Box 9) that has the potential to be effective as the DAC review team could see it at work in Solomon Islands. For example, within a couple of hours, NZAID was able to agree to a request from the Solomon Islands' government to roll-over approximately NZD 1 million to help close a budget gap.

#### **Box 9. An interesting "virtual" team approach**

A programme management team has been established to oversee the management of the programme in Solomon Islands with written guidelines setting out the duties and responsibilities of the diverse range of NZAID and MFAT staff in Wellington and Honiara. The team is chaired by the Wellington-based NZAID programme manager and comprises: the staff in the post (including the high commissioner, the NZAID manager and the locally-recruited programme co-ordinator); selected staff from NZAID (the team leader in charge, sectoral advisers as well as staff from management services); and a MFAT representative. Regular meetings are organised through structured conference calls with prior agenda setting and sharing of notes to ensure follow-up. This approach has proven mostly effective in moving forward with the sector approach in the education sector in Solomon Islands by fostering cross fertilisation of knowledge and good practice available within the organisation, notably on aspects related to risk management.

## **Results orientation: performance review, evaluation and other accountability mechanisms**

### ***Agency performance review***

Outcome-based approaches are embedded in New Zealand's government culture with results-based management systems that incorporate strategic objectives setting and performance reporting. NZAID has a five-year strategic plan complemented by annual business plans which provide a framework setting out high-level outcomes which the agency will pursue, explain the rationale for agency priorities and outline core strategies which will guide its programmes and engagement. The agency's strategic planning is based on a log-frame type of approach, the "intervention logic" framework, which enables the agency to focus on outcomes. Recognising the need to constantly have in mind how to lay the path to achieve expected outcomes and understand exogenous factors that may affect outcomes, the framework provides a useful way to link inputs and outputs to outcomes. In order to distinguish between spheres of direct influence (intermediate and immediate outcomes) and indirect influence (high-level outcomes), the framework suggests the identification of indicators and associated questions.

From a formal point of view, the agency's performance assessment is linked to that of MFAT. The performance agreement of NZAID's Executive Director, who has delegated authority from the Secretary of Foreign Affairs, has to be consistent with the government's strategic directions for foreign policy and ODA. The Secretary is accountable to the Minister for delivery of all ministry outcomes, including those related to NZAID. Annual reporting to parliament on ODA budget expenditure is included in MFAT's own annual report. NZAID nevertheless publishes its own non-financial annual report for the public. NZAID is subject to financial audit which is conducted by Audit New Zealand. The Office of the Controller and Auditor General, which reports to parliament, may also conduct special performance audits.

In order to monitor its own performance, NZAID has adopted a number of tools. *Walking the Talk* is a participatory process to monitor and assess the agency's organisational development and culture against its own values and principles on the basis of performance indicators developed and reviewed by staff (including in terms of people development and relations with stakeholders). Strategies and plans set out a process and time frame to assist the agency in integrating cross-cutting issues and principles into all aspects of its operations: practices and organisational cultures as well as policies, strategies and programming. Such plans enable the management team to prioritise tasks and resourcing for effective implementation including, for example, staff training, research and development of guidelines.

### ***Emphasis on self-assessment***

The establishment of monitoring and evaluation systems that measure the impact of New Zealand aid was also mandated by Cabinet in 2001. NZAID is currently developing an evaluation policy and guidelines to strengthen evaluation in the agency using the *DAC Principles for the Evaluation of Development Assistance* as a foundation. A draft evaluation policy statement establishes the broad framework for evaluation which defines the role and functions of evaluation, its principles and criteria. The policy statement will be complemented by a set of evaluation practice guidelines which will cover aspects such as: integration of evaluation into the programme cycle, preparation of terms of reference, selection and oversight of consultants, quality control, reporting format, dissemination and use of findings, participatory evaluation and capacity building in evaluation.

Evaluation is meant to serve different purposes: accountability (to provide evidence of performance and outcomes and hence efficiency and effectiveness); learning (to determine what has worked well – or less well - and in which circumstances); and improvement of policies, strategies and activities in order to enhance programme performance and ultimately development impact. Evaluation covers a range of activities, including the review of on-going activities. Evaluation principles are integrated into everyday operations at all levels of the organisation.

NZAID's groups are responsible for the evaluation of their own programmes. Evaluations are commissioned by programme managers who are expected to use evaluation as a learning tool for programme improvement and to increase agency-wide knowledge about the effectiveness of its activities. Support, advice and training are provided by the two evaluation advisors, as well as their team leader, located in the Strategy, Advisory and Evaluation Group. This group is also responsible for sectoral and thematic evaluations. At the agency level the various evaluation activities are consolidated in a three-year evaluation plan, and an Evaluation Committee comprising NZAID management team and the evaluation team leader has been established. The role of the Evaluation Committee is to provide oversight of evaluation planning and ensure feedback from evaluation into programme planning, review and development. Results of evaluations are brought to the attention of the committee for decisions on action to be taken, and agreement on lessons learnt and their dissemination.

Partnership in evaluation is being given due consideration by NZAID. Participatory evaluation is regarded as key by NZAID to ensure better ownership of results by partners and as a way to contribute to capacity development in evaluation (see Box 10). NZAID's interest in joining other donors on joint evaluations is hampered by its limited organisational capacity. Although the agency cannot have dedicated staff to each multi-donor process, it tries to be involved at least in reviewing terms of reference for such evaluations.

#### **Box 10. Piloting participatory impact assessment**

In a pilot programme in south Asia (2000-01) and the Pacific (2001-02), the Voluntary Agencies Support Scheme (VASS) of NZAID initiated and supported a two-year participatory impact assessment (PIA). The impetus for such a programme arose out of the 1998 evaluation of the VASS which identified the need for NGOs to focus more on the long-term impacts of their development programmes and projects rather than on short-term activities and outputs. The primary rationale of participatory impact assessments (PIA) is greater sustainability of programme or project outcomes and benefits for ear-marked beneficiaries through improved development practice.

The pilot programme involved six New Zealand NGOs and eight of their partners in south Asia and the Pacific. According to the final report of the pilot programme (Clark and Quinn, 2003), all the NGOs found PIA useful in identifying project impacts, some of which had not been anticipated. Even more important was the learning from the process itself. The PIA challenged existing relationships at all levels – between partners, within organisations and between the NGOs and the community it sought to assist. Through engaging stakeholders at all stages of the process it deepened understanding of the nature of participatory development and was in itself a learning and empowering experience for everyone involved.

The process provided an opportunity for the organisations to hear the voices of beneficiaries and to plan with the communities how to more effectively meet their needs. In some cases the PIA encouraged a shift in power from the NGO to the community, the beneficiaries taking ownership of the process and adjusting it to reflect their own perspectives and concerns. In all the case studies, women gained status and recognition through their involvement. Another important aspect of the PIA process was capacity building of the NGO staff, representatives and community members.

During the pilot programme concerns were expressed on the resources (staff time and costs) required and the demands placed on communities when planning such activities. The final report states that ways need to be found to incorporate PIA into on-going appraisal, monitoring and evaluation systems so that impact can be assessed at all stages of the project cycle without adding the demands of intensive detailed assessments required by the pilot programme.

The pilot programme highlighted the need for organisational change within NGOs if participatory impact assessment is to become part of their everyday way of operating, including the need for reassessment of culture, structures, systems and staff training.

Once a report has been reviewed by the Evaluation Committee, a one-page summary is circulated electronically within the agency. Findings of evaluations are regularly shared with staff during weekly learning workshops. Reports have been previously discussed in-country with various stakeholders and include views of partners. Evaluation results are, in principle, available to the public but access has been limited so far in the absence of a dedicated space on the agency's web site. Ways to enhance the use of evaluation findings are being explored. An evaluation library is being built that will enable search by keywords and themes. A synthesis of results from evaluation aimed at identifying good practice will be undertaken annually. A review of all evaluations undertaken since the establishment of NZAID is being prepared in order to identify potentially recurrent issues. In order to assess the contribution of evaluation to improved planning and implementation of future development programmes, it would be useful if such a review could be used to document follow-up on evaluation recommendations.

Significant progress has been achieved in adopting an evaluation policy which clearly defines the role of evaluation and standards to be applied. A number of challenges remain to be addressed. Evaluation has been designed as a process that mainly serves the internal needs of the agency. It could be useful to strengthen the accountability dimension of evaluation and review how evaluation can be better used to provide feedback to ministers, parliament and public on the results of aid.

One of the key DAC principles<sup>30</sup> is that the evaluation process should be impartial and independent from policy making and the delivery of development assistance: "Impartiality and independence will best be achieved by separating the evaluation function from the line management responsible for planning and managing development assistance." Although most evaluations are carried out by consultants, NZAID staff are closely associated with evaluations and their management. From an internal point of view, this practice ensures the timely dissemination of evaluation findings and lessons learnt but it raises the issue whether evaluation is sufficiently independent from operations. In addition, reporting on evaluation to the Evaluation Committee does not in itself guarantee objectivity and critical judgment. Although it may not be desirable in the context of NZAID to have a central unit responsible for evaluation reporting directly to the minister or the agency's executive director, the agency needs to ensure that there are functionally independent evaluations. The evaluation team is able to select sectoral and thematic evaluations independently from programme managers and report directly to the Evaluation Committee, and a budget is provided for such evaluations.

### **Considerations for the future**

- As other ministries get more directly involved in aid delivery in the context of a whole-of-government approach, notably in fragile states, it could be useful to consider a more structured inter-government co-ordination process on aid management so as to ensure common understanding of good development practices.
- NZAID should continue with the review of its co-financing schemes for NGOs to ensure consistency between the various funding windows. Increased dialogue should be encouraged at the field level between NZAID and New Zealand NGOs in order to capture greater synergies among their respective activities. Strengthened staff training and systems may need to be developed for this purpose.

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30. See paragraph 16 of the *DAC Principles for Evaluation of Development Assistance* (OECD, 1998).

- NZAID will need to ensure that staffing levels and skill mixes, especially at the field level, are continuously adjusted as the agency progressively shifts towards sector-wide approaches and gets more engaged in policy dialogue and co-ordination processes in partner countries. Ensuring increased overseas posting opportunities would also be important for staff development.
- The integration of evaluation within NZAID's overall programme design and the sharing of evaluation responsibility among programme staff are key to ensuring timely dissemination of evaluation findings and integration of lessons learnt into programme management. Alongside this approach, the programme of independent evaluation is important to guarantee objectivity and critical judgment.

## CHAPTER 6

### NEW ZEALAND CO-OPERATION IN THE FIELD

#### **Towards alignment and harmonisation: promoting partnership and local ownership**

Partnership is a key operating principle of NZAID, which recognises that “sustainable development is achieved only through effective partnerships – with a variety of partners – that are based on trust, openness, respect and mutual accountability” (NZAID, 2002). This implies an engagement with partner countries in ways that ensure local ownership and contribute to increased leadership and self-reliance.

As a new organisation, NZAID has been in a unique position to implement the changes in culture and behaviour that are required for effective alignment and harmonisation. Its entire policy framework had to be renewed, procedures to be established and staff to be recruited. A key advantage is NZAID’s overall organisational culture (see Chapter 5) which is conducive to learning and adaptability. In addition, participatory processes for policy development have ensured a high degree of staff ownership around the alignment and harmonisation agenda.

#### ***Strong commitment to harmonisation***

Harmonisation, a central element of NZAID’s policy and strategy, is embedded in the principles which underpin its overarching policy statement. These principles allow NZAID to endorse a strategic approach to poverty elimination through co-ordination and partnership that promote outcome focused action and mutual accountability. Harmonisation forms one of the key outcome areas of NZAID’s five-year strategic plan. Action is being envisaged in terms of: (i) programming approaches that should take the form of multi-donor alignment with partner countries’ own policies and plans and contribute to capacity building; (ii) participatory planning processes that are inclusive, participatory and ensure women’s involvement and that support effective policy dialogue between government and civil society; and (iii) innovation and leadership for searching out new ideas to improve aid effectiveness. Results should be demonstrated in terms of: maximised alignment by NZAID with partners’ policies, plans and processes as well as donor co-ordination; programme strategies developed in ways that achieve high levels of partner country ownership; and reduced transaction costs for partner countries.

In line with its general approach to policy development, NZAID has opted for the preparation of an action plan through an iterative process, with practical experience feeding into the process. Therefore, NZAID appears to be fairly well advanced in implementing a number of interesting harmonisation initiatives before having finalised an action plan. New Zealand has been particularly active in advocating, including at senior political level, for harmonised processes in its engagement with partner countries and other donors and in regional forums. NZAID has notably played a key role in raising awareness of the principles of the 2003 *Rome Declaration on Harmonisation* - which have been in the meantime incorporated into the 2005 *Paris Declaration on Aid Effectiveness*. It has promoted greater commitment within the Pacific through support for a regional workshop on donor harmonisation organised by the Pacific Island Forum Secretariat in 2003. In the Pacific, the number of

donors in each country is relatively small but the strains of un-harmonised aid remain significant, given the often very small administrations in those countries.

### ***Building agency capability in harmonisation***

Within NZAID, overall responsibility for harmonisation rests with the director of the Strategy, Advisory and Evaluation Group (see organisational chart in Annex D) who is assisted by an adviser (currently on secondment from DFID) responsible for building staff capability in programmatic approaches. Implementation rests with the directors for the Pacific Group and the Global Group. A programme manager (currently on secondment from AusAID) is helping step up harmonisation efforts with AusAID as well as donor liaison and co-ordination of donor efforts in the Pacific.

In recruiting the necessary staff for its new organisation, NZAID has been looking specifically for people with previous experience in relevant processes such as SWAps and Poverty Reduction Strategies (PRS) or with profiles and experience that would support the in-house implementation of the harmonisation agenda. The agency's capability has been strengthened through judiciously selected staff secondments. As a new organisation, with 70% of its staff recently recruited, NZAID has invested heavily in staff training, including on harmonisation. Over the past two years, there have been various workshops involving field staff as well. A session on harmonisation has been included in the orientation training programme for new staff. Harmonisation has also been integrated into the briefing for approved contractors. Work is underway to develop guidelines on effective aid delivery that would cover harmonisation. Finally, harmonisation has been integrated into NZAID's new performance management process in so far as harmonisation activities are included in individual work plans; some of the staff competencies identified include qualities that are deemed to support effective work in a harmonised environment (*e.g.* strategic agility, negotiating, process management, customer focus, and managing vision and purpose).

### ***Concrete and promising initiatives***

NZAID and AusAID have been working on closer relationships in the Pacific since 2001 when the two agencies commissioned a study, the *Joint Australia-New Zealand Research Project*. Efforts towards greater harmonisation are undertaken at three levels: reciprocal administration of programmes; joint efforts at policy, programme and sector levels, including agreement on one country taking the lead in certain sectors and countries; and co-ordination of representation in high-level meetings. Annual donor meetings are held between bilateral and multilateral donors in the Pacific. Donors in the region are increasingly moving towards shared analytical work. One interesting example in this context is the establishment of the regional capacity building programme for poverty analysis and pro-poor planning based in the Secretariat of the Pacific Commission which benefits from multi-donor funding (see Chapter 3).

At the partner country level, systematic discussions increasingly take place between AusAID, NZAID and the governments on how the two donors can work together more effectively to enable better co-ordination, and to lessen the burden of dual systems. Progress is under way for a single application, selection and administrative management process for scholarships granted by New Zealand and Australia (see Chapter 3) and there is scope for joint regional scheme in some countries. AusAID and NZAID operate from a single office in Tuvalu enabling stronger links between their two programmes. Progress has been made in Samoa and Kiribati for developing joint country strategies. Discussions are also under way towards a tripartite agreement between AusAID, NZAID and the government of Samoa to cover a public sector improvement programme. Such common efforts have culminated in the establishment of the first joint programme in the Cook Islands (see Box 11). The increased size and flexibility of a joint programme of this type combining the expertise and

experience of two donor agencies has the potential to produce promising results and could pave the way for similar initiatives elsewhere.

**Box 11. The first joint New Zealand and Australia programme in the Cook Islands**

An historic aid agreement was signed on 2 September 2004 by representatives of the Cook Islands' Ministry of Foreign Affairs and Immigration, NZAID and AusAID, marking a new approach to aid delivery in the Cook Islands. The tripartite arrangement sets out the basis for the co-funded New Zealand and Australian ODA programme, which will be piloted over a two-year period. NZAID will manage the day-to-day operations of the combined programme with delegated authority from Australia and the three governments will meet regularly to set strategic directions. ODA provided by New Zealand and Australia amounted to USD 3 million and 1 million respectively in 2002-03.

The joint AusAID/NZAID is the largest aid programme in the Cook Islands (close to 80% of total ODA). An important aspect in the preparation of this agreement was to build trust by highlighting the potential benefits for the Cook Islands. These included: reduced administrative burden for aid management, and better co-ordination and policy alignment with resources to be redirected from operational focus to strategic policy dialogue. An important advantage of the joint programme is the perspective of funding larger infrastructure projects through pooled resources.

***Carrying the harmonisation agenda forward***

A recent survey (OECD/DAC, 2004) indicates that there is still a long way to go for concrete and tangible results in the field. A disturbing finding is that there is still not enough evidence that harmonisation initiatives have helped curb transaction costs, including in Fiji, the country of the Pacific included in the survey. It will be important for New Zealand in finalising its action plan to identify how specific initiatives can be linked to achieving measurable benefits.

As mentioned in Chapter 5, NZAID's presence in the field remains limited. The establishment of horizontal teams has proven effective for managing SWAps and enabling field posts to access sectoral expertise in headquarters (see Box 9 in Chapter 5). Strengthening field presence will nevertheless remain critical in enhancing the agency's ability to make further progress on harmonisation and alignment by promoting stronger dialogue and interaction with local partners and other donors, enhancing NZAID's analytical capacity and improving its responsiveness to changing local circumstances.

There is an increasing recognition among DAC members of the need to concentrate on fewer countries and fewer sectors in each country. The biggest challenge for NZAID will be in countries where New Zealand is a small donor, which is the case in most Asian core bilateral countries, where resources are spread thinly in many countries and in each country, in many sectors (see Chapter 2). NZAID has taken first steps to address this challenge through the development of a new strategy for Asia, focused on rural livelihoods. The strategy development process considered various options for future NZAID engagement in the region, including delegated co-operation. Given the high priority placed by the New Zealand government on its broader relationships with Asia, the conclusion was to move in the direction of reinforcing NZAID's role as a "strategic niche" player and strengthening the agency's presence in the field in order to engage more effectively in policy dialogue with partner governments and in harmonisation efforts with other donors. It is too early to assess the success of these steps in terms of reducing dispersal and putting into practice NZAID's commitment to "bigger, fewer, deeper and longer" engagements.

## **Programming and implementation modalities**

### ***Scope for stronger alignment in country programming***

NZAID's support for core bilateral partner countries is guided by five-year country strategies which are prepared in consultation with partner governments and formally agreed at the occasion of official bilateral meetings. These documents are meant to provide a framework within which a flexible, co-ordinated and responsive country programme can be developed and implemented, based on partner country policies and priorities for poverty reduction. They state the goal, objectives and expected outcomes of the country programme and list the sectoral and geographic focus, the level of NZAID and partner commitment, delivery mechanisms and administrative support. Current and planned aid flows are shared with partner countries by way of the agreed forward aid plan that is generally discussed formally once a year. Individual programmes are usually committed around a three-year planning horizon although activities may have a longer time frame.

NZAID increasingly relies on shared analysis as a departing point for programming its assistance. Ultimately, NZAID should adopt partner countries' own poverty reduction strategies or national development plans and rely on ongoing multi-donor co-ordination and policy dialogue processes in order to fully reflect its commitment to harmonisation and alignment. The DAC review team noted during its mission to Solomon Islands that such an approach prevails at the sector level: NZAID's strategy is aligned with Solomon Islands' own vision statement reflected in the government's Education Strategic Plan; and support is delivered in accordance with the government's own systems, procedures and schedules.

The process for strategy formulation does not seem to have reached the point where the need for regular bilateral consultations with each partner government would be obviated, thereby reducing transaction costs for partners. In Solomon Islands, for example, New Zealand informed the DAC team that it was hoping to reintroduce in 2005 high-level bilateral consultations with the government. While such consultations offer scope for a more strategic policy dialogue, including on broader issues of policy coherence for development as well as other often sensitive issues such as HIV/AIDS, gender disparity and human rights violations, they entail the risk of undermining ongoing multi-donor co-ordination processes and can contribute to the administrative burden of partner countries.

Country strategies could refer more specifically to contributions by other donors in order to reflect how NZAID's support is complementary and is based on a sound division of responsibilities. There is also scope for country strategies to be more comprehensive in covering the whole range of activities funded by NZAID in a given country through other channels (*e.g.* regional programmes and NGO-cofinanced projects). In Solomon Islands, activities beyond the core bilateral programme represent about 30% of New Zealand's ODA to this country. A more integrated programming country-based approach would ensure that different activities are mutually reinforcing.

### ***Taking the lead in promoting sector-wide approaches in the Pacific***

NZAID is committed to provide support which respects national priorities and ensures country-led decision making, with emphasis on local capacity strengthening and the use of local or regional technical assistance. In countries where there are national sector plans, NZAID intends to directly support their implementation through programme or budget support. Where capacity is limited, NZAID provides support for institutional strengthening, including national sector planning and financial management. The only precondition required for NZAID to envisage sector support is the commitment by the partner country and its willingness to change, with the assumption that the need for credible planning frameworks and sound accountability mechanisms can be fixed through capacity building as part of the preparatory process for a sector approach. NZAID's approach of engaging in SWAPs while building partner capacity to manage the processes involved is commendable.

Given the existence of a credible sector plan with medium-term expenditure framework as well as strong national leadership, NZAID's support for education in Solomon Islands is delivered in accordance with the government's own systems, procedures and schedules (see Box 12).

**Box 12. Sector-wide type of approaches in fragile states: education sector support in Solomon Islands**

Solomon Islands' education faces severe problems of low and uneven access, lack of resources, high drop-out rates, deficient facilities, low standards and achievement, questionable curriculum relevance, inappropriate assessment systems and ineffective quality assurance mechanisms. The Solomon Islands government is committed to improving and increasing access to education as one of its highest priorities. Public enthusiasm for education remains high and during the conflict some schools continued to run despite the absence of government funding thanks to support from the local population.

Over the past five years, the government and donors have worked closely together to put in place the conditions necessary for moving towards a SWAp: a comprehensive sector policy; a sectoral expenditure programme; a sound macroeconomic framework, in which sector and macro-expenditure are consistent; government-led donor co-ordination, with common implementation and management arrangements using government systems; and consultation of key stakeholders.

The preparation for the Education Strategic Plan (ESP) took place in 1999-2000 with support from AusAID and the World Bank but its implementation was delayed owing to adverse political events and ethnic tensions. Following the successful restoration of law and order as well as improved economic management by RAMSI from mid-2003 onward, the ESP was updated by the Ministry of Education and Human Resources Development and approved by Cabinet in 2004. Since 2002, NZAID has provided funds to help the ministry to consult nationally on the ESP and to prepare additional sector analytical work. The main goals of the ESP are: equitable access to quality basic education for all children; access to community, technical, vocational and tertiary education that will meet individual, regional and national needs for skilled and competent people; and efficient and transparent resources management. The implementation of the ESP is supported by the Education Sector Investment and Reform Programme (ESIRP) with four three-year programme cycles over the next 12 years. The first three-year cycle (2003-06) is funded by the EC (about USD 35 million), NZAID (about USD 23 million) and the Solomon Islands government. A tripartite memorandum of understanding establishes the partnership principles, the institutional arrangements, including for sector management and reporting, the auditing and fiduciary assurance framework and all other respective responsibilities of the three partners.

NZAID will provide ear-marked education sector budget support over in 2005/07 and a separate contribution for technical assistance. As part of its commitment to support Solomon Islands' efforts of achieving the MDGs, NZAID has indicated its readiness to provide support at similar levels in the following years. NZAID contribution is equal to 67% of the Solomon Islands government's average annual recurrent budgetary allocation to the education sector and is targeted for additional spending on primary education. The Solomon Islands government is committed to maintain recurrent expenditure for the education sector at a minimum of 22% of total government expenditure. NZAID funds are released to a budget support account managed by the Accountant General of the Solomon Islands government at the beginning of each quarter in line with previously agreed commitments. The level of funding for each financial year will be determined on the basis of a joint annual review of progress in meeting agreed targets and demonstrated absorption capacity. The EC contribution is also closely aligned with the ESP but is currently delivered through a separate project (covering the secondary education and capacity building components of the programme). A portion of EC funding is likely to be directed through the government's budget by 2006 when the Ministry of Finance's procedures and safeguards are considered compatible with EC requirements for sector budget support.

At the time of the DAC visit in November 2004, after less than a year of implementation, it was still too early to draw conclusions. The shift to a SWAp has been made possible to a great extent because of improved financial management achieved through RAMSI technical assistance,\* which highlights the merits of a whole-of-government approach. One of the challenges will be to ensure that ESP gets implemented at the provincial level given the logistical difficulties in reaching remote provinces. There is still room to expand the dialogue with civil society and include all relevant stakeholders (including further strengthening the involvement of churches which are responsible for running the majority of private schools). Another challenge will be to anticipate the way forward for the education sector SWAp as the Solomon Islands budget evolves towards a consolidated budget (including the development budget which is currently fully funded by donors) by 2006; this would suggest increased dialogue with the Ministry of Finance.

\*In 2004, there were 18 Australian technical experts in various positions across the Department of Finance and Treasury.

In Papua New Guinea, NZAID has been asked to take the lead in co-ordinating discussions among donors and their collaboration with the government to achieve the health outcomes prioritised in the national health plan and medium term expenditure framework. Donor support takes the form of pooled funding in a trust fund. Save the Children (New Zealand) has been contracted by the government and has access to funding from the Ministry of Health to assist in decentralising the implementation of the national health plan. These two examples constitute unprecedented achievements in what remain difficult political, social and economic circumstances and could pave the way for sector support in countries considered as fragile states. New Zealand can be commended for showing such leadership, even when it is not the biggest donor in the sectors under consideration.

The fact that sector support is absorbing a significant share of total ODA from New Zealand to Solomon Islands and Papua New Guinea (50% and 30% respectively) is a good indication of New Zealand's commitment to increasingly deliver its aid in an aligned and harmonised way. Given the preliminary positive experience with SWAps in Solomon Islands and Papua New Guinea, NZAID is preparing the ground for greater alignment of donor support on national strategic plans in the Pacific in the education sector (the Cook Islands, Kiribati, Tonga and possibly Tuvalu). The previous DAC peer review had noted the heavy reliance on New Zealand management service contractors for the implementation of projects. That review recommended New Zealand to maximise the use of developing countries' own services and goods in the implementation of projects. The shift to SWAps has in itself reduced the role of management service contractors in aid delivery. Although NZAID organised a workshop to explain the new process, some consultants still need to better understand the implications for their role as consultants in the context of new delivery modalities which place partner countries in a lead role.

### *Proliferation of discrete activities*

NZAID acknowledges that numerous donor assisted projects present significant challenges in terms of donor co-ordination and partner country leadership, hence undermining the implementation of partnership approaches. Despite impressive efforts by NZAID to promote more programmatic approaches and to focus its assistance on key sectors in partner countries, there is still scope for a significant project approach because of the range of funding windows available within NZAID's overall bilateral programme. The existence of numerous regional and thematic funds and facilities of various kinds<sup>31</sup> reinforces concerns about the dispersion of activities and the associated management transaction costs. In addition, activities programmed regionally or centrally managed in NZAID headquarters according to an application-based channel-specific logic run the risk of being supply-driven and undermining overall partner country-led development policies and programmes. The fact that in many cases these funding facilities are linked to New Zealand based organisations may be another factor hampering partner country ownership.

In 2004-05, the activities beyond core bilateral country programmes in the Pacific represented one-third of NZAID's total budget for the region and included: contributions to eight core regional agency programmes; five thematic regional programmes (trade, governance, education, health and environment); an emergency management and disaster relief programme; and scholarships. The complex range of development challenges in the Pacific justifies regional approaches because regional programmes can sometimes be more efficient and effective for the delivery of assistance to a large

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31. The numerous funding windows include among others: three NGO facilities (VASS; Emergency and Disaster Relief and Africa Fund); Asia Development Facility; Latin America Development Facility; Pacific Programme for Strengthening Governance; some specific facilities within the Trade and Development Programme; the Pacific Island Countries Participation Fund; various Head of Missions Funds and Development Project Funds; and six scholarship schemes.

group of small countries. However, the risk of proliferation of activities and associated transaction costs is exemplified by the situation in Solomon Islands, where regional assistance in the health sector is delivered through five projects - one of them involving five different primary health care initiatives through the Secretariat of the Pacific Community. In order to ensure that regional activities are demand-driven and support partner country-led policies and programmes, NZAID needs to ensure that regional institutions fully participate in on-going co-ordination efforts at partner country level and that their assistance and various regional initiatives are harmonised and aligned with partner country priorities, systems and procedures. With the support of Pacific leaders, the Pacific Plan is seeking to identify new opportunities to promote regional integration (see Chapter 1); such a process should be accompanied by greater co-ordination among regional institutions and initiatives.

### ***Increased reliance on procurement of goods and services in developing countries***

New Zealand's ODA is in principle untied<sup>32</sup> and no specific action was required for the implementation of the 2001 *DAC Recommendation to Untie ODA to LDCs*. Given the fact that a number of scholarship schemes and training activities as well as several funding windows are linked to New Zealand institutions and organisations, there is still a significant share of ODA which directly returns to New Zealand, but according to NZAID, less than half the goods and services are now procured in New Zealand as compared to a level of two-thirds in 2001.

Several recent decisions indicate a shift towards greater aid untying. Trust funds with the World Bank, which were set up for the purpose of promoting New Zealand's private sector, have been phased out and two scholarship schemes have been discontinued. Within bilateral country programmes, increased focus has been given to capacity building relying on local or regional expertise. In 2004, NZAID adopted a new contracting system, the Approved Contractor Scheme. Prior to this arrangement, NZAID was required to undertake a competitive process in awarding each individual contract which could lead to considerable delay in the delivery of ODA. The new scheme has been designed to have pre-tendered pools of suppliers at pre-negotiated fee rates covering all sectors used by NZAID for a three-year period.<sup>33</sup> The time taken to complete the selection and contracting of consultants has now fallen from a few weeks down to a few days. In addition, the new scheme has broadened the type of expertise that can be called upon in the region, including in partner countries.

### **Considerations for the future**

- Country strategies could be more comprehensive and integrate the whole range of funding available through various NZAID channels and initiatives.
- In finalising its harmonisation action plan, NZAID should consider how to demonstrate tangible results in the field in terms of reduced transaction costs. This could involve better linking specific changes in practice with measurable benefits.
- NZAID is encouraged to consider ways of increasing local ownership by reviewing how various funding windows can be complementary to core bilateral country programmes, based on country-led development policies and programmes.

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32. As NZAID started to report to the DAC Creditor Reporting System in 2002 only, there is not yet enough statistical evidence to establish a clear trend in the tying status of New Zealand ODA.

33. The Approved Contractor Scheme applies to contracts with a value of less than NZD 100 000. For contracts above this amount, open competitive bidding continues.

- Given the potential contribution of SWAps to the strengthening of local ownership and capacity building, New Zealand is encouraged to continue taking a lead role in promoting the development and implementation of such approaches, including in fragile states.

## ANNEX A

### THE 2000 DAC PEER REVIEW AND NEW ZEALAND'S ACHIEVEMENTS

Key issues	Recommendations	Progress achieved by 2004
Overall programme focus	Sharpen the programme's focus by making poverty reduction a clearer objective for the New Zealand aid programme (NZODA).	Poverty elimination has been incorporated in NZAID's new overall policy statement and other subsequent policies and strategies as the agency's central focus. Also included is New Zealand's commitment to the MDGs.
Poverty targeting	Look to allocate more ODA towards programmes directly targeted to poor people and the basic sources of poverty.	NZAID's education and health policies are explicit about increasing the resources to basic education and primary health care.
Organisational structure	Examine the current organisational structure for NZODA to determine its strengths and weaknesses in comparison to other possible structures in the light of the international convergence towards partner country-owned strategies involving intensive policy dialogue and donor adaptability.	A ministerial review of NZODA in 2001 led to the creation of NZAID as a semi-autonomous body in 2002. This decision has provided the ODA programme with a distinct profile and new focus.
Human resources	Build up a core group of officials for NZODA programme with both development experience and political skills who would dedicate a substantial part of their careers to development work in Wellington and postings to developing countries.	There has been a major recruitment drive to staff NZAID with committed and experienced professionals. About 70% of staff currently working in NZAID have been appointed since 2002.
Procurement	Strive to maximize the use of developing countries' own services and goods in the implementation of projects, including allowing for the use of local managing service consultants from partner countries.	The share of goods and services procured in New Zealand has fallen to under half of total procurement, from a level of over two-thirds in 2001. As New Zealand moves towards partner country led initiatives based around SWaps and capacity building for local and regional institutions, the share is likely to continue to fall.
Country selectivity	Ensure that bilateral aid programmes are appropriately balanced between priority for main partner countries and selected outreach to other developing countries.	Despite NZAID's efforts to review its geographic focus, there is scope for greater concentration beyond the Pacific.
ODA level	Set a medium-term ODA/GNI target.	The government of New Zealand remains committed to the 0.7% ODA/GNI target but has yet to adopt a medium-term expenditure framework that would enable progress in this respect.
Public information and development education	Expand public information and development education to build up public confidence and show that NZODA is well-managed and achieving results.	Although budget allocations for information and development education have increased, public confidence in government's effectiveness is still low. A new communication strategy was developed in 2004.

**ANNEX B**  
**MILLENNIUM DEVELOPMENT GOALS (MDGs)**

<b>Goal 1: Eradicate extreme poverty and hunger</b>
<b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
<b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger
<b>Goal 2: Achieve universal primary education</b>
<b>Target 3:</b> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
<b>Goal 3: Promote gender equality and empower women</b>
<b>Target 4:</b> Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015
<b>Goal 4: Reduce child mortality</b>
<b>Target 5:</b> Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
<b>Goal 5: Improve maternal health</b>
<b>Target 6:</b> Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
<b>Goal 6: Combat HIV/AIDS, malaria and other diseases</b>
<b>Target 7:</b> Have halted by 2015 and begun to reverse the spread of HIV/AIDS
<b>Target 8:</b> Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
<b>Goal 7: Ensure environmental sustainability</b>
<b>Target 9:</b> Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
<b>Target 10:</b> Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation
<b>Target 11:</b> By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers
<b>Goal 8: Develop a global partnership for development</b>
<b>Target 12:</b> Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally
<b>Target 13:</b> Address the special needs of the least developed countries Includes: tariff and quota free access for least developed countries' exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction
<b>Target 14:</b> Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)
<b>Target 15:</b> Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
<b>Target 16:</b> In co-operation with developing countries, develop and implement strategies for decent and productive work for youth
<b>Target 17:</b> In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
<b>Target 18:</b> In co-operation with the private sector, make available the benefits of new technologies, especially information and communications

Note: The Millennium Development Goals and targets come from the Millennium Declaration signed by 189 countries, including 147 Heads of State, in September 2000 ([www.un.org/documents/ga/res/55/a55r002.pdf](http://www.un.org/documents/ga/res/55/a55r002.pdf) - A/RES/55/2). The goals and targets are inter-related and should be seen as a whole. They represent a partnership between the developed countries and the developing countries determined, as the Declaration states, "to create an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty".

**ANNEX C**  
**OECD/DAC STANDARD SUITE OF TABLES**

**Table C.1. Total financial flows**  
USD million at current prices and exchange rates

New Zealand	<i>Net disbursements</i>						
	1987-88	1992-93	1999	2000	2001	2002	2003
<b>Total official flows</b>	<b>97</b>	<b>98</b>	<b>134</b>	<b>114</b>	<b>112</b>	<b>125</b>	<b>169</b>
Official development assistance	95	97	134	113	112	122	165
Bilateral	80	74	101	85	85	92	129
Multilateral	15	24	33	28	27	30	36
Official aid	0	1	0	0	0	1	1
Bilateral	-	0	0	0	0	0	1
Multilateral	0	1	0	-	-	0	0
Other official flows	1	-	-	-	-	2	3
Bilateral	1	-	-	-	-	2	3
Multilateral	1	-	-	-	-	-	-
<b>Grants by NGOs</b>	<b>8</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>23</b>	<b>18</b>
<b>Private flows at market terms</b>	<b>28</b>	<b>-</b>	<b>16</b>	<b>17</b>	<b>16</b>	<b>17</b>	<b>21</b>
Bilateral: <i>of which</i>	28	-	16	17	16	17	21
Direct investment	27	-	16	17	16	17	21
Export credits	1	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>132</b>	<b>112</b>	<b>163</b>	<b>142</b>	<b>139</b>	<b>165</b>	<b>209</b>
<i>for reference:</i>							
ODA (at constant 2002 USD million)	97	98	126	121	123	122	130
ODA (as a % of GNI)	0.27	0.25	0.27	0.25	0.25	0.22	0.23
Total flows (as a % of GNI)(a)	0.37	0.29	0.33	0.32	0.32	0.30	0.28

a. To countries eligible for ODA.

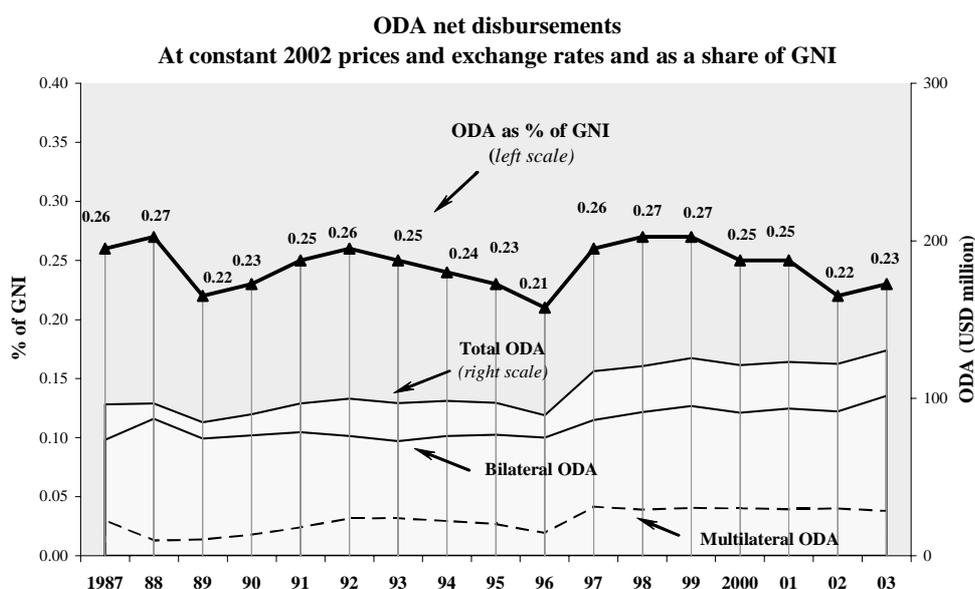


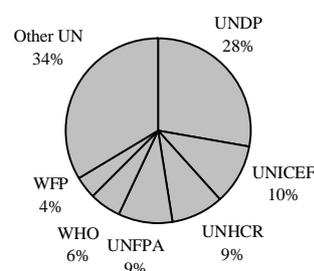
Table C.2. ODA by main categories

New Zealand	Constant 2002 USD million					Per cent share of gross disbursements					Total DAC 2003%
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
	<i>Disbursements</i>										
<b>Gross Bilateral ODA</b>	<b>95</b>	<b>91</b>	<b>93</b>	<b>92</b>	<b>102</b>	<b>76</b>	<b>75</b>	<b>76</b>	<b>75</b>	<b>78</b>	<b>76</b>
<i>Grants</i>	<i>95</i>	<i>91</i>	<i>93</i>	<i>92</i>	<i>102</i>	<i>76</i>	<i>75</i>	<i>76</i>	<i>75</i>	<i>78</i>	<i>64</i>
Project and programme aid	28	31	30	28	38	22	26	25	23	29	13
Technical co-operation	50	43	46	36	32	40	36	37	30	24	24
Developmental food aid	0	-	0	0	0	0	-	0	0	0	2
Emergency and distress relief	4	3	3	11	13	3	3	2	9	10	7
Action relating to debt	-	-	-	-	-	-	-	-	-	-	11
Administrative costs	7	8	8	8	8	6	7	6	7	6	4
Other grants	6	5	7	9	11	4	4	6	7	8	4
<i>Non-grant bilateral ODA</i>	-	-	-	-	-	-	-	-	-	-	<b>12</b>
New development lending	-	-	-	-	-	-	-	-	-	-	<b>9</b>
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	<b>2</b>
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	<b>1</b>
<b>Gross Multilateral ODA</b>	<b>31</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>29</b>	<b>24</b>	<b>25</b>	<b>24</b>	<b>25</b>	<b>22</b>	<b>24</b>
UN agencies	9	8	11	11	11	7	7	9	9	9	6
EC	-	-	-	-	-	-	-	-	-	-	8
World Bank group	8	7	5	5	6	6	6	4	4	4	4
Regional development banks (a)	4	4	4	5	5	4	3	3	4	3	2
Other multilateral	9	11	9	10	7	7	9	8	8	5	3
<b>Total gross ODA</b>	<b>126</b>	<b>121</b>	<b>123</b>	<b>122</b>	<b>130</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total net ODA</b>	<b>126</b>	<b>121</b>	<b>123</b>	<b>122</b>	<b>130</b>	-	-	-	-	-	-
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	5	6	8	9	10	-	-	-	-	-	-
<i>Associated financing (b)</i>	-	-	-	-	-	-	-	-	-	-	-

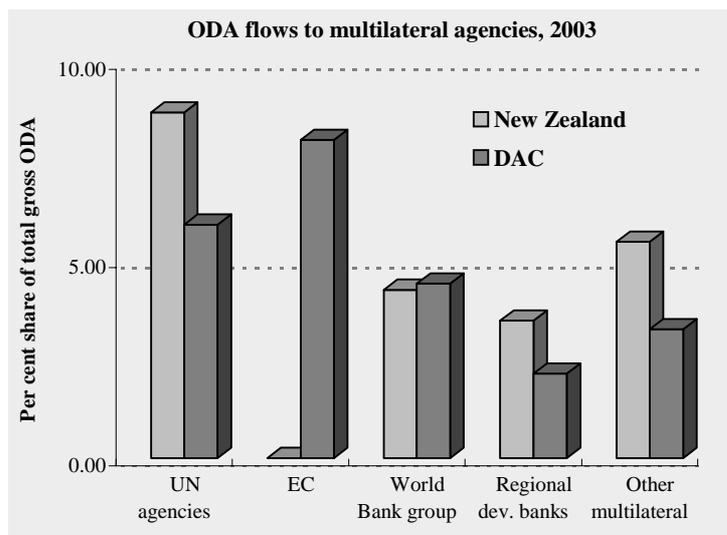
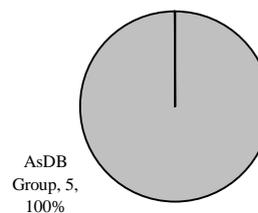
a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies  
(2002-03 Average)

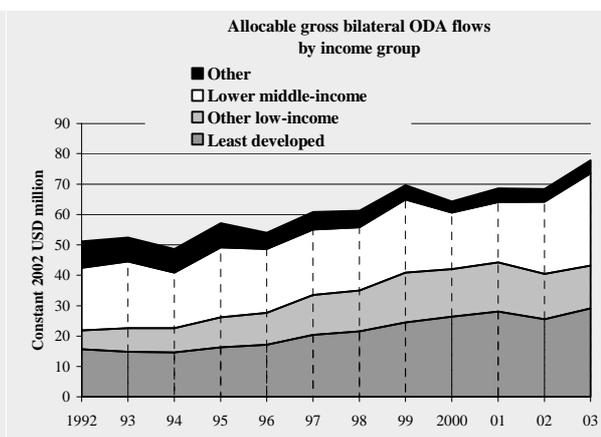
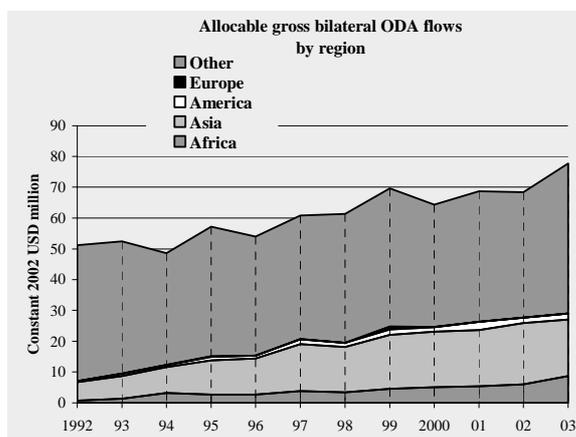


Contributions to Regional Development  
Banks (2002-03 Average)



**Table C.3. Bilateral ODA allocable by region and income group**

New Zealand	Constant 2002 USD million					Per cent share					Total DAC 2003%
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
	<i>Gross disbursements</i>										
<b>Africa</b>	5	5	5	6	9	7	8	8	9	11	<b>40</b>
Sub-Saharan Africa	5	5	5	6	9	7	8	8	9	11	<b>35</b>
North Africa	0	0	0	0	0	0	0	0	0	0	<b>5</b>
<b>Asia</b>	17	18	18	20	18	25	28	27	29	24	<b>34</b>
South and Central Asia	3	4	4	6	5	5	6	6	8	6	<b>17</b>
Far East	14	14	14	14	14	20	22	20	21	18	<b>17</b>
<b>America</b>	2	2	3	2	2	3	2	4	3	3	<b>11</b>
North and Central America	1	0	1	1	1	1	1	1	1	1	<b>4</b>
South America	1	1	2	1	1	1	2	2	2	2	<b>7</b>
<b>Middle East</b>	0	0	0	3	8	0	0	0	5	10	<b>9</b>
<b>Oceania</b>	45	39	42	38	41	64	61	61	55	52	<b>1</b>
<b>Europe</b>	1	0	0	0	0	1	0	0	0	0	<b>5</b>
<b>Total bilateral allocable by country</b>	<b>70</b>	<b>64</b>	<b>69</b>	<b>68</b>	<b>78</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	25	26	28	26	29	35	41	41	37	37	<b>36</b>
<b>Other low-income</b>	16	16	16	15	14	23	24	24	22	18	<b>23</b>
<b>Lower middle-income</b>	24	19	20	24	30	35	29	29	35	39	<b>37</b>
<b>Upper middle-income</b>	4	4	5	4	4	6	6	7	6	5	<b>4</b>
<b>High-income</b>	-	-	-	-	-	-	-	-	-	-	<b>0</b>
<b>More advanced developing countries</b>	0	0	0	-	-	1	0	0	-	-	<b>-</b>
<i>For reference:</i>											
<i>Total bilateral</i>	95	91	93	92	102	100	100	100	100	100	<b>100</b>
<i>of which: Unallocated</i>	26	26	25	23	24	27	29	27	25	24	<b>21</b>



**Table C.4. Main recipients of bilateral ODA**

New Zealand	1992-93			1997-98			2002-03		
	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share
Cook Islands	7	7	14	6	5	9	7	6	8
Samoa	7	7	13	6	5	8	6	5	7
Fiji	7	7	13	5	4	7	6	5	7
Tonga	4	4	8	5	4	7	5	5	6
Niue	4	4	8	5	4	7	5	4	6
<b>Top 5 recipients</b>	<b>29</b>	<b>29</b>	<b>56</b>	<b>27</b>	<b>23</b>	<b>37</b>	<b>29</b>	<b>25</b>	<b>34</b>
Papua New Guinea	3	3	6	5	4	7	5	4	6
Tokelau	3	3	6	5	4	6	5	4	6
Indonesia	3	3	5	4	3	5	4	4	5
Solomon Islands	3	3	5	4	3	5	4	3	4
Vanuatu	3	3	5	4	3	5	3	3	4
<b>Top 10 recipients</b>	<b>43</b>	<b>43</b>	<b>84</b>	<b>48</b>	<b>40</b>	<b>66</b>	<b>49</b>	<b>42</b>	<b>58</b>
Kiribati	1	1	3	3	2	4	3	2	3
Philippines	1	1	2	3	2	3	2	2	2
Tuvalu	1	1	2	2	2	3	2	2	2
Thailand	1	1	2	2	1	2	2	2	2
China	1	1	1	1	1	2	2	2	2
<b>Top 15 recipients</b>	<b>48</b>	<b>49</b>	<b>94</b>	<b>58</b>	<b>49</b>	<b>80</b>	<b>60</b>	<b>52</b>	<b>71</b>
Zimbabwe	0	0		1	1	2	2	2	2
Viet Nam	0	0		1	1	2	2	2	2
Kenya	0	0		1	1	1	1	1	1
New Caledonia	0	0	0	1	1	1	1	1	1
Nepal	0	0	0	1	1	1	1	1	1
<b>Top 20 recipients</b>	<b>49</b>	<b>50</b>	<b>96</b>	<b>63</b>	<b>53</b>	<b>86</b>	<b>66</b>	<b>58</b>	<b>79</b>
<b>Total (66 recipients)</b>	<b>51</b>	<b>52</b>	<b>100</b>	<b>73</b>	<b>61</b>	<b>100</b>	<b>84</b>	<b>73</b>	<b>100</b>
Unallocated	22	23		33	28		27	24	
<b>Total bilateral gross</b>	<b>74</b>	<b>74</b>		<b>106</b>	<b>89</b>		<b>110</b>	<b>97</b>	

*Gross disbursements, two-year averages*

**Table C.5. Bilateral ODA by major purposes**  
at current prices and exchange rates

*Gross disbursements - Two-year averages*

New Zealand	1992-93		1998		2002-03		2002-03 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
<b>Social infrastructure &amp; services</b>	<b>29</b>	<b>40</b>	<b>51</b>	<b>63</b>	<b>53</b>	<b>48</b>	<b>33</b>
Education	23	32	36	45	29	26	8
of which: basic education	-	-	6	7	3	3	2
Health	2	2	5	6	5	5	4
of which: basic health	-	-	-	-	4	3	3
Population programmes	0	0	-	-	1	1	3
Water supply & sanitation	1	1	1	2	1	1	3
Government & civil society	3	3	-	-	10	9	8
Other social infrastructure & services	1	1	9	11	7	7	6
<b>Economic infrastructure &amp; services</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>11</b>
Transport & storage	1	2	-	-	1	1	4
Communications	1	1	-	-	0	0	0
Energy	1	1	1	2	1	1	4
Banking & financial services	0	0	-	-	2	2	1
Business & other services	0	0	2	2	0	0	1
<b>Production sectors</b>	<b>11</b>	<b>15</b>	<b>7</b>	<b>8</b>	<b>5</b>	<b>4</b>	<b>6</b>
Agriculture, forestry & fishing	10	14	4	5	3	3	4
Industry, mining & construction	0	1	1	1	0	0	2
Trade & tourism	1	1	2	2	2	1	1
Other	-	-	-	-	-	-	-
<b>Multisector</b>	<b>4</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>8</b>
<b>Commodity and programme aid</b>	<b>10</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>7</b>	<b>5</b>
<b>Action relating to debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>
<b>Emergency assistance</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>14</b>	<b>13</b>	<b>8</b>
<b>Administrative costs of donors</b>	<b>8</b>	<b>11</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>5</b>
<b>Core support to NGOs</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>8</b>	<b>10</b>	<b>9</b>	<b>4</b>
<b>Total bilateral allocable</b>	<b>72</b>	<b>100</b>	<b>81</b>	<b>100</b>	<b>110</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	72	75	98	76	110	77	76
of which: Unallocated	0	0	18	14	0	0	2
Total multilateral	24	25	32	24	33	23	24
<b>Total ODA</b>	<b>96</b>	<b>100</b>	<b>130</b>	<b>100</b>	<b>144</b>	<b>100</b>	<b>100</b>

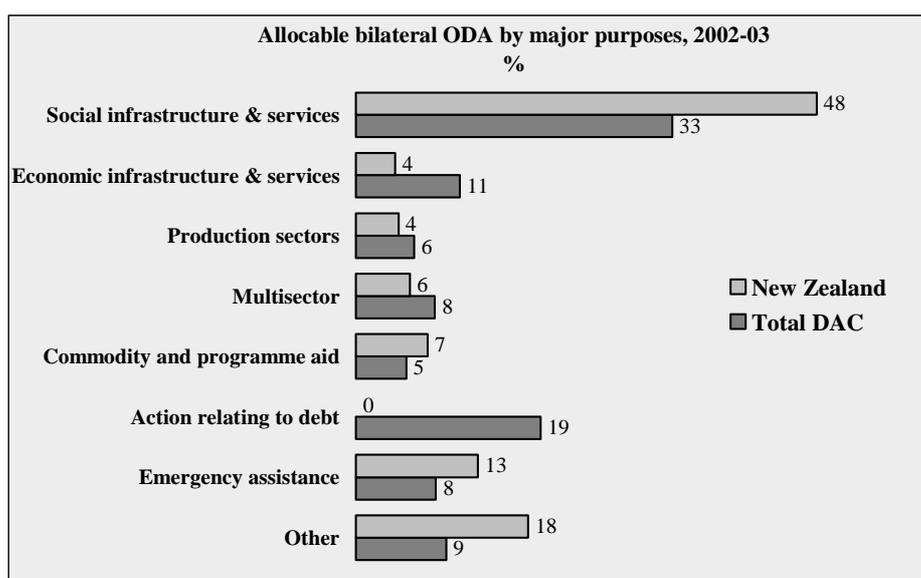


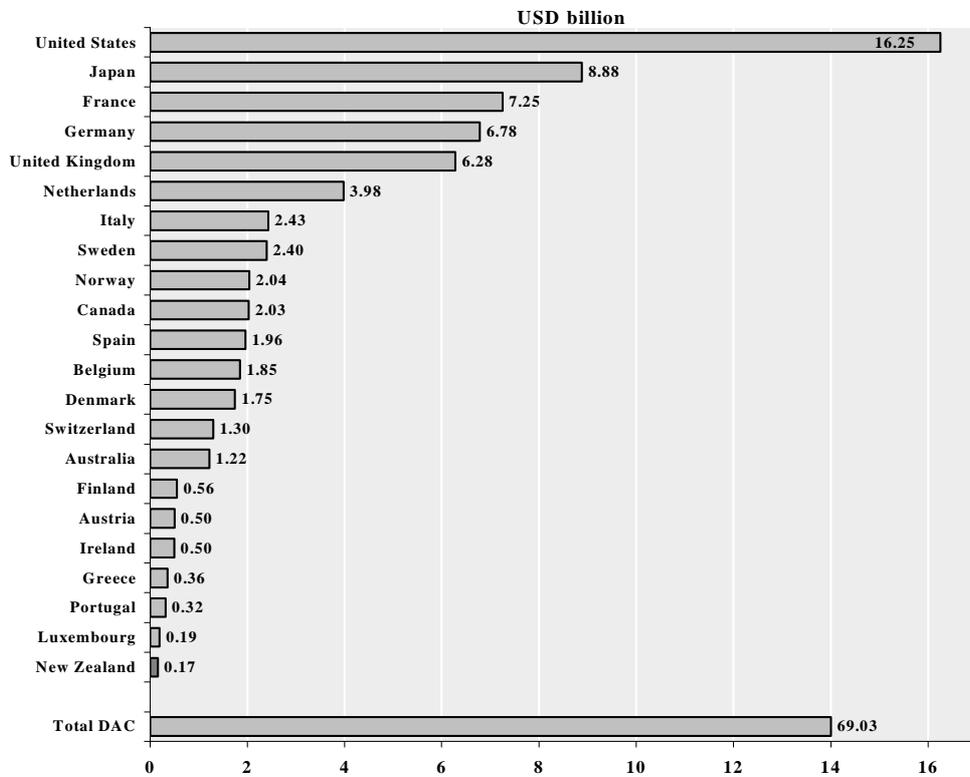
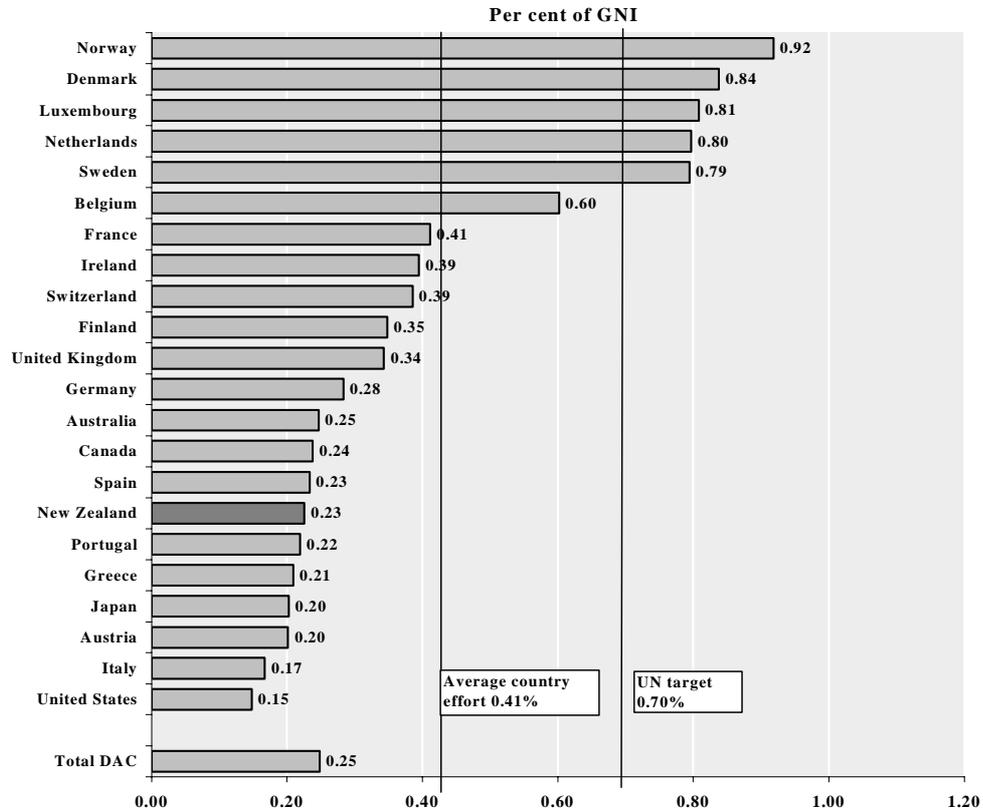
Table C.6. Comparative aid performance

	Official development assistance		97-98 to 02-03 Ave. annual % change in real terms	Grant element of ODA (commitments) 2003		Share of multilateral aid 2003			ODA to LDCs Bilateral and through multilateral agencies 2003		Official aid	
	2003			% (a)	% of ODA		% of GNI (c)	% of ODA		2003		
	USD million	% of GNI			(b)	(c)		% of ODA	% of GNI	USD million	% of GNI	
Australia	1 219	0.25	2.0	100.0	20.0	0.05	21.3	0.05	9	0.00		
Austria	505	0.20	1.9	100.0	54.7	0.11	33.4	0.07	245	0.10		
Belgium	1 853	0.60	11.7	99.5	20.8	0.13	58.7	0.35	163	0.05		
Canada	2 031	0.24	0.4	100.0	33.6	0.08	31.2	0.07	102	0.01		
Denmark	1 748	0.84	0.1	100.0	41.0	0.34	38.5	0.32	202	0.10		
Finland	558	0.35	5.6	100.0	44.7	0.16	32.7	0.11	82	0.05		
France	7 253	0.41	1.4	95.6	28.1	0.12	40.9	0.17	2 027	0.11		
Germany	6 784	0.28	1.8	97.5	40.2	0.11	37.0	0.10	1 181	0.05		
Greece	362	0.21	11.8	..	37.0	0.08	15.3	0.03	81	0.05		
Ireland	504	0.39	15.8	100.0	30.1	0.12	52.8	0.21	1	0.00		
Italy	2 433	0.17	5.6	99.4	56.4	0.09	45.4	0.08	497	0.03		
Japan	8 880	0.20	-1.2	87.5	28.7	0.06	21.6	0.04	- 219	-0.01		
Luxembourg	194	0.81	9.8	100.0	22.8	0.18	33.5	0.27	6	0.03		
Netherlands	3 981	0.80	2.4	100.0	25.9	0.21	32.3	0.26	248	0.05		
New Zealand	165	0.23	1.2	100.0	21.9	0.05	27.3	0.06	1	0.00		
Norway	2 042	0.92	3.1	100.0	28.4	0.26	39.2	0.36	50	0.02		
Portugal	320	0.22	2.8	100.0	42.9	0.09	64.2	0.14	51	0.04		
Spain	1 961	0.23	5.2	92.0	41.3	0.10	17.4	0.04	5	0.00		
Sweden	2 400	0.79	7.2	99.9	25.9	0.21	34.2	0.27	127	0.04		
Switzerland	1 299	0.39	3.4	100.0	27.3	0.11	31.1	0.12	77	0.02		
United Kingdom	6 282	0.34	7.4	100.0	38.5	0.13	36.2	0.12	698	0.04		
United States	16 254	0.15	11.6	99.9	10.2	0.02	27.5	0.04	1 471	0.01		
<b>Total DAC</b>	<b>69 029</b>	<b>0.25</b>	<b>4.4</b>	<b>97.2</b>	<b>27.8</b>	<b>0.07</b>	<b>32.7</b>	<b>0.08</b>	<b>7 106</b>	<b>0.03</b>		
Memo: Average country effort		0.41										

Notes:

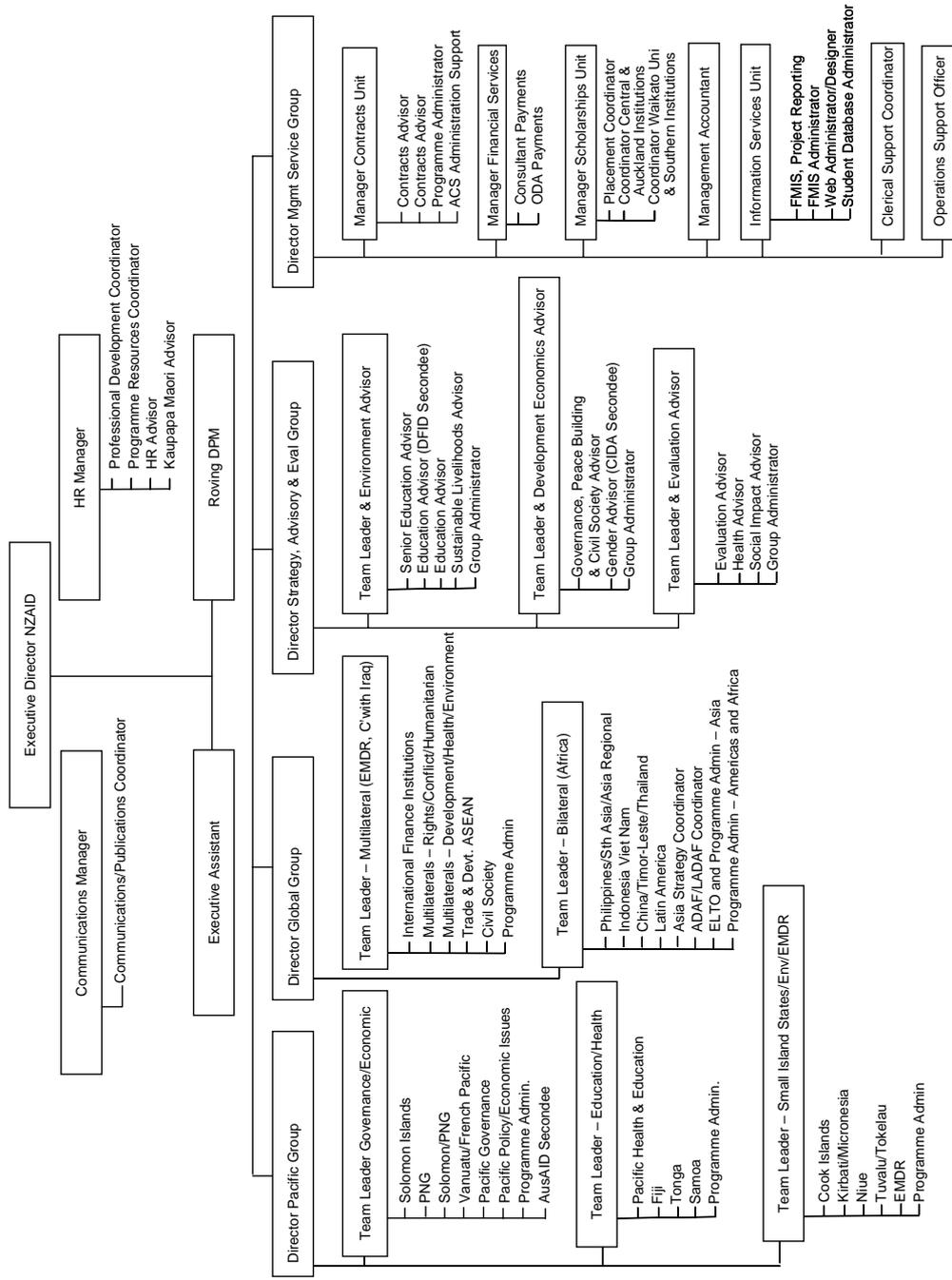
- a. Excluding debt reorganisation.
- b. Including EC.
- c. Excluding EC.
- .. Data not available.

Figure C.1. Net ODA from DAC countries in 2003



# ANNEX D

## ORGANISATION CHART OF NZAID



Source: NZAID, November 2004

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## **PRESS RELEASE OF THE DAC PEER REVIEW OF NEW ZEALAND**

### **NEW ZEALAND AID AGENCY A SUCCESS - NOW TIME FOR AID LEVELS TO RISE**

The OECD Development Assistance Committee (DAC) welcomed New Zealand's decision to reform its aid policies and delivery system. In particular the DAC praised the creation of New Zealand's international aid agency, NZAID, which has heightened New Zealand capacity to deliver effective development programmes. Based on this success, the DAC called for the establishment of a firm medium term aid target as a concrete step towards New Zealand's goal of reaching the agreed United Nations target of 0.7% of GNI. While New Zealand's official development assistance (ODA) has increased in absolute terms, at 0.23% of Gross National Income (GNI) it still lags well behind the DAC member country average of 0.42%.

"New Zealand sees itself as a good global citizen and its work in development, particularly in the Pacific region, is evidence of that. But we believe that New Zealand should back up those ambitions with a clear programme of medium term increases in aid. The logic for an increase in ODA volume has become inescapable," says OECD/DAC Chair, Richard Manning.

This was the first DAC review since the creation of NZAID in 2002. The main findings were summarised by the DAC Chair as follows:

The New Zealand government's decision to create NZAID as a semi-autonomous body with a central focus on poverty elimination was commended.

The reforms have addressed problems identified in the previous DAC peer review in 2000, by fostering strategic focus and development expertise. The DAC found that in practice the semi-autonomous status of NZAID is working successfully. Its independent staffing structures and strong policy and programme development capacities are well-aligned with international thinking on aid effectiveness and the UN Millennium Development Goals. The approach to poverty elimination is broad and includes economic growth and peace and security which are fundamental to development and coherent with New Zealand's overall foreign policy agenda.

NZAID is encouraged to reduce the number of its core bilateral partner countries, particularly in Asia where New Zealand's resources are spread thinly.

NZAID has nineteen core bilateral partner countries: eleven in the Pacific and seven in South East Asia. South Africa is the only partner outside these two regions. NZAID also funds regional, multilateral and NGO programmes, delivered in numerous ways to about one hundred countries. The DAC recommends that New Zealand maintain its focus on the Pacific where it has an especially important role and impact. The more targeted approach proposed for its Asia involvement will allow New Zealand to better coordinate its work with other donors, and reduce heavy transaction costs for poorer countries.

New Zealand's achievements in countries like Solomon Islands and Papua New Guinea where political circumstances have been difficult are of particular interest.

The response by Australia and New Zealand, with their regional partners, to the Solomon Islands government's appeal for help to restore law and order and economic stability through the Regional Assistance Mission in Solomon Islands (RAMSI) was innovative and successful. New Zealand's

support, in conjunction with the European Commission, for reconstructing the education system in Solomon Islands and helping to build local capacity was particularly commended.

New Zealand should further strengthen its government-wide coordination of development work by establishing a more explicit policy coherence framework, and systematic inter-departmental processes.

The range of issues that face developing countries today are wide and evolving, particularly for Pacific Islands countries where areas like migration, environment, education, trade and investment remain challenging. New Zealand's commitment to policy coherence for development would be strengthened by a political statement which would identify this as an objective for overall government action.

The emphasis on basic education and strengthening developing countries' capacity to shape and implement their own education policies, is a welcome and major shift.

Previously New Zealand's education programme was founded on tertiary scholarships in New Zealand, despite unclear linkages with the development needs and priorities of developing countries. New Zealand is encouraged to fulfil its commitment to devoting half of its education support to basic education and to increase the allocation significantly to this purpose, while also continuing to strengthen the effectiveness of its support to higher education.

Strengthening NZAID's presence in the field, particularly in key partner countries should now become a priority.

NZAID has promoted an effective team-based approach to country programme management, in close co-operation with MFAT. Strengthening field presence is critical to the agency's ability to actively participate in policy dialogue with local partner countries and to co-ordinate with other donors.

The DAC Peer Review of New Zealand's development co-operation and policies took place on 13 April 2005. The discussion was led by the DAC Chair Richard Manning. The New Zealand delegation was headed by Executive Director of NZAID, Peter Adams. The examiners for the Peer Review were Denmark and the European Commission.

## DESCRIPTION OF KEY TERMS

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.*

**ASSOCIATED FINANCING:** The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

**AVERAGE COUNTRY EFFORT:** The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (*cf.* ODA/GNI ratio).

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

**DAC LIST OF AID RECIPIENTS:** The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

**LDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

**HICs:** High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

**DEBT REORGANISATION (OR RESTRUCTURING):** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

**DIRECT INVESTMENT:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

**EXPORT CREDITS:** Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**GRANT ELEMENT:** Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). The grant element is calculated against a fixed interest rate of 10%. Thus the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

**LOANS:** Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL AID (OA):** Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a loan, having a grant element of at least 25%).

**ODA/GNI RATIO:** To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

**OTHER OFFICIAL FLOWS (OOF):** Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

**TECHNICAL CO-OPERATION:** Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

**TIED AID:** Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

**VOLUME (real terms):** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

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