NEW ZEALAND

Development Assistance Committee (DAC)
PEER REVIEW 2010

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate 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.

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 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 Austria and the European Union for the Peer Review of New Zealand on 8 December 2010.

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, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

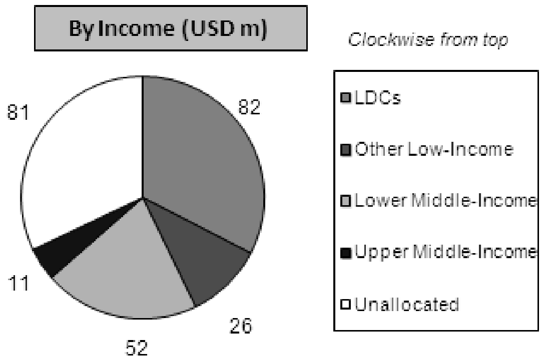
New Zealand's aid at a glance

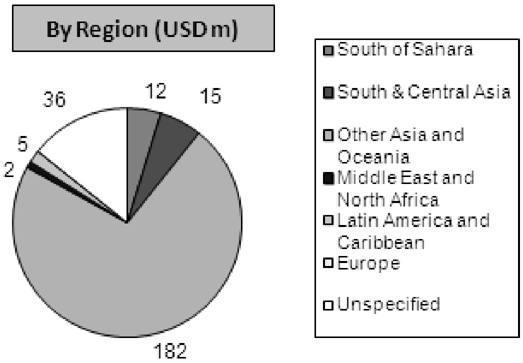
NEW ZEALAND

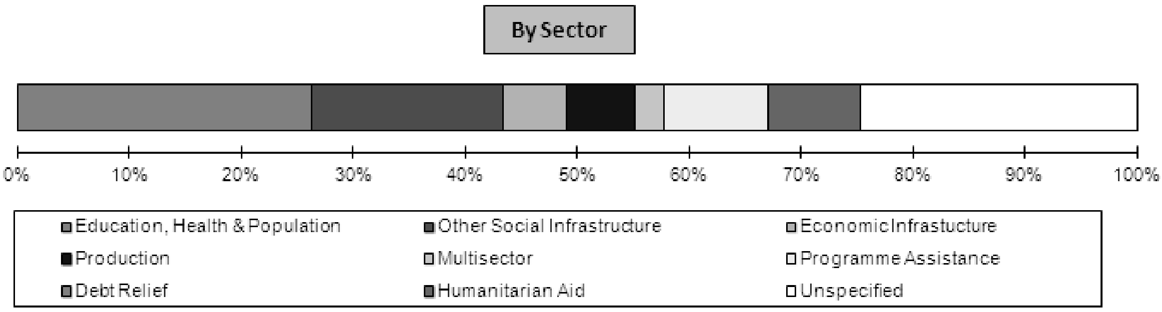
Gross Bilateral ODA, 2008-09 average, unless otherwise shown

Net ODA	2008	2009	Change 2008/09
Current (USD m)	348	309	-11.1%
Constant (2008 USD m)	348	333	-4.2%
In NZL Dollars (million)	503	494	-1.7%
ODA/GNI	0.30%	0.28%	
Bilateral share	80%	73%	

Top Ten Recipients of Gross ODA (USD million)	
1 Solomon Islands	24
2 Papua New Guinea	16
3 Tokelau	15
4 Vanuatu	13
5 Niue	10
6 Samoa	9
7 Indonesia	9
8 Tonga	7
9 Viet Nam	6
10 Afghanistan	6
Memo: Share of gross bilateral ODA	
Top 5 recipients	31%
Top 10 recipients	46%
Top 20 recipients	59%







Exchange rate (NZD per USD)

2006	2007	2008	2009
1.5416	1.3609	1.4455	1.5988

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Acronyms

AAA	Accra Agenda for Action
CERF	Central Emergency Response Fund
CEDAW	Committee on the Elimination of Discrimination against Women
CID	Council for International Development
DAC	Development Assistance Committee (OECD)
ERD	External Relations and Defence Committee of Cabinet.
EU	European Union
FAO	Food and Agriculture Organisation
FADTC	Foreign Affairs, Defence and Trade Committee
GHD	Good Humanitarian Donorship
GNI	Gross national income
HAF	Humanitarian Action Fund
HIPC	Heavily Indebted Poor Countries
IDG	International Development Group
KOHA-PICD	Kaihono hei Oranga Hapori o te Ao – Partnerships for International Community Development
LDC	Least developed countries
LIC	Lower income countries
MDRI	Multilateral Debt Relief Initiative
MFAT	Ministry of Foreign Affairs and Trade
MOPAN	Multilateral Organisations Performance Assessment Network
MOU	Memorandum of understanding
NGO	Non-governmental organisation
NZAID	New Zealand Agency for International Development
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
ODESC	Officials Defence External Security Committee
OHCHR	Office of the United Nations High Commissioner for Human Rights
PACER	Pacific Agreement on Closer Economic Relations
SDF	Sustainable Development Fund
SWAp	Sector-wide approach
UN	United Nations
UNHCR	Office of the United Nations High Commissioner for Refugees
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
VERM	Vanuatu Education Road Map
WFP	World Food Programme
WP-EFF	Working Party on Aid Effectiveness (OECD)

The DAC's main findings and recommendations

Overall framework for development co-operation

Legal and political orientations

An evolving approach and system in a challenging geographical context

As a Pacific nation, New Zealand feels a particular responsibility towards its immediate neighbours, many of which are low income countries and small island states facing specific development and environmental challenges. To a large extent this drives New Zealand's foreign policy and its aid programme.

Since the election of the government in November 2008, the New Zealand aid programme has been going through a major change process. The government has revised its aid policy and institutional arrangements to align them with the new foreign policy. This led to the publication of two key Cabinet decisions in April 2009. The first defines a new aid mandate, making sustainable economic development the core focus of the aid programme and confirming the Pacific as the priority region. The second describes the new institutional arrangements. This includes re-integrating the aid programme into the Ministry of Foreign Affairs and Trade, with the former semi-autonomous agency NZAID becoming the International Development Group (IDG). The government considers this integration as a way to better leverage opportunities within the ministry and to link diplomacy, trade and development more closely. The current transition phase offers opportunities to enhance the development dimension of foreign policy, and to develop further the aid programme within the ministry, building on expertise gained in recent years. Meanwhile New Zealand needs to maintain the key strengths of the aid programme, such as development expertise and good practice experience, and make sure that attention is kept on areas whose direct contribution to sustainable economic growth may be less tangible.

Clarifying the strategic vision: remaining committed to poverty reduction while broadening the policy agenda

In June 2010, the New Zealand aid programme was still in transition, and the scope and impact of the policy changes had not yet been translated into clear strategic orientations. The absence of further details concerning strategic directions generated confusion and unease among IDG staff and their partners in New Zealand and in the field. New Zealand should now clarify its strategic vision for development co-operation. It should in particular outline how it will address not only the economic, but also the environmental and social dimensions of its objective of supporting "sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world". New Zealand is taking positive steps in this direction, and is currently preparing a draft overarching policy. It also plans to use the end of the strategy (2004/05-2009/10) as an opportunity to develop a new medium-term strategy. The Committee was informed that New Zealand is in the process of updating its geographic and sector strategies to reflect the new orientations.

The new aid mandate maintains gender equality, human rights and environment as cross-cutting issues and reaffirms that they should be further integrated into programmes to ensure good outcomes and to manage risks. This reaffirmation provides a strong impetus for New Zealand to build on its progress in policy orientations and analytical, screening and reporting tools for cross-cutting issues, and to be more strategic and efficient in its approach. New Zealand now needs to integrate these further into country programming and further develop guidance for monitoring and assessing results. Given the huge range of, and potential for, natural risks in many Pacific Islands, New Zealand should mainstream further disaster risk management and climate change into the bilateral aid programme. These are areas where IDG should bring greater policy clarity, including on how development and humanitarian activities connect across the programme, especially as the recent focus on economic infrastructure offers opportunities for further engagement.

The importance of communicating results to strengthen public and political support

Despite increased funding for development education, development awareness and confidence in the effectiveness of aid remain weak among the New Zealand public. Mobilising all domestic stakeholders to support the aid programme is a challenge. Scepticism about the impact of the aid programme seems high among some parliamentarians. Non-government organisations (NGOs) are concerned that the poverty reduction focus may be lost with the new orientations of the aid programme. In this context, the establishment of an Aid Advisory Board in May 2010 should be useful for presenting a variety of development perspectives to the minister. This should be accompanied by an increased effort to communicate the results and impact of the aid programme. This is necessary to build broad political and public support for the programme and for the increase in aid needed to achieve the internationally-agreed target of giving 0.7% of its gross national income (GNI) as official development assistance (ODA). Achieving this support will mean updating the 2005 communication strategy and ensuring that the communication unit maintains enough dedicated resources and appropriate knowledge about the aid programme, despite being integrated into the wider communication office for the Ministry of Foreign Affairs and Trade (MFAT). New Zealand could also integrate communication for development into every programme from the early stages.

Promoting policy coherence for development

New Zealand takes a pragmatic approach to whole-of-government policies and mechanisms. The aid programme benefits from good relationships across government departments and has been able to develop joined-up approaches with good results. A next step should be to review its funding modalities to ensure they enable long-term and predictable engagement that are aligned to partner countries' priorities. New Zealand should also develop whole-of-government positions more systematically for each priority partner country. This would reinforce its strategic approach to its partners, particularly in the Pacific, and help to ensure a cohesive approach in the field. It would also allow New Zealand to monitor the impact of the overall package of investment in a country. Finally it would help prepare countries for transition in cases where New Zealand plans to replace its aid programme with a partnership relying on economic and diplomatic relations, as guided by the new foreign policy strategy. A promising new approach, developed in 2010, is to start preparing country strategic frameworks covering all New Zealand assistance in a partner country. This should include mutually-agreed priority outcomes, outputs and target results, as well as an accountability framework. For Pacific countries these frameworks will be embedded in the politically-agreed *Joint Commitment for Development* document.

Pragmatism dominates New Zealand's approach to policy coherence for development. New Zealand does not see the need for a policy statement that would bind other departments, as it already has a system for ensuring formal consultations on all Cabinet papers, complemented by a framework of inter-departmental meetings and cluster groups which ensure co-ordination on key policies. New Zealand has developed whole-of-government approaches to sectors (*e.g.* fisheries) and there are examples of win-win policies (*e.g.* for temporary migration). The aid programme is proactively engaging in policy coherence for development with a medium-term strategy for action focusing on six priority areas. While this strategy is so far an IDG-only framework, IDG could capitalise on its integration within the ministry to promote the policy coherence for development perspective within MFAT and across government more broadly. A key step would be to have New Zealand departments set, in priority areas for policy coherence, joint inter-departmental targets to which each relevant department would contribute. This would reinforce commitment to policy coherence, while an integrated results framework would help monitor progress and assess impact.

Recommendations

To maintain its position as a key development player in the Pacific region, New Zealand should:

- Clarify the new strategic orientations of the aid programme and develop a medium-term strategy explaining the government's approach to economic development to reduce poverty, while recognising the importance of the environmental and social dimensions of sustainable development.

- Adopt a more strategic and systematic approach to cross-cutting issues, including disaster risk management and climate change, backed up with appropriate systems and resources, and clear connections between development and humanitarian activities.

- Update its development co-operation communication strategy and maintain dedicated resources to promote the policy statement and communicate results.

- Continue to develop whole-of-government frameworks, agreed with partner countries, to ensure stronger oversight of all activities implemented by New Zealand departments in these countries.

- Set and monitor inter-departmental results frameworks in priority areas of domestic and foreign policies to further promote development concerns.

Aid volume, channels and allocation

New Zealand's net ODA was USD 309 million in 2009, equivalent to 0.28% of GNI. This makes New Zealand the smallest DAC donor in volume terms, ranking 17th out of 23 bilateral DAC members for its ODA/GNI ratio. Since 2004, New Zealand has steadily increased its ODA, reaching a peak of USD 348 million in 2008. Despite strong pressure on public spending, New Zealand is committed to raising the level of ODA up to USD 416 million by 2012/13. Yet New Zealand is still falling short of the internationally agreed UN 0.7% ODA/GNI target, and its funding commitments beyond 2012/13 are uncertain. The DAC encourages New Zealand to work towards increasing its ODA to 0.7% based on a clear and strategic forward spending plan with an intermediate target and a timeframe for achieving it.

Continued efforts to concentrate bilateral aid are important

New Zealand delivers a large share of its aid programme bilaterally (74% of its ODA in 2009). Its bilateral aid is provided in grant form and does not include debt relief or substantial funding to refugees. It is strongly focused on the Pacific (84% of bilateral aid in 2009) and to a lesser extent on Asia, two key regions for New Zealand's foreign policy. New Zealand's high level of concentration allows it to play an important role in a number of Pacific countries where it is one of the largest donors. Its plan to focus its aid further on this region is positive. This will allow New Zealand to reinforce its key role in supporting low income countries in the Pacific, many of which are off track to achieve the Millennium Development Goals (MDGs). New Zealand needs to focus on fewer priority partner countries in Asia, bearing in mind its comparative advantage. Should there be any reallocations within the aid programme, New Zealand is encouraged to consider carefully issues of continuity, division of labour and absorption capacity, and to take decisions in close consultation with other donors engaged in Asia and the Pacific.

Balancing a strong MDG focus with increased attention to economic growth

The New Zealand aid programme has historically largely focused on social infrastructure and services. Looking ahead, the stronger focus of the aid mandate on sustainable economic development is likely to lead to increasing bilateral allocations to economic infrastructure and services as well as production sectors, including supporting private sector development. Investing in the private sector should be based on sound economic analysis and pre-feasibility studies to ensure economic activities are viable, sustainable and include positive social and environmental impact. However, this should not prevent New Zealand from upholding its strong capital of knowledge and support to social sectors such as education.

Support through multilateral organisations is becoming more strategic

New Zealand recognises multilateral engagement as a useful channel, both as a means to extend its geographical reach, and as a platform to draw attention to Asia-Pacific issues at the global level. It is becoming increasingly strategic in its multilateral allocation processes, focusing its support on 10 priority agency partners that complement its policies. New Zealand is appreciated as a flexible partner and a neutral broker. It could build on good practice in its bilateral and regional programming to introduce greater predictability by extending its practice of making multi-year commitments to all its main multilateral partners.

Recommendations

Planned increases in New Zealand's aid volume are encouraging. To build further on its efforts and add weight to its international credibility as a development partner, New Zealand should:

- Work towards increasing its official aid to meet the UN target of 0.7% ODA/GNI. A first step could be to develop a clear and strategic forward spending plan setting out an intermediate target and a timeline for achieving it.
- Further reduce geographic dispersion beyond the Pacific by setting out priorities for programming based on its comparative advantage. In doing so, New Zealand should ensure new arrangements on division of labour are developed following the principles agreed in the Accra Agenda for Action.
- Replicate its good practice on predictability for bilateral and regional programming by making multi-year commitments to its priority multilateral partners.

Organisation and management

Maintaining development expertise while consolidating the system

Over the last decade New Zealand has built an internationally-recognised aid programme. The bulk of the programme (92% in 2009) is managed by a single entity (now called IDG) which benefits from committed development professionals. Established in 2002, the former agency NZAID lost its semi-autonomous status when the aid programme was integrated, in April 2009, into the Ministry of Foreign Affairs and Trade (MFAT). This reform aimed to clarify lines of accountability, better align development with foreign policy objectives and reduce management overheads in Wellington and overseas. IDG is now one of MFAT's seven groups. It is headed by a Deputy Secretary who reports to the Secretary of Foreign Affairs and Trade and sits on MFAT's senior leadership team. The IDG Deputy Secretary has retained some authority over specific development recruitment and accountability, and separate votes for ODA and Foreign Affairs and Trade have been maintained.

The integration of New Zealand's aid programme into MFAT has already yielded positive results both for the programme and the ministry at large. In addition to putting development at the heart of foreign policy, it is an opportunity to share innovative management tools developed by NZAID with other parts of the ministry, which is completing an important organisational change process called Ministry 20/20. However, it is important to retain and strengthen IDG's professionalism if it is to continue delivering quality aid and results. This requires the integration to be rapidly completed and consolidated. IDG will also need to retain a core cadre of development professionals with clearly defined roles, functions and lines of accountability internally and among headquarters and country offices. IDG is aware of the need to strengthen its internal communication to ensure staff buy-in into this transition process and has taken steps to involve staff in key strategic and organisation processes.

Over the last four years, aid programme staff numbers have increased, including at field level, with strong benefits for the quality of New Zealand's aid. IDG should now develop a workforce planning exercise, building on its review of staffing levels and needs of missions in partner countries. This would help plan recruitment, training and professional development so that adequate numbers of staff with appropriate skills and experience can be maintained. IDG should also make sure that the ministry appropriately recognises the value of its locally-engaged staff and explores ways to leverage their expertise better, including through better career prospects.

Adjusting the business model for efficiency, delegated authority and learning

The New Zealand aid programme has taken steps to improve its business processes and to enable it to scale-up its aid programme more efficiently. It should build on achievements made in contracting, finance and monitoring processes to streamline further its aid management systems and delegate authority more effectively to country offices. New Zealand has posted more staff in partner countries, enabling it to engage further in policy dialogue and co-ordination. Further decentralisation will require adequate business systems and processes, and relevant staff training.

Looking ahead, IDG is now adapting its business model to the new aid mandate and institutional framework. Its business model should be sufficiently resourced and offer adequate career development prospects to maintain high quality delivery, as recognised by Cabinet. It should also plan for economies of scale as the aid budget grows, in order to achieve the ministry's efficiency target of reducing the administrative costs share in the aid budget. This efficiency drive, combined with a new emphasis on value for money, calls for a review of the rather dispersed aid portfolio, which comprises more than 800 projects and programmes. IDG is aware of the need to move towards supporting fewer, bigger projects. It is important to apply this new trend in ways that do not undermine New Zealand's flexibility in delivering aid and its long-term approach to development, including as regards economic activities.

IDG has taken positive steps to strengthen how lessons and knowledge are shared across the programme, setting up thematic "communities of practice" with incentives provided through the performance management system. This should be expanded further across the ministry and to posts in the field. IDG is also moving towards a stronger focus on outcomes rather than outputs, in line with the government's emphasis on demonstrating results and impact. A new performance reporting framework is in place and quality assurance systems are under construction. IDG has strengthened its evaluation function, but should conduct more strategic evaluations in response to policy and programming needs for evidence, and make more systematic use of them for forward-looking management for both development and humanitarian programmes.

The importance of an inclusive approach to domestic stakeholders

Following a period of close co-operation with domestic NGOs, the aid programme's relationship with NGOs has gone through a period of uncertainty in the last two years, with a break in the policy dialogue and suspension of the funding arrangements. The publication in July 2010 of a new funding scheme to increase funding through NGOs and better align NGO co-funded projects to IDG's policies is an opportunity to restore links. IDG should re-establish a solid and confident relationship with NGOs. It should recognise the comparative advantage of using NGOs as implementing partners for specific programmes and the capacity of some of the main NGOs as development partners. In partner countries, it should create a more structured platform for engaging in regular and quality dialogue with NGOs in order to ensure synergies in their work. More broadly, New Zealand should look strategically at how to engage further with other national stakeholders, such as research institutes, interest organisations and the private sector. In particular, IDG needs to develop a strategic approach to the private sector in order to implement the economic growth agenda in its mandate.

Recommendations

In order to maintain the quality of its aid programme, New Zealand should:

- Complete the MFAT's organisational change process. In re-integrating the aid programme, the ministry should build on its strengths while recognising its specificity and its related needs, in particular as regards development expertise capacity.

- Finish adjusting IDG's business model to the new aid mandate to enable it to continue to deliver a growing aid programme efficiently and with more effective delegation of authority to country offices. This requires IDG to equip posts with appropriate capability, streamline its aid management systems and clarify functions and lines of accountability.

- Maintain a core cadre of development professionals and reinforce workforce and training planning to ensure IDG has the right skills mix. IDG should also consider options for widening the role of local staff, while ensuring that their added value is recognised in the ministry.

- Build on positive efforts to manage for results and knowledge sharing to develop a more strategic use of monitoring and evaluation for forward-looking management.

- Develop a strategic approach to the private sector and research institutes to implement the new orientations of the aid programme. IDG should plan a review of the way it engages with NGOs at headquarters and in the field, and ensure it makes the most of synergies between the aid programme and NGOs.

Practices for better impact

Implementing aid effectively

New Zealand is committed to the principles of the Paris Declaration on Aid Effectiveness and Accra Agenda for Action. It is leading efforts to raise the profile of the Paris Declaration within the Pacific region through initiating and supporting regional workshops, adopting the Pacific Principles on Aid Effectiveness. New Zealand was also instrumental in the adoption of the *Cairns Compact on Strengthening Development Coordination in the Pacific* in 2009. Internationally there is scope for New Zealand, along with other donors, to ensure that the Pacific voice is better heard in the global aid effectiveness debate.

New Zealand takes a pragmatic, bottom-up approach to implementation, taking account of the challenging environment in which the majority of its programmes are delivered. Ownership and alignment remain problematic in a number of small island states with weak capacity, some of which are in fragile situations. The ministry has recently adopted an Aid Effectiveness Action Plan to accelerate implementation of the commitments. The plan identifies a number of barriers that MFAT needs to overcome to internalise fully the aid effectiveness agenda into its policies and programming. However, two additional dimensions need to be taken into account: i) while commitment to the Paris Declaration and the Accra agenda is strong among its own staff, IDG will need to promote the same level of understanding and dedication within the broader ministry and other government departments – this could be partly achieved by developing a policy position on aid effectiveness and clarifying the importance New Zealand attaches to this agenda; ii) the aid effectiveness action plan is mostly focused on activities in headquarters, and should be complemented by specific, time-bound activities at the country level, such as developing country-specific implementation plans as part of IDG's internal monitoring and reporting system.

New Zealand is valued by partner countries for its knowledge and understanding of the Pacific. It is considered a respectful and open partner and appreciated as a neutral broker. It is important that New Zealand continues to promote country ownership as the aid programme is focused more narrowly on sustainable economic growth. Since the last peer review, New Zealand has increasingly moved towards five to ten-year programming frameworks for partner countries, alongside three-year allocations. The New Zealand legislature sanctions annual budgets with inbuilt flexibility to rollover over-spends of up to 10% and under-spends of up to 20%. This level of flexibility is much higher than for most other donors, and provides for a good balance between predictability and flexibility. New Zealand is encouraged to improve delivery on its AAA commitments on medium-term predictability. The current discussion within IDG on a new process for developing strategic frameworks for programmes would be a useful opportunity to examine this further.

New Zealand's efforts to align to partner countries' policies and systems and to harmonise with other donors are recognised by these partner countries and donors. It is, however, clear that further delegation of authority would help New Zealand to adapt to evolving partner country priorities. New Zealand should also continue to promote sector-wide approaches and avoid reverting to a free-standing project approach. In progressing towards budget support, it should build upon its positive experience of providing budget support in Samoa to bolster the tsunami recovery. The move to greater use of budget support should be backed by appropriate training and guidance from headquarters, notably on the different accountability and risks management processes associated with these modalities. Finally, New Zealand should look at ways to ensure that its support to regional initiatives in the Pacific responds better to partner government policies. This means integrating the regional dimension more broadly into country programming and monitoring, and revising the way New Zealand co-operates with regional organisations to ensure it improves the regional architecture in the Pacific.

Learning from priority topics

Capacity development

New Zealand supports the Paris and Accra commitment to provide demand-driven, tailored and co-ordinated support to capacity-development efforts. It uses a range of tools, including scholarships, training, technical assistance and dedicated capacity development programmes. However, capacity development is not fully internalised within the New Zealand aid programme. Like many donors, New Zealand does not have a policy on capacity development, and guidelines for activity management do not address this aspect in depth. Good practice in this area is neither sufficiently documented nor shared across the programme. New Zealand should improve the understanding of capacity development across government and beyond, drawing upon efforts of the broader international community to share experiences and identify good practices in this area. Capacity development in fragile states and in micro states in the Pacific is particularly challenging and calls for a more strategic approach. As a first step, New Zealand could conduct an analytical stock-take of its range of delivery mechanisms, and make recommendations for how these may be more effectively linked together. In particular, it should make sure it positions its technical assistance in a way that avoids inappropriate substitution and that it contributes effectively to building partner capacity in the long term. New Zealand should also use the review of its scholarship and training schemes to ensure they build capacity as part of a broader co-ordinated capacity-development strategy. In the Pacific, where government lacks capacity in many areas, New Zealand could consider systematically including a capacity-building component in each programme where this would add value. Finally, New Zealand could consider building the capacity of other stakeholders (*e.g.* parliament and private sector), beyond the government departments and civil society stakeholders with whom it already works.

Fisheries and food security

Fisheries offer a good example of New Zealand's whole-of-government approach to a sector of high importance in the Pacific region. In 2005, New Zealand developed a co-ordinated MFAT/NZAID/Ministry of Fisheries strategy for improved and longer-term engagement in Pacific fisheries. The strategy has four connected pillars and combines initiatives at national, regional and sub-regional level. It is complemented by a Pacific capacity-development framework developed in 2006 by the Ministry of Fisheries. Although ODA allocated to fisheries has remained limited so far, the strategy has led to positive results, driving long-term arrangements with partner countries and reinforcing policy coherence in this sector. As an illustration, a co-operation arrangement between the Cook Islands, New Zealand, Niue, Samoa, Tonga and Tokelau seeks to reinforce the links between fisheries administrations. Looking ahead, New Zealand would gain from setting up a cross-department framework for monitoring and evaluating the Pacific fisheries strategy, using indicators, targets and time-bound plans for delivering results. This would help both to boost implementation of the strategy and pull together information and lessons for managing the programme. New Zealand should also consider improving the integration of cross-cutting issues, such as gender equity, into the strategy.

Recommendations

To increase further the effectiveness and impact of its aid, New Zealand should:

- Promote broader understanding and dedication to aid effectiveness within the ministry and other government departments, and set out a more systematic approach to implementation which is agreed by all relevant government departments.

- Continue to move towards greater use of programme- and sector-based approaches and budget support, equipping itself to handle the different accountabilities and risks associated with these types of modalities and ensuring appropriate training and guidance.

- Explore ways to make its aid more predictable in the medium term in line with its Accra Agenda for Action commitments.

- Promote understanding of capacity development across government and beyond, and assess the range of tools at its disposal and their contribution to capacity development.

Humanitarian action

New Zealand's five year strategy for international development (2004/05-2009/10) identifies "humanitarian support" as key for reducing vulnerability to poverty and ultimately reducing poverty itself. While published documents on IDG's new mandate did not refer specifically to humanitarian action, a rapid and visible response to emergencies in the Pacific region remains a high priority for the government. The Committee was informed that the draft international policy statement includes improving resilience and responding to disasters as one of four priority areas for the aid programme. It is important that the scale and type of response made by New Zealand continue to be driven by the needs of those affected.

New Zealand still needs to clarify what priority it gives to humanitarian needs outside the Pacific, where it previously provided funding through multilateral agencies and the Red Cross movement. It would be useful if New Zealand could further define its strategy for responding to complex emergencies and natural disasters beyond the region.

As a "good global citizen", New Zealand has punched above its weight in international fora such as the Good Humanitarian Donorship (GHD) initiative, bringing an important Pacific voice to global discussions. However, humanitarian action is programmed by separate teams in two different departments in IDG (the Global and Pacific Groups). Programming could be improved by bringing the humanitarian specialists together into one team.

New Zealand's humanitarian action policy is currently under review. The existing policy was finalised shortly before the election of the new government in 2008. Though it was never formally launched, it is used as the *de facto* policy. This policy is consistent with the GHD principles and involves good practice for effective humanitarian action. However it is not clear how comprehensively IDG has been able to put it into practice, and monitoring and evaluation of humanitarian action is acknowledged to be weak.

Recommendations

To consolidate its role as a good humanitarian donor, New Zealand should:

- Clarify its rationale for engaging in both global response and policy debates, and how these are linked and mutually supportive.

- Bring together in one team the humanitarian specialist expertise in the Pacific and Global humanitarian teams and review its humanitarian policy.

Secretariat report

Chapter 1

Strategic orientations

An evolving aid programme in a challenging geographical context

A programme in transition

Since the end of 2008 the New Zealand aid programme has gone through a major process of change, which has affected both its strategic orientations and institutional arrangements. There have been changes in emphasis to the policy directions of the aid programme and the semi-autonomous agency responsible for co-ordinating New Zealand's aid programme has been reintegrated into the Ministry of Foreign Affairs and Trade (MFAT). In this new context, New Zealand has the opportunity to build on the gains made over recent years to further develop its aid programme. Since the last peer review, New Zealand has made progress in a number of areas, continuing to build its development expertise and to improve its partnerships in the Pacific region. Part of this progress results from New Zealand's direct response to the recommendations made in the previous peer review (OECD, 2005a). In particular, New Zealand has steadily increased its official development assistance (ODA) over the last four years; maintained a strong focus on the Pacific to support partner countries in their efforts to achieve the Millennium Development Goals (MDGs); streamlined its strategic approach to multilateral organisations; posted more staff in partner countries, enabling it to engage further in policy dialogue and co-ordination; and continued to promote sector-wide approaches as a way of strengthening local ownership and building the capacity of partner governments (Annex A).

With its re-integration into MFAT, the New Zealand aid programme has an opportunity to enhance the development dimension of foreign policy and reinforce the aid programme. To do this will require clarifying the strategic vision for the aid programme, recognising the environmental and social dimensions of sustainable development; strengthening communication on results and impact; and maintaining appropriate levels of expertise within the aid programme.

The Pacific context

New Zealand's location in the Pacific largely drives its foreign policy and its aid programme. New Zealand sees itself as a Pacific nation, and consequently as having a particular responsibility for, and interest in its Pacific neighbours. Its aid programme is therefore strongly focused on this region. In 2009/10, 84% of expenditure through New Zealand's core bilateral aid programmes went to the Pacific. Although a small donor within the OECD Development Assistance Committee (DAC), New Zealand can have a real impact on the development of the Pacific Island countries, given the limited size of their economies and populations. However, there are many challenges attached to delivering aid in the Pacific, a region which is largely unlikely to achieve the Millennium Development Goals (MDGs) by 2015. As small and remote islands with highly dispersed populations and often fragile situations, most of these countries face specific obstacles to social service delivery and economic development. Aid fragmentation, weak capacity and limited skilled human resources also add to the challenges and affect the way the New Zealand aid programme is delivered (Chapter 5).

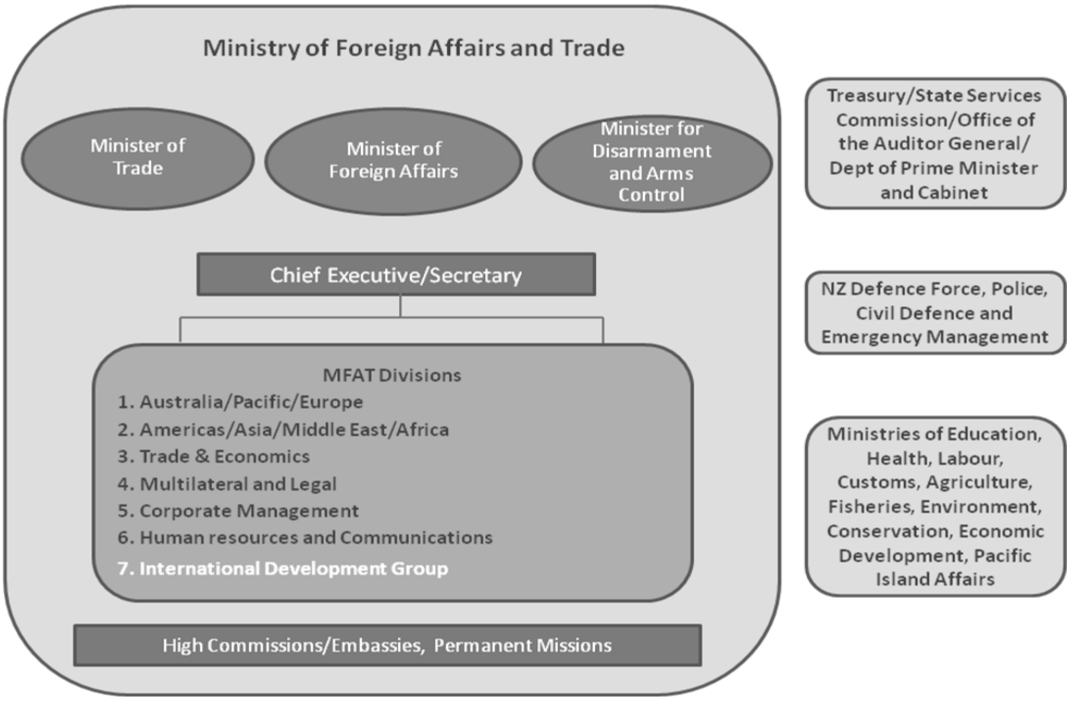
The regional dimension is important in the Pacific, as illustrated by the breadth of its regional institutions. New Zealand is therefore engaged both at regional and bilateral levels, and some of its aid programmes seek synergies between these two levels. Despite these efforts, however, the link between the New Zealand regional and bilateral co-operation programmes is often unclear and could be reinforced for better impact (Chapter 5).

Strategic foundations of New Zealand's development co-operation

An integrated institutional framework

In April 2009, the government decided to re-integrate the aid programme into the Ministry for Foreign Affairs and Trade (MFAT) (Figure 1). The former semi-autonomous New Zealand Agency for International Development (NZAID) became the International Development Group (IDG) (Cabinet, 2009a). The government sees this integration as a way to better leverage opportunities within the ministry. This will enable New Zealand to link diplomacy, trade and development more closely, consistent with the policy alignment in the new mandate of the aid programme (Cabinet, 2009b). Some specific aspects of the aid programme have been safeguarded: the Cabinet agrees that the ODA vote should be kept separate; it recognises the importance of maintaining human resources in line with business needs; and it agrees to pursue alignment with international best practice, as set out in the 2005 Paris Declaration on Aid Effectiveness (Cabinet, 2009a, paragraphs 7, 8, 9). This should enable IDG to maintain and further develop key strengths of the aid programme in terms of its development expertise and good practice capital, including in areas where the direct contribution to sustainable economic growth may be less tangible (Chapters 4 and 5). With the IDG's top executive reporting directly to the Secretary of Foreign Affairs and Trade, and sitting on MFAT's senior leadership team, the aid programme is strongly connected to senior ministry management. These arrangements therefore offer an opportunity to enhance the development dimension within the ministry and in New Zealand's foreign policy in general.

Figure 1. The New Zealand development co-operation system



New Zealand's aid policy: a shift in emphasis

The government elected in November 2008 adjusted the priorities for New Zealand's foreign policy and revised NZAID's mandate and policy settings to reflect its renewed foreign policy. This led, in April 2009, to New Zealand's Cabinet adopting a new mandate for the aid programme: to "support sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world. Within this, the core focus (will) be on sustainable economic development" (Cabinet, 2009a). The new mandate also states that the Pacific remains the core focus and will receive an increased portion of New Zealand aid.

Previously, NZAID had developed, alongside other MDG-focused strategies, a policy to promote pro-poor economic growth and livelihoods to help achieve the agency's central goal of eliminating poverty (NZAID, 2008a). New Zealand is now placing a much stronger emphasis on supporting broad-based economic development with less specific focus on poverty. The rationale for this change in emphasis is explained in the Foreign Ministry's summary report of the internal review of the aid programme (MFAT, 2009a). It explains that focusing the aid programme on poverty elimination can be seen as a "deficit model" which tries to fill gaps, whereas a focus on sustainable economic development is an "opportunity model" creating added value. It also explains that neither focus is sufficient in isolation.[1] The document suggests new sectoral directions for the aid programme (infrastructure, transport, tourism, trade, private sector development,

1. The explanation is three-fold: i) economic growth that is too narrow does not address the drag on society that poverty represents and risks reinforcing elites at the expense of the poor; ii) the focus on poverty alleviation does not lead to satisfactory progress; and iii) broad-based, inclusive growth requires the will, capability and policy settings of partner governments.

youth employment) and ways of delivering aid (*e.g.* focus on results, value for money and mutual accountability, closer co-operation with Australia in the Pacific, support to larger, longer-term programmes). The MFAT's *Statement of Intent for 2010 to 2013* further clarifies the new approach:

> *" In the Pacific, the central focus of sustainable economic development will involve three broad areas of action: i) improving the enabling environment for business; ii) fostering private sector development; iii) strengthening trade, migration and other international opportunities. Sustainable economic development is necessary to address poverty. It is underpinned by health, education, a healthy environment, accountable governments with competent service delivery, and a regulatory environment and infrastructure that facilitates private sector development"* (MFAT, 2010).

The 2009 mandate also states that "New Zealand ODA outcomes should be consistent with, and support, New Zealand's foreign policy and external relations under the direction of the Minister for Foreign Affairs". This policy alignment can be powerful where New Zealand's foreign policy objectives in the Pacific are to help make the region stable and prosperous, and assist Pacific countries to become capable, confident and self-reliant states (Cabinet, 2009a). The foreign policy also aims to advance New Zealand's interests, as clearly stated in the MFAT statement of intent, which sets out the top priorities for the ministry as follows:

> *"The work of the Ministry, whether in trade, multilateral diplomacy or development, has a clear objective – the economic growth and success of our country. That is why we are negotiating free trade agreements – while not giving up on the Doha Round. It is why we are engaged in international dialogue on issues of significance to our country whether in relation to security, climate change, or international governance; and it is why we are deeply involved in supporting the development of many countries, particularly in the Pacific, whose path to economic independence depends on skills, expertise and funding from New Zealand and a range of other countries and organizations"* (Secretary of Foreign Affairs and Trade, Introduction, MFAT, 2010a).

In the coming years, as highlighted in its business model, IDG plans to operate in a way which: i) leverages New Zealand's comparative advantage; ii) recognises the core space it occupies in New Zealand's foreign policy; and iii) maximises its experience and expertise in delivering development excellence with its partners. This strategic vision is represented by the aid programme being at the intersection of three circles representing respectively foreign policy, development excellence and New Zealand's comparative advantage. While the long-term interests of the countries in the region clearly coincide, there may be discrepancies between New Zealand's short-term interests and those of its partner countries. For instance, regional integration is an objective shared by all Pacific Island Forum leaders. However, the negotiations on a free trade agreement (Pacific Agreement on Closer Economic Relations – PACER Plus) launched in August 2009 suggest that New Zealand (and Australia) hopes to achieve trade liberalisation faster than several of their partner countries, who fear the impact on their economies and want more time to assess the implications. It is important that New Zealand take a flexible approach to the pace and content of the negotiations to achieve a trade agreement which respects the specific constraints and needs of the Pacific island countries. Generally, ensuring that New Zealand's short-term interests do not undermine the long-term objectives of the aid programme and partner countries' and other donors' development efforts requires efficient consultation and co-ordination mechanisms within government (Chapter 2).

Communicating the vision better

The scope and implications of these policy and institutional changes have not yet been clearly communicated to the development community. NZAID/IDG has undertaken a range of strategic and institutional reviews in the last two years. NZAID was without a Director General for a little more than a year during which time the programme reported directly to the CEO of the MFAT. This, in part, explains that policy changes are still being translated into clear strategic orientations for the aid programme. This transition phase has generated confusion and unease among practitioners, with many policy developments put on hold for more than a year. The previous policy framework has remained in place, including the 2002 policy statement *Towards a Safe and Just World Free of Poverty* (NZAID, 2002), as well as a series of more recent geographic and sector strategy papers which are supposed to cover the current period.[2] The extent to which these are still relevant in guiding the aid programme is unclear to both IDG staff and New Zealand's partners. Positive steps are now taken and a draft overarching policy and a revised business model are under consultation. New Zealand also intends to use the end of the current five-year strategy (NZAID, 2004b) as an opportunity to develop a new medium-term strategy which sets a clear vision for the aid programme. This vision should clearly state that to fulfil the aid programme's objective of supporting sustainable development, New Zealand needs to address social and environmental challenges alongside economic dimensions.

In refining its approach to economic development, New Zealand should build on NZAID's comprehensive policy on *Economic Growth and Livelihoods* (NZAID, 2008a). This policy offers a sound basis for developing targeted strategies for key aspects of economic growth such as infrastructure, transport, tourism, trade, private sector development and youth employment (Box 1). It is presently being revised to align it better with the new mandate and policy settings. New Zealand should also use DAC guidance when designing its targeted strategies (OECD, 2007a and 2009a), thereby ensuring that its support increases the contribution of economic growth to poverty reduction. These strategies should be applied through context-specific programmes aligned to national policies in partner countries.

Integrating cross-cutting issues into the aid programme

New Zealand has defined gender equality, human rights and environment as cross-cutting issues and tries to integrate them into its aid programme and in international policy dialogue. In 2004 NZAID developed a plan of action to implement its human rights policy (NZAID, 2004c). It completed its environment policy in 2005/06 (NZAID, 2005b), which aims to ensure that environmental sustainability is integrated into all the aid programme work. In 2007 it developed a gender equality and women's empowerment policy, identifying three outcomes: i) enhanced capacity of the poor, particularly women and girls, to realise their capabilities and fulfil their potential; ii) reduction of gender disparities in access to, control of and benefit from resources, opportunities and services; and iii) reduction of violence and conflict, and protection of human rights. A related action plan spanning 2007 to 2012 aims to ensure that "NZAID explicitly integrates gender equality and women's empowerment in all policies, strategies, programmes and organisational procedures and processes in a way that progress can be effectively

2. For example, the *Pacific Strategy 2007-2015* (NZAID, 2007a), *Africa Strategy 2008-2017* (NZAID, 2008b), *Asia Strategy 2004-2015* (NZAID, 2004a), and *Preventing Conflict and Building Peace* (2005a).

monitored and evaluated" (NZAID, 2007b and c). The 2009 mandate reaffirms the importance of these cross-cutting issues as a means to ensure good outcomes and to manage risks (Cabinet, 2009a). In doing so, the government recognises that a failure to consider these issues in the aid programme can undermine or hold back development.

Box 1. Supporting sustainable economic growth that also reduces poverty

In 2008 NZAID developed a policy on economic growth and livelihoods (NZAID, 2008a), outlining its approach to promoting pro-poor economic growth. The policy recognises the importance of broad-based economic development for poverty reduction and identifies three development outcomes for New Zealand's economic development assistance: i) a reduction in the number of people living on less than one dollar a day and who endure regular hunger; ii) an increase in the opportunities for poor people to earn an income and improve the resilience of their livelihoods; and iii) increased sustainable growth and a reduction in the poverty faced by people living in the poorer regions of developing countries.

The policy emphasises the importance of macro-economic stability and closely integrates in its approach cross-cutting issues, in particular human rights, gender equality and women's empowerment, and environment. It addresses economic growth in a comprehensive way and defines four key, inter-related areas for engagement:

i) Making globalisation work for the poor through fairer international trade rules and increasing the benefits and opportunities from migration.

ii) Creating an enabling environment, through promoting appropriate locally-owned monetary and fiscal policies and a pro-poor environment; improving institutions, the regulatory environment and competition; promoting sustainable models for growth and development; strengthening infrastructure for broad-based growth; and improving poor people's access and control of natural resources.

iii) Making markets work better for the poor through a vibrant and appropriately regulated public and private sector; improving productivity and quality; developing skills and moving up the value chain; supporting small, medium-sized and micro-enterprise development; and enhancing access to finance and mobilising savings.

iv) Improving food security through increased productivity and availability of key food crops, reduced vulnerability and improved responses to emergencies.

The guiding principles when engaging in economic development assistance include the need to build macro-micro linkages within the economic sector, to promote sustainability, and to ensure consistency with New Zealand's support to other sectors, such as governance and education. The aid effectiveness principles and managing the risks of change are also key operating principles.

Finally, it is worth mentioning the emphasis on policy coherence, which is seen as crucial for effective New Zealand development policies. As part of the policy, New Zealand therefore commits to increasing coherence among its development policies and the policies and strategies of other New Zealand government departments and agencies, including in the areas of trade, foreign investment, health, education, security and immigration.

The 2008 Economic Growth and Livelihoods policy is currently being revised to reflect the new policy settings for the aid programme, and to give greater attention to areas of New Zealand's comparative advantage.

Source: NZAID (2008a), Economic Growth and Livelihoods, NZAID, Wellington.

IDG now plans to update its cross-cutting policies to reflect the new mandate. In reviewing its environment policy, IDG should consider how to mainstream disaster risk reduction and prevention further into the programme. Given the huge range of, and potential for, natural risks in many Pacific Islands, it needs to include disaster risk management and climate change adaptation in the management life cycle of each project/programme in order to reduce vulnerability to climate change and make sure that future impacts are taken into consideration. IDG has already developed guidance for integrating adaptation into its programme activity cycle and is preparing a set of guidelines on mitigation activities. It should now train staff to ensure these are put into practice. IDG should also consider more systematically how to develop environmental capacities within those partner countries where this would have added value.

In operational terms, IDG has developed an integrated tool for screening cross-cutting issues, analytical tools in gender analysis and mainstreaming human rights, and has adopted AusAID's guidelines for integrating gender equality and environment into activity design. These and other tools and guidance are essential to mainstream cross-cutting issues at a strategic level, right from the initial design phase of country strategies and programmes. For instance, while New Zealand implements innovative projects on gender equality and women's empowerment (*e.g.* a regional programme on violence against women developed with the police),[3] it could integrate these dimensions further into larger programmes which could make a significant difference to women's lives. IDG could seize the opportunity of the increasing number of Pacific island countries ratifying the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) to refer more systematically to the recommendations of the CEDAW Committee in its country programming. IDG now needs to provide more guidance in using existing analytical tools to integrate cross-cutting issues into activity processes and to monitor progress and assess results. A first positive step in this direction is the systematic reporting of cross-cutting work through IDG's activity management system whereby programme management staff use the gender equity, environment and climate change DAC markers (OECD, 2009b and 2010a). IDG could also build on its current practice to make more use of its cross agency "communities of practice" to promote learning and incorporate good practice throughout its programme. Adequate staff resources with appropriate expertise will be needed to implement these additional steps for integrating cross-cutting issues (Chapter 4).

Communication: building public awareness and support

The need for greater public and political support

While public support for the New Zealand aid programme is relatively high, development awareness and confidence in the effectiveness of aid remain weak. Every three years NZAID used to conduct a public opinion poll on knowledge of, and support to, official aid, in conjunction with the Council for International Development (the NGO umbrella organisation). The most recent polls were encouraging (NZAID/CID, 2007 and 2004): level of interest was high (80% are interested or very interested); and public support for achieving the ODA volume target of 0.7% of gross national income was increasing, with 63% of respondents in 2007 supporting government efforts to meet this target, up from 61% in 2004 and 58% in 1999. However, the 2007 poll revealed three main areas of concern: i) despite increased funding for development education, knowledge of development issues remains weak; 76% of respondents declared their knowledge was limited in 2007; ii) general support for giving official aid is stuck at a

3. The Pacific Prevention of Domestic Violence Program (PPDVP) is an initiative of NZAID, New Zealand Police and the Pacific Islands Chiefs of Police (PICP).

relatively low level compared with other DAC members, with 76% approving and 14% disapproving of the government providing overseas aid; and iii) confidence in the effectiveness of official aid is limited: only 29% of respondents expressed confidence that aid delivered by the government actually helps people in poorer countries (30% in 2004). Confidence in aid delivered by NGOs is higher (39%). IDG plans to conduct a new poll in the coming months. This will be important to assess the impact of the global financial crisis on public support for aid.

Encouraging all domestic stakeholders to support the aid programme is a challenge. Although some 45 parliamentarians (out of 122) are members of a cross-party group on international population and development issues (the New Zealand's Parliamentarians' Group on Population and Development), scepticism about the impact of the aid programme seems high among some parliamentarians. Representatives of the Foreign Affairs, Defence and Trade Committee (FADTC) have expressed concerns over distortions created by donor aid programmes which undermine partner countries' capabilities. He strongly advocates for new directions for the New Zealand development policy, including further prioritisation and a stronger focus on economic activities. Meanwhile, parliament does not play a strong scrutiny and accountability role in relation to the aid programme.[4]

NGOs are concerned that the poverty reduction focus may be lost with the new orientations of the aid programme, which entail a weaker focus on "values-related" activities in the fields of human rights, governance and human development (education, health, youth, gender) and on African countries, sectors and regions where support is needed to achieve the MDGs. NGOs also regret the lack of consultation on the new policy directions, pointing out that the previously strategic framework for consultation has not been active in the last two years. NGOs are concerned that the level of and eligibility criteria for public funding may change in the coming years. The former joint funding scheme was disrupted in early 2010 and the NGO umbrella organisation (Council for International Development, CID) was weakened after an unexpectedly sharp decrease in its public funding in May 2010 (which constituted 88% of its budget). MFAT's statement of intent recognises, however, that NGOs have proven capability and competence in supporting international development and providing aid (MFAT, 2010). The Minister for Foreign Affairs affirmed in June 2010 his intention to channel more aid through NGOs, announcing a new funding scheme whose modalities were published in July 2010 (CID, 2010). This was seen as an encouraging signal. This controversy shows that communication based on clear messages is necessary to maintain a confident relationship with NGOs (Chapter 4).

In this context, the establishment of an Aid Advisory Board in May 2010 is also positive. The Board was set up as a relatively informal think tank to provide the Minister, the Secretary of Foreign Affairs and Trade and the Deputy Secretary International Development with strategic advice on the orientations and improving the delivery of the aid programme. It comprises four members from different backgrounds in order to bring a variety of perspectives. Appointments are currently made by invitation from the Minister and Secretary. As an informal board its current mandate may develop over time and it will be important to clarify its mandate, including membership and functions. While this should not replace platforms for policy dialogue with key stakeholder representatives

4 . However the FADTC does play an important role in budget and performance accountability processes through the financial review of the budget and annual report processes.

(including NGOs and the private sector), it can help define new ways of engaging with these actors and developing a strategic approach to working with them. In particular, IDG needs to think about new ways to engage with the private sector to proactively address the economic growth agenda in its new mandate. It is taking steps in this direction, as illustrated by a joint outreach programme being developed with Business New Zealand (Chapter 4).

The need to raise development awareness and communicate results

In 2005, the New Zealand aid programme developed a communication strategy to raise public awareness. Opinion polls were used to design and implement a number of activities. For example, a magazine (*Currents*) has been distributed six times a year since 2006 to key stakeholders (parliamentarians, universities, schools, NGOs, media, partners). This media tool, which is well designed and well adapted for communicating to a broad audience, should be continued. The aid programme is also making more use of web tools for communicating its activities.

IDG is aware that reinforcing domestic support for aid calls for increased efforts to communicate the results and impacts of the aid programme. It plans to update the 2005 development communication strategy and has developed an interim work plan for 2009/10. As part of this, a new visual identity has been developed for the New Zealand aid programme, replacing the former NZAID logo. IDG has also defined four key components for the updated strategy. These are in line with the new strategic orientations of the aid programme: i) New Zealand's role in the Pacific; ii) the building blocks of growth; iii) value for money; and iv) accountability and effectiveness. Evaluating development communication activities now needs to be included as a component of the strategy.

However, resources to implement the communication strategy are limited, with an annual budget of NZD 130 000 (excluding salaries) and a staff of five professionals. In addition, as the development communication team will be integrated into MFAT's Communication Unit, it will be a challenge to protect its dedicated resources and knowledge of the aid programme. Alongside the need to maintain core resources dedicated to development communication, IDG should look at integrating communication for development into all its projects and programmes. This will enable IDG to plan how to communicate results early on. As an active and committed member of DevCom (Informal Network of DAC Development Comunicators), New Zealand could benefit from the experience of other countries in this area.

The New Zealand aid programme has increased its budget for development education. It amounted to NZD 1.8 million in 2009, of which NZD 1.7 million was outsourced to a specialised NGO. New Zealand will need to pursue its development education efforts, while adjusting its focus to ensure the quality and impact of its activities. This will require a more structured approach, including a development education plan with an evaluation strategy for development education activities.

Future considerations

- New Zealand needs to explain further the mandate of the aid programme, and especially the government's approach to economic development for poverty reduction. A new medium-term strategy would help New Zealand and its partners speed up their delivery of high quality results on the ground.

- The New Zealand medium-term strategy should set the environmental and social dimensions of sustainable development alongside economic development in order to achieve poverty alleviation. As is planned, geographic and sector strategies should be updated in the light of the new orientations.

- The New Zealand aid programme should be more strategic and efficient in its approach to cross-cutting issues. It should integrate these into country programming, apply the screening tool systematically and develop additional guidance for monitoring and assessing results. IDG should also consider how to integrate disaster risk reduction management into the bilateral aid programme.

- New Zealand needs to update its development co-operation communication strategy and to maintain dedicated resources for promoting the aid programme's policy statement and communicating results. This is necessary to help build broad political and public support for the aid programme and for the increase in aid needed to achieve the internationally-agreed target of 0.7% of GNI allocated as ODA.

Chapter 2

Policy coherence for development

The OECD/DAC describes progress towards policy coherence for development (PCD) as involving three building blocks: (i) a political commitment that clearly specifies policy objectives; (ii) policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies and maximise synergies; and (iii) monitoring, analysis and reporting systems to provide the evidence base for accountability and for well-informed policy-making and politics (OECD, 2008a). The 2005 peer review recommended that the aid agency should continue to be proactive in promoting the coherence of New Zealand’s policies in relation to developing countries by strengthening its analytical capacities (Annex A). It also invited New Zealand to set objectives in specific policy areas and to reinforce its approach to reporting. Five years later, New Zealand has achieved mixed progress in implementing these recommendations and the three PCD pillars (Table 1). IDG has developed a strategy for policy coherence including key priority areas, and there are examples of successful joint approaches. However, the strategy lacks a results framework to bind all relevant departments, and monitoring mechanisms are weak. IDG is now taking steps to strengthen monitoring and evaluation frameworks, which is positive.

Political commitment: a pragmatic approach to policy coherence for development

New Zealand does not have a high-level policy statement on policy coherence for development. While recognising the importance of ensuring that domestic and foreign policies support, or at least do not undermine partner countries’ development efforts, New Zealand does not see the need for such a statement given the relatively small size of its government. It prefers to adopt a pragmatic approach, underpinned by its geographic context. New Zealand’s perception that the interests of the countries in the region are strongly linked drives its strong foreign affairs’ focus in the Pacific, and provides a strong basis for mobilising other line ministries. Departments such as health, agriculture, justice and internal affairs feel that the development of capacities in Pacific Island countries has positive effects on New Zealand and that engaging with these countries is therefore in line with their mandate.

NZAID took the lead on the policy coherence agenda and developed a strategy for action to improve PCD (covering 2006/07 to 2009/10). The strategy identifies six priority areas: (i) trade and investment for economic development; (ii) environment and natural resources; (iii) security, peace-building and conflict prevention; (iv) human rights; (v) human resource development; and (vi) health (NZAID, 2006a). It was intended that every year specific issues for engagement would be identified within each broad priority area. In keeping with this approach, IDG has identified three priority actions for 2009/10: the Pacific Agreement on Closer Economic Relations (PACER Plus), climate change and fisheries. A co-ordinator was identified within IDG for each of these three areas and given the task of developing an indicative action plan. Each action plan lists a number of tasks that IDG should undertake to promote the three priority issues within its programme and in its dialogue with other government departments. This focused approach is instrumental in enhancing IDG's involvement within government to ensure that the development perspective is taken into account in both trade and climate change negotiations as well as in the whole-of-government Pacific Fisheries Strategy (Chapter 6). However, this approach also has two limits: firstly, the strategy for action remains an IDG-only framework, and the action plans, although only indicative, have not been endorsed by other departments. It is therefore unclear to what extent these other departments feel committed to this framework. It would be more powerful if New Zealand's departments were to set joint inter-departmental targets in priority areas for policy coherence. Secondly, selecting three key priority focal areas for an 18-month period gives short-term impetus; however, IDG should bear in mind that progress on policy coherence requires a long-term approach. It should therefore ensure appropriate action and monitoring over a longer period for each key priority area.

Table 1. New Zealand's building blocks for policy coherence for development

<table>
<tr><th>Building block</th><th>Progress made by 2010</th><th>Recommended next steps</th></tr>
<tr><td rowspan="3">Building Block A: Political commitment and policy statements</td><td>New Zealand adopts a pragmatic approach to policy coherence for development and does not see the need for a formal policy statement.</td><td rowspan="3">Set joint inter-departmental targets in priority areas for policy coherence for development.</td></tr>
<tr><td>NZAID's 2006 strategy for action had six priority areas. It identified within this broad framework three priority actions for 2009/10 (PACER Plus, climate change and fisheries).</td></tr>
<tr><td>Parliament plays a weak role in promoting policy coherence for development although the Foreign Affairs, Defence and Trade Committee should have an oversight role.</td></tr>
<tr><td rowspan="3">Building Block B: Policy co-ordination mechanisms</td><td>In addition to formal consultations on all cabinet papers, a framework of regular or occasional inter-departmental meetings and cluster groups is in place to ensure co-ordination on key policies. This has led to successful programmes in the migration policy area.</td><td rowspan="3">Make use of IDG's strengthened position within MFAT to play an influential role in central government decision-making to ensure that domestic and foreign policies support development efforts.</td></tr>
<tr><td>Integration of the aid programme within MFAT offers opportunities to leverage the development perspective within the government.</td></tr>
<tr><td>Whole-of-government approaches to aid delivery are effective with good results in partner countries.</td></tr>
<tr><td>Building Block C: Monitoring, analysis and reporting systems</td><td>Progress is weak. IDG's strategy on policy coherence for development lacks clear indicators and targets to which each relevant department would contribute. Interdepartmental strategies also lack results frameworks. At country level, New Zealand starts developing strategic agreements covering all New Zealand assistance and including results frameworks.</td><td>Develop results frameworks and joint monitoring and reporting systems to monitor, report and assess the impact of efforts for policy coherence for development. Strengthen mechanisms for monitoring the overall package of New Zealand's support at country level.</td></tr>
</table>

New Zealand has not systematically developed whole-of-government positions in relation to its priority partner countries. However, the MFAT 2010-2013 statement of intent calls for an integrated approach to the Pacific: it sets as a medium-term priority goal the strengthening of New Zealand's leadership role in the South Pacific and intensification of efforts to "secure the long-term health and viability of South Pacific neighbours through using official development assistance to support economic development, effective management of resources such as fisheries, and support for renewable energy resources, emphasising an increased commercial focus that helps generate income through tourism, trade facilitation and private sector development" (MFAT, 2010). This approach could be broadened to include environmental threats such as climate change. It could then drive the development of consistent, systematic whole-of-government strategies for key partner countries in the region. The ministry is now leading a process to create whole-of-government strategies for New Zealand's engagement with certain countries. This will reinforce New Zealand's strategic approach to its partners, particularly in the Pacific, and help to ensure a cohesive approach in the region. In countries where New Zealand plans to withdraw its aid programme in line with the new foreign policy strategy, it would also help to prepare the transition between an aid-based relationship and a partnership relying primarily on economic and diplomatic relations.

Parliament has a role to play in policy coherence for development as all bills are reviewed by its select committees before being passed. Some bills may have an impact on partner countries, such as the immigration and climate change response amendment bills adopted respectively in November and December 2009. Parliament's Foreign Affairs, Defence and Trade Committee has a specific role in overseeing policy coherence in the areas of customs, defence, disarmament and arms control, foreign affairs, immigration and trade. However, its involvement on these issues is limited and it lacks resources to conduct in-depth investigations. The committee's inquiry into New Zealand's relationship with South Pacific countries and the role New Zealand can play in assisting these countries has not yet been completed. The committee started its work in 2007 and published an interim report in 2008, recommending the completion of the inquiry, which involved travelling to South Pacific countries (House of Representatives, 2008).

Institutional framework

Strengthened co-ordination mechanisms

An important mechanism for policy coherence is the mandatory consultation on Cabinet papers of all relevant departments and ministries. This provides MFAT with the opportunity to bring a development perspective to the highest decision-making level of government. In addition to these formal consultations, a framework of regular or occasional inter-departmental meetings and cluster groups (*e.g.* on biodiversity, climate change, trade, migration) is in place to ensure co-ordination on key policies. This involves, in particular, regular high-level meetings as well as technical working groups with the Ministry of Defence and MFAT. Cabinet papers on international development issues are channelled through the External Relations and Defence Committee of Cabinet (ERD) which provides an opportunity for co-ordination at a political level. Engagement in fragile states is also co-ordinated through the Officials' Committee for Domestic and External Security Co-ordination (ODESC). This committee, chaired by the Chief Executive of the Department of Prime Minister and Cabinet, exercises policy oversight and provides strategic advice in the areas of intelligence and security, terrorism, maritime security and emergency preparedness. As an example, it has in the past co-ordinated the whole-of-government response to the Fiji coups. The Secretary of Foreign Affairs and Trade, the ministry's chief executive, is a member of the committee.

All of these inter-departmental co-ordination arrangements are listed in a stocktaking document on policy coherence for development mechanisms, which is developed and regularly updated by IDG. This document also includes the points of contact in relevant government departments for each issue. This is helpful in keeping track of the mechanisms and arrangements across government which affect the aid programme. However, this document does not clearly differentiate between (i) ensuring that foreign and domestic policies support – or do not undermine – partner countries' development efforts; and (ii) ensuring appropriate co-ordination in delivering the aid programme. Clarifying these two different dimensions of cross-government work would help MFAT staff to be clearer in their discussions with other departments, and to ensure an appropriate focus on policy coherence for development issues.

The combination of these formal and informal arrangements within government seems effective in some sectors, where whole-of-government approaches have been developed (*e.g*. fisheries, see Chapter 6) or where win-win situations for New Zealand and its partner countries have been achieved. Examples include trade capacity building (with good impact on imports of agricultural products from the Pacific region) and migration, with the seasonal employment scheme (Box 2).

IDG should further capitalise on its location within MFAT to leverage the policy coherence for development perspective there and across government more broadly. Significant international development issues can be raised with the Senior Leadership Team of MFAT. In particular, IDG should ensure it maintains and strengthens its voice in the MFAT policy-making processes on trade issues. With respect to the PACER Plus trade and economic development negotiations, IDG has identified priority work areas to ensure that the development perspective is taken into account. Working closely within the ministry serves its objectives of: (i) developing a whole-of-government approach that promotes regional economic integration and sustainable development as the objective of the free trade agreement; (ii) ensuring that Pacific Island countries are adequately represented; and (iii) making sure that their constraints are understood and that the revenue consequences for them of any PACER Plus commitments are appropriately addressed.

Closer co-ordination among IDG and other divisions of MFAT already takes place, with good results. For instance, IDG and the MFAT Human Rights Unit have brought together their expertise to develop a new policy on human rights and maternal mortality, which was informed by the work of the aid programme in Papua New Guinea and the Solomon Islands. IDG also benefits from good relationships across government departments. Specific entry points, such as the State Sector Development Partnership Fund described below, allow it to discuss with other departments their broader engagement in the Pacific, beyond the immediate collaboration with the aid programme.

Box 2. An example of win-win policy: the Pacific Seasonal Employer scheme

The New Zealand Recognised Seasonal Employer (RSE) scheme was launched in April 2007 to meet seasonal demand for low-skilled labour in New Zealand's horticulture and viticulture industries and to promote economic development in Pacific island countries. The programme now allows up to 8, 000 seasonal workers to come to New Zealand for a maximum of seven months every eleven month period to work in horticulture and viticulture. A preference is given to workers from Pacific Forum countries (other than Fiji, whose participation was suspended).

The Department of Labour, MFAT's Pacific Division and IDG, and the Ministry of Social Development were involved in developing the scheme. The programme is expected to help alleviate poverty directly by providing jobs for workers who often lack income-generating work. The earnings they send home will support their families, help pay for education and healthcare, improve their living conditions and sometimes provide capital for those wanting to start a small business. In addition, workers benefit from acquiring different skills. The New Zealand and Pacific island governments agree that the RSE scheme has been a great success with many positive outcomes. An academic assessment of the programme in Tonga shows that it has created new migration opportunities for a large sector of the population who previously had no mechanism for working abroad. Beneficiaries of the scheme are largely agricultural workers with lower than average incomes and schooling levels (Gibson, 2008). New Zealand adjusted the scheme in 2009 to require compulsory health insurance, and to amend the rules for pay deductions supervised by the Department of Labour.

Problems arising from a lack of engagement with the community sector and Pacific diaspora communities have called for more attention to the welfare of Pacific workers and their home communities. They have also highlighted the potential for linking further seasonal work programmes to broader development assistance (Maclellan, 2008). The New Zealand Aid programme is involved in a number of initiatives to maximise the potential of increased remittance flows to Pacific villages and rural communities, ranging from providing training for migrant workers in New Zealand including in financial literacy, to reducing the cost of sending remittances.

Source : Interviews in Wellington; New Zealand Memorandum; Gibson, 2008; and Maclellan, 2008.

Whole-of-government approaches to aid delivery: going beyond stand-alone projects

New Zealand values joined-up approaches to aid delivery in partner countries and there are examples of collaboration with numerous ministries and departments.[5] New Zealand is committed to pursue this approach, as illustrated by the new partnership arrangement being developed to formalise and operationalise the co-operation between New Zealand Police and MFAT/IDG in the framework of the aid programme. Engagement in countries in fragile situations offers specific opportunities for cross-government approaches. A three-year memorandum of understanding (MOU) has been signed with the New Zealand Ministry of Civil Defence and Emergency Management on disaster risk reduction activities, and a five-year MOU has been signed with New Zealand Defence Force on reconstruction and humanitarian assistance in Afghanistan. Another

5. For example, ministries of education; health; environment; agriculture and forestry; fisheries; research, science and technology; customs department; department of corrections; immigration service; statistics New Zealand; New Zealand police; human rights commission.

MOU with New Zealand Defence Force covers peace-keeping activities. However, most MOUs are linked to specific projects/programmes funded through the State Sector Development Partnership Fund. This fund (initially known as the ODA Contestable Fund and then the Government Agencies Fund) is the main entry point for government departments to get involved in the aid programme. The fund has a budget of NZD 5 million a year and is open for bidding by all government entities, who can apply for up to NZAID 500 000 over a maximum of five years. The fund was redesigned in 2009, following an independent external review. The State Sector Development Partnership Fund better aligns with the government's mandate and policy objectives for New Zealand's aid programme. Its overarching goal is to: "Contribute to prosperity, stability and reduction of poverty in partner countries by enhancing the conditions for broad-based sustainable economic development" (NZAID, 2009a). Activities financed by the fund so far range from projects implemented by New Zealand Police in the Pacific region to mental health programmes run by the Ministry of Health. The fund has been a strong driver of joined-up approaches. In monitoring its implementation and assessing its results, the ministry should look at ways to ensure that its modalities enable long-term, predictable engagement and projects that are aligned to partner countries priorities. It should also ensure that social and environmental activities, prerequisites for sustainable economic development, are not excluded from the fund's eligibility criteria.

Capacity, monitoring and reporting

The Strategy, Advisory and Evaluation Group in IDG is in charge of promoting policy coherence for development. A new position – Deputy Director Policy co-ordination and Mainstreaming – has been established, which acts as a focal point for policy coherence for development. There is no regular mechanism for consulting country offices on policy coherence for development issues, but consultation occurs as needed. IDG has developed a Research Strategy 2010-13 to improve its engagement with research and thereby enhance its contribution to sustainable development (IDG, 2010a). IDG is encouraged to make use of this strategy to engage further with research institutions and universities. These can help build the case for key issues, strengthening IDG's position as an entity able to provide quality policy advice within the ministry.

As regards monitoring, there is no formal report to parliament on PCD; IDG's management monitors progress internally through annual updates of actions in the key priority focal areas. However, its strategy for action to improve PCD 2006/07-2009/10 lacks clear indicators and the scope for assessing progress is therefore weak (NZAID, 2006a). It is unclear what steps have been taken to implement the strategy for action. The strategy could be strengthened by adding clear indicators and targets to which each relevant department would contribute. Similarly, cross-government strategies lack integrated results frameworks which would help monitor progress and assess impact (*e.g*. fisheries, as illustrated in Chapter 6).

Equally, in partner countries the lack of whole-of-government approaches means that there is no mechanism to monitor the effectiveness and impact of overall aid and other support provided by New Zealand. For instance, in Vanuatu the country strategy 2006-2010 covers only the aid programme activities and lacks a monitoring framework with clear targets and a timeframe. In 2010, New Zealand has started developing a new approach to country strategic frameworks for bilateral partners, which covers all assistance (bilateral, regional, multilateral, other ministry and government agencies contributions) and includes mutually agreed priority outcomes, outputs and target results as well as an accountability framework. For Pacific countries these frameworks will be embedded in a politically agreed document 'Joint Commitment for Development'. These should set clear responsibilities for monitoring the different components of New Zealand's support to development at country level (Chapter 4).

Future considerations

- To improve policy coherence for development, New Zealand's joint approaches could be strengthened by setting and monitoring inter-departmental results frameworks in priority areas.

- New Zealand should ensure stronger oversight and consistency of all activities implemented by its departments in partner countries. This will require developing systematically whole-of government strategies for key partner countries, including the aid programme, with a monitoring framework to measure progress and assess impact of the overall support provided.

Chapter 3

ODA volumes, channels and allocations

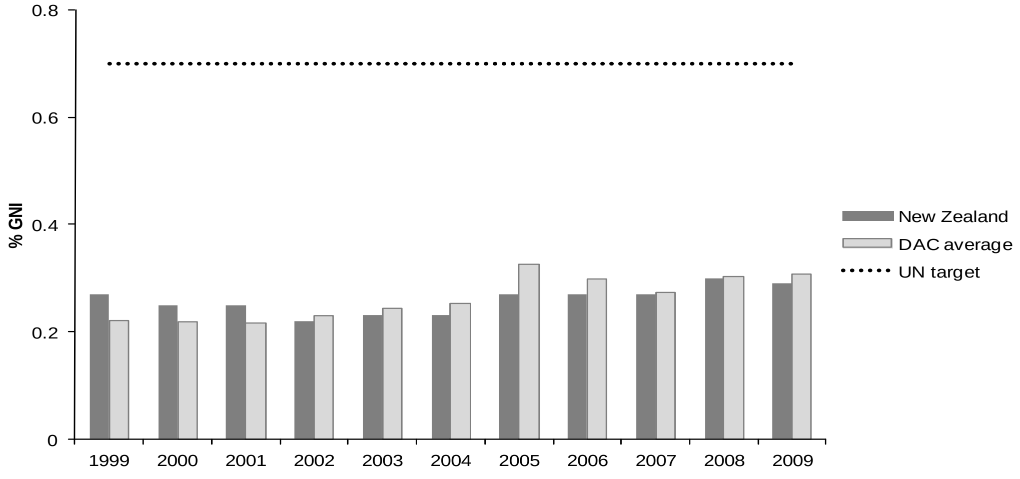
Overall official development assistance

Building on an upward trend

New Zealand delivered USD 309 million in net ODA in 2009, making it the smallest DAC donor. Since 2004, New Zealand has steadily increased its ODA, from USD 249 million to a peak of USD 348 million in 2008 in constant 2008 prices and exchange rates. Despite strong pressure on public spending, it will continue to increase ODA following a medium-term expenditure plan, raising the level to USD 416 million by 2012/13 (MFAT, 2009c). With total ODA equivalent to 0.28% of GNI in 2009, New Zealand ranks 17th among DAC donors for its ODA/GNI ratio, slightly below the (weighted) DAC average of 0.31%, and well below the unweighted average country effort of 0.48% in 2009 (Figure 2).

The increase in ODA is commendable; still, New Zealand falls far short of the internationally-agreed UN 0.7% ODA/GNI target, and its funding commitments beyond 2012 are uncertain. As recommended in the last peer review (Annex A), New Zealand is encouraged to work towards increasing its ODA to 0.7% based on a clear and strategic forward spending plan which includes an intermediate target and a timeline for achieving it. This will require strong political leadership at the highest level, backed by public support.

Figure 2. New Zealand ODA as a percentage of GNI, 1999-2009



Source: OECD/DAC International Development Statistics.

IDG manages the bulk of the aid programme

The International Development Group (IDG) in the Ministry for Foreign Affairs and Trade (MFAT) is responsible for managing the majority (92.6%) of New Zealand's ODA, with most of the remaining 7.4% delivered by a number of other Government agencies (subscriptions to eligible international organisations), New Zealand Defence Forces (emergency relief work) and the Department of Immigration (refugees).

New Zealand's development assistance continues to be delivered exclusively in the form of grant aid. New Zealand does not have a loan programme and therefore does not provide any bilateral debt relief. However, it supports both the HIPC and MDRI debt relief initiatives multilaterally. This relatively low level of debt relief explains, in part, why a significant portion of New Zealand's ODA is considered to be country programmable. In 2008, New Zealand's country programmable aid (CPA) amounted to USD 182 million or 65% of its bilateral ODA, which is well above the DAC average of 54%.[6]

Bilateral assistance

In recent years, New Zealand's share of ODA allocated to bilateral programmes has been relatively high, reaching 80% of gross ODA in 2008 and close to the DAC average of 74% in 2009 (Table B2, Annex B).

A strengthened focus on the Pacific, yet geographic dispersion prevails

The New Zealand aid programme maintains a strong geographic focus on the Pacific (66% of bilateral ODA in 2008) and Asia (25%), both of which are central to New Zealand's foreign policy. The remaining balance is allocated to Africa (6%), America (2%) and the Middle East (1%) (Figure 3 and Table B3, Annex B). Of New Zealand's 17 core bilateral partners, 11 are located in the Pacific and 6 in Asia. Since the last peer review, New Zealand has significantly scaled up its aid programmes in Melanesia. This high level of concentration makes New Zealand the largest bilateral donor in three Pacific island countries[7] and the second or third largest in a further six.[8] The new mandate reaffirms that the Pacific remains the core focus, and is set to receive an increased portion of New Zealand's ODA (Cabinet, 2009b). Exercising its comparative advantage in this way is commendable as New Zealand has demonstrated it can be most effective in the Pacific. The government has indicated that future increases will give a special focus to strengthening economic development in Polynesia (Niue, Cook Islands, Tokelau, Tonga, Tuvalu, and Samoa). However, in scaling up its aid programme to this region, New Zealand is encouraged to consider carefully the issues pertaining to division of labour among all donors and the absorption capacity of its partners. Should the enhanced focus on Polynesia result in a re-prioritisation within the

6. CPA is calculated by subtracting from total bilateral aid assistance which: (i) is unpredictable by nature – *e.g.* humanitarian aid and debt relief; (ii) entails no cross-border flows, such as administrative costs, imputed student costs etc.; (iii) does not form part of co-operation agreements between governments (food aid and aid from local governments); or (iv) is not country programmable by the recipient (*e.g.* core funding of NGOs).

7. Cook Islands, Niue and Tokelau.

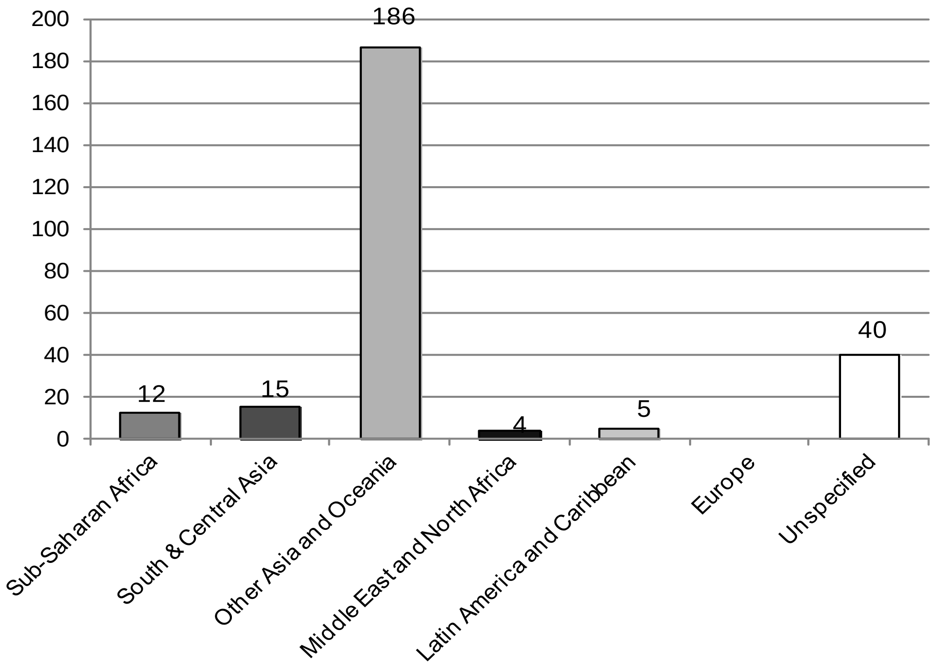
8. Papua New Guinea, Solomon Islands, Kiribati, Samoa, Tonga and Tuvalu.

region, this should be carried out in a transparent, phased and predictable manner, and in consultation with other donors on the ground. It is important that New Zealand upholds its strong record for continuity and long-term partnerships as demonstrated by the stability and consistency of its funding over the past 10 years to its top 10 recipients (Table B4, Annex B).

A number of New Zealand's core bilateral partners in the Pacific and Asia are either least developed countries (LDCs) or other low income countries (OLICs). This explains why the share of New Zealand's ODA allocated to LDCs and LICs (58% in 2008) is significantly higher than the DAC average (44%). New Zealand is encouraged to continue to assist low income countries in the Pacific and Asia, many of which are off track to achieve the MDGs.

Figure 3. New Zealand's ODA by region, 2008

(USD million)



Source: OECD/DAC International Development Statistics.

The 2005 peer review noted the geographic dispersion of New Zealand's aid programme, recommending that it focus more on the Pacific while deepening its engagement in fewer core bilateral countries in Asia. Some progress has been made on both fronts: since 2005, aid to the Pacific has consistently been scaled up, with a corresponding decrease in allocations to Asia (Table B3, Annex 3). New Zealand has reduced the number of its core bilateral partner countries from 19 to 17[9] and is currently examining its ODA footprint in Asia. It has withdrawn from China, and is reviewing its presence in the Philippines and Vietnam. It is seeking to focus its aid to Indonesia more specifically on the remote island parts of the country. Nonetheless, there is scope for

9. China and South Africa are no longer core partners.

further improvement. New Zealand's bilateral aid to its top 20 recipients has become less concentrated over time, dropping from 60% over 1997-2001 to 57% in 2007/08, below the DAC average of 65%. Further, it continues to provide very small amounts of ODA to a large number of recipient countries (111 in 2007/08).[10] With the exception of Indonesia, New Zealand's aid is thinly spread across Asia where, as a small player, it risks adding to the administrative burden of partner countries. In Vietnam, for example, 35 donors are active and New Zealand's contribution represented only 0.2% of country programmable aid in 2008 (OECD, 2009d). As recognised in its Aid Effectiveness Action Plan, New Zealand needs to clearly define its priority areas for programming and to identify further opportunities for rationalisation, bearing in mind its comparative advantage (IDG, 2010). It has started to do so as part of its business model reform, and, according to MFAT staff, this is already reflected in slightly improved concentration figures of 60% for 2009 and 61% for the recently approved 2010-2011 ODA allocations.

Sector allocations: continued support to social infrastructure and services

The New Zealand aid programme has historically largely focused on "social infrastructure and services", which received 41% of bilateral ODA in 2007/08, just above the DAC average of 40% (Table B5, Annex B). This focus has remained fairly constant since 2002, yet the allocation of funds among the different components of this sector has evolved slightly. While still well above the DAC average of 9%, funds to education decreased from 22% in 2002-2006 to 18% in 2007/08. This was matched by a corresponding increase in allocations to governance and civil society, from 11% in 2002-2006 to 15% in 2007/08. This growing commitment to the governance sector largely reflects the high number of states in fragile situations in which New Zealand operates. Humanitarian aid is a further significant sector, amounting to 11% of bilateral aid (Annex C). Alongside its new emphasis on broad-based sustainable economic development, New Zealand should not lose sight of its comparative advantage in supporting social sectors such as education (see paragraph 10).

New Zealand's support to "economic infrastructure and services" has remained consistently low over the past decade and reached only 4% in 2007/08, well below the DAC average of 15%. The same applies to a less extent to the "production sectors" (including agriculture, industry, fisheries, trade and tourism) where New Zealand allocates 5% of its bilateral aid, just below the DAC average of 6%. Bilateral allocations to these sectors look set to increase in the coming years in light of the reorientation of the aid programme towards broad-based sustainable economic development (Cabinet, 2009b). In 2009, the percentage for 'economic infrastructure and services' increased already to 8%. Over 2009/10 and 2010/11 IDG plans to start implementing approximately 80 new economic development projects, with a combined expenditure of at least NZD 200 million over the next three years.

In the Pacific, where there is often a limited number of donors present, New Zealand is seeking to balance the challenge of rationalisation with identifying fewer priority sectors. The Vanuatu country programme is a good illustration as it covers a wide range of activities grouped under three priority areas (Annex D). The design of a new medium-term strategy could be an opportunity for New Zealand to introduce a more strategic

10. The high level of recipients is partly due to the number of Commonwealth Scholarships provided by New Zealand, which only total approximately 2% of ODA.

approach based on its comparative advantage, and to streamline the aid programme further into fewer, bigger projects.

Assistance through non-governmental channels

In 2008, New Zealand channelled 18% of total net ODA to and through non-government organisations (NGOs), well above the DAC average of 7% (Table B1, Annex B). It has consistently provided a high share of core bilateral support to NGOs, committing USD 28 million – 11% of bilateral ODA – as core support in 2007/08, significantly higher than the DAC average of 2%. This funding was used to support a range of New Zealand NGO programmes with partners on the ground. The main vehicle was a co-funding programme jointly managed by IDG and New Zealand NGOs, as well as support through non-contestable funding for a number of organisations.

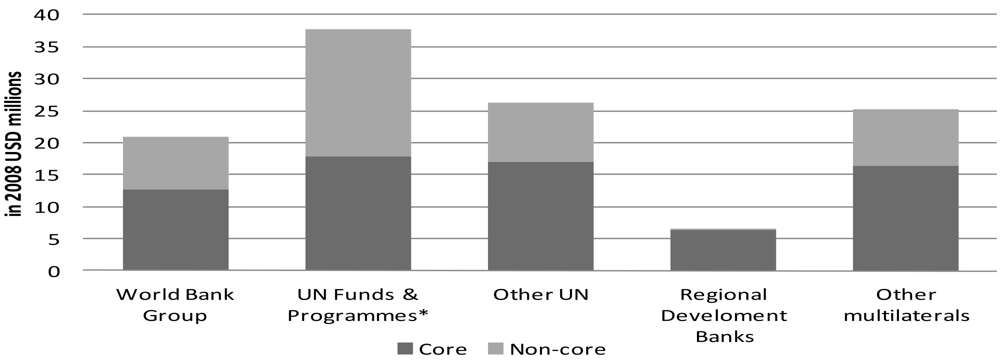
In April 2010, New Zealand notified changes to its funding arrangements for New Zealand-based NGOs in order to improve alignment with the government's focus on economic development and the Pacific region. It has developed two new funds, the Sustainable Development Fund and Humanitarian Response Fund. In developing this new approach, New Zealand is encouraged to maintain its good practice of providing high levels of predictable, multi-year core funding to international and/or national NGOs, and to ensure continuity during the transition phase (Chapter 4).

Multilateral assistance

In 2008, New Zealand allocated 20% of total gross ODA in core funding to multilateral agencies (Table B2, Annex B), and channelled a further 14% of its gross ODA through multilateral organisations (non-core funding). This brings New Zealand's total use of the multilateral system (core and non-core funding) to 34%, slightly above the DAC average of 33%, excluding contributions to and through the EU institutions (OECD, 2010c). New Zealand recognises multilateral engagement as a useful channel, both as a means to extend its geographical reach, and as a platform to draw attention to Asia-Pacific issues at the global level. New Zealand is often called upon in its capacity as neutral broker and this role underpins its performance on the executive boards of the international financial institutions.

The United Nations institutions are New Zealand's largest multilateral beneficiaries, receiving on average 10% of total gross ODA in 2007/08 (Table B2, Annex B). Contributions to the World Bank group and the Asian Development Bank amounted to 4% and 2% respectively over the same period (Figure 4).

Figure 4. Multilateral core and non-core ODA, 2008



Source: OECD/DAC International Development Statistics.

Since the last peer review, New Zealand has strengthened and streamlined its strategic approach to multilateral organisations. It has adopted a five-year Multilateral Engagement Strategy which guides allocations to, and engagement with, multilateral organisations (NZAID, 2005c). New Zealand is not a member of the Multilateral Organisations Performance Assessment Network (MOPAN). It has developed its own Multilateral and Regional Agency Assessment Framework (MARAAF) to assess the effectiveness of agencies and to prioritise its focus for the Multilateral Engagement Strategy. This assessment has allowed New Zealand to focus on substantial and intensive engagements with 10 main agency partners[11] that complement and reinforce its policies.

A review of the 2005-2010 Multilateral Engagement Strategy (currently in progress) will consider the effectiveness of the strategy and its relevance to the government's focus on sustainable economic growth and the Pacific. New Zealand has indicated that this, along with a new focus on increased effectiveness and impact of multilateral agencies, may lead to a change in its priority multilateral partners. This should be communicated as soon as possible in order to alleviate growing uncertainty among these partners about future arrangements. Building on good practice in its bilateral and regional programming, New Zealand could introduce greater predictability by extending multi-year commitments to all its main multilateral partners.

Future considerations

- In order to add weight to its international credibility as a development partner, New Zealand should work towards increasing its official aid to meet the UN target of 0.7% ODA/GNI. A first step could be to develop a clear and strategic forward spending plan setting out an intermediate target and a timeline for achieving it.

- New Zealand's increased focus on the Pacific is commendable, yet its bilateral ODA has become less concentrated over time. It is positive that New Zealand is addressing this, and it is encouraged to further reduce dispersion beyond the Pacific by setting out priorities for programming. In doing so, New Zealand should ensure new arrangements on division of labour among donors are developed in accordance with the principles in the Accra Agenda for Action.

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11. These agencies are: UNDP, the World Bank, Asian Development Bank, UNICEF, UNFPA, UNHCR, WFP, OHCHR, OCHA and OECD/DAC.

- New Zealand should maintain its level of predictability and multi-year funding to international and national NGOs, and ensure continuity despite policy changes.

- New Zealand should replicate its good practice on predictability for bilateral and regional programming by moving to multi-year commitments to its main multilateral partners.

Chapter 4

Organisation and management

Organisation of New Zealand's development co-operation

Institutional arrangements: a system in transition

In April 2009, the Cabinet decided formally to re-integrate NZAID, the semi-autonomous agency responsible for managing the New Zealand aid programme, into the Ministry of Foreign Affairs and Trade (MFAT). This reform takes place in the context of a comprehensive organisational change programme involving the whole ministry. The change programme, dubbed Ministry 20/20, aims at improving the ministry's working methods. It involves six streams of work: long-term strategy, measurement of performance, human resources, culture and values, technology, and structures. In integrating the aid programme, the ministry is aiming for better policy alignment between development and foreign affairs objectives, clearer lines of accountability, standardised accountability arrangements, and improved efficiency overall.

MFAT serves ministers in three portfolio areas: foreign affairs, trade, and disarmament and arms control. As part of the foreign affairs portfolio, the ministry is responsible for the management of New Zealand's ODA, including policy advice, design, and delivery of development assistance programmes and activities. MFAT administers two votes which remain separate: the vote on foreign affairs and trade, and the vote on official development assistance.

NZAID became the International Development Group (IDG) within MFAT. The group is led by a Deputy Secretary. She reports to the Ministry's Chief Executive/Secretary of Foreign Affairs and Trade, who leads the MFAT's senior leadership team. Following a review completed in November 2009, the provision of corporate services for IDG not already shared with the Ministry has moved progressively onto the same footing as for other parts of the Ministry. The main changes have involved the merging of the human resources, audit, information services, financial management and communications functions. The Deputy Secretary is accountable to the Chief Executive for ODA delivery and for management of Vote ODA, though with greater oversight from the Ministry's Chief Executive Office. The Group retains operational functions to support ODA delivery such as contract management, and the Deputy Secretary retains the ability to appoint specialist staff to vacant positions – although decisions on staff numbers are in the Chief Executive's remit.

IDG's core functions are organised around four directorates (Figure 5):

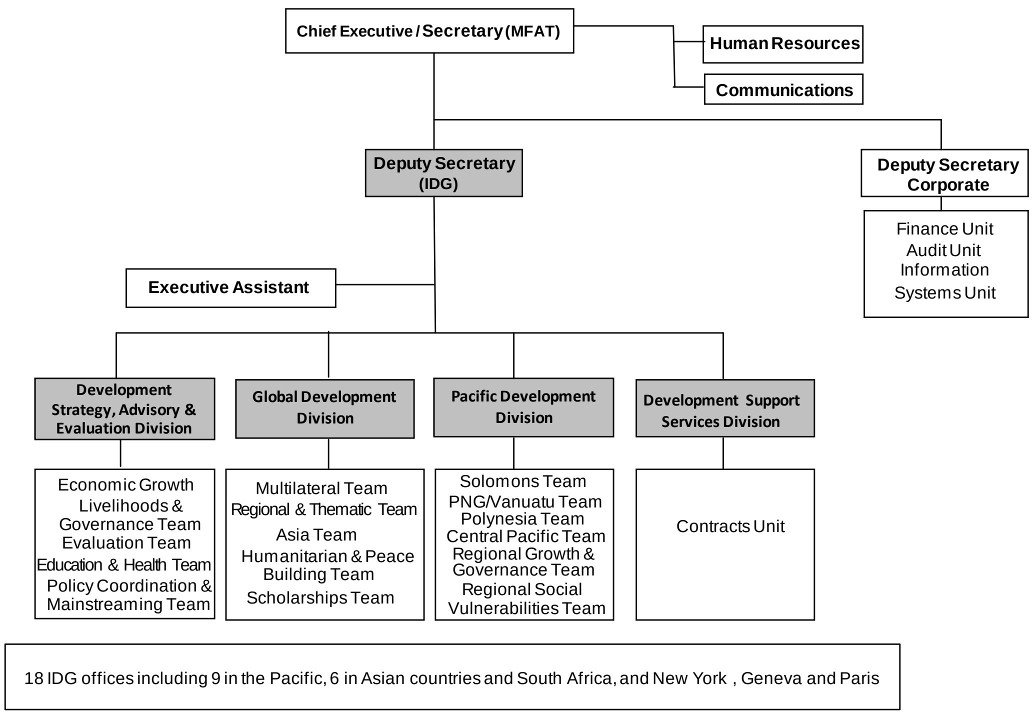
(i) The Pacific Development Division sets the overall strategic direction of New Zealand assistance to the Pacific region, provides policy advice on Pacific development issues, and manages 11 core bilateral development programmes. It also funds and engages with a number of Pacific regional agencies, administers five thematic regional programmes and manages New Zealand's emergency and disaster response in the Pacific.

(ii) The Global Development Division is responsible for regional and bilateral programmes in Asia, Africa and Latin America. The group also manages the aid programme's relationships and funding with international financial institutions, multilateral agencies and New Zealand civil society; contributes to international efforts to address complex emergencies and natural disasters in developing countries; and administers the scholarships programme.

(iii) The Development Strategy, Advisory and Evaluation Division (DSAED) provides specialist advisory support for programme and activity design and delivery in the areas of economic development, human development, and cross-cutting issues. It includes the evaluation team which provides monitoring, evaluation and research strategy, advice, planning, support and process development. It is the lead for policy development and strategic planning as well as engagement on a number of international development policy issues, policy coherence for development and aid effectiveness. It co-ordinates engagement with the DAC and international agencies not funded through IDG.

(iv) The Development Support Services Division is responsible for contracting and strengthening programme support functions to improve quality, customer service and business outcomes. The group also oversees annual planning and compliance with public sector accountability requirements and maintains accurate and timely information for key stakeholders.

Figure 5. The New Zealand's aid programme's organisational structure



Source: IDG, Wellington, 2010.

The integration of the New Zealand aid programme into MFAT has already had positive outcomes both for the programme, which is valued within MFAT, and the ministry at large (Box 3). The integration is an opportunity to share innovative management tools and culture with other parts of the ministry, especially as the latter is completing its organisational change programme (Ministry 20/20). It is also an opportunity to better integrate development co-operation into New Zealand's overall foreign policy, while respecting the specificity of its approach. Not all aspects of the organisational change have been finalised yet,[12] and these need to be consolidated as soon as possible. In doing so, New Zealand should retain the level of expertise gained over recent years by the New Zealand aid programme. Integration of the human resource function into the ministry should lead to limited rotation between foreign affairs and IDG's staff. This staff rotation should remain limited and strategic. Meanwhile it is necessary that the ministry maintains, especially within IDG, a core cadre of development professionals with clearly defined roles, functions and lines of accountability.

Box 3. Highlights of NZAID's contribution to development

The 2008/09 annual report of the Ministry for Foreign Affairs and Trade recognises the positive contribution of the aid programme to development:

"The New Zealand aid programme is making demonstrable progress towards many of the strategic objectives in its 33 programmes. Successful interventions range from effective technical assistance for a regional public health programme, to high-quality advice on broad-based national economic planning, to road construction with consequent economic benefits. However, progress is mixed. This is to be expected in a variable, high-risk environment, with many factors outside NZAID control.

The evidence for this contribution to outcomes can be seen from NZAID's programme management systems; evaluations of New Zealand ODA activities; and evaluations of partner-managed activities.

NZAID is open, reflective and identifying lessons to improve its own practice. Key lessons from the past year relate to how best to address context; activity planning and management; capacity building; and monitoring and evaluation."

Source: MFAT (2009b), *Annual Report 2008/09*, MFAT, Wellington.

Devolution needs to be deepened

New Zealand recognises that delivering an effective aid programme requires a system that enables it to engage further in policy dialogue and co-ordination. Currently 26% of IDG staff are posted in the field, up from 24% in 2005/06. Despite this increase, this proportion is low compared with other DAC member countries. This reflects the centralised management structure of the aid programme as well as the high cost of staffing posts in a large number of small countries. New Zealand's bilateral aid is only partially decentralised and its 15 country offices do not benefit from substantial delegation of authority (OECD, 2009c). Most decisions are taken in Wellington, ranging from designing the country strategy to formulating programmes and projects.[13]

12. Reviews of the human resource function and communication have been completed in autumn 2010.

13. Regional activities are also designed by headquarters and only a few are integrated in the posts' performance frameworks and monitored at country level.

Headquarters signs all contracts, and financial delegation of authority is limited. The Head of Mission is theoretically delegated authority up to NZD 500 000. However, in practice he or she cannot make full use of this financial delegation due to unsuitable business processes and management systems. This hampers New Zealand's effectiveness, as noted by its partners in Samoa and Vanuatu (Chapter 5).

IDG needs to streamline its aid management system to allow more effective delegation of authority to country offices. It should avoid micromanaging and overly-detailed, unnecessary reporting, while ensuring compliance with headquarters' policies. The new institutional arrangements have not brought substantial changes at the partner country level, where the ambassadors/high commissioners are already covering all aspects of New Zealand's presence, including the aid programme. MFAT and IDG however need to clarify functions and lines of accountability within the embassy/high commission (in particular between high commissioners and the newly established IDG's development counsellor), and between posts and headquarters. Finally, it should ensure it has the right capability with the right staff skills in country posts and appropriate staff training available where needed.

Management

Adjusting the business model to the new mandate, and increasing efficiency

The New Zealand aid programme has taken steps to improve its business processes and to enable it to deliver a scaled up aid programme more efficiently. It has developed and implemented a comprehensive programme of improvements to contracting, finance and monitoring systems in order to address the recommendations of two independent audits conducted in 2007 (Audit New Zealand's annual statutory audit and a performance audit by the Office of the Auditor General – OAG, 2008). This has included implementing a new electronic contract management system; developing procedures, tools and training to support good practice in contracting and procurement; and reviewing staffing and resourcing requirements around contracting and procurement (MFAT, 2009b). IDG should build on these achievements to streamline its management systems, taking account of needs at the country level. IDG has started to do so through a new approach to process development and a complete review of systems.

In 2008, NZAID conducted an organisational development framework review which identified the need for significant change to structures, operating arrangements, systems and processes. It resulted in a final report based around four key themes: (i) more effective aid; (ii) strengthened management for results; (iii) more connectedness; and (iv) continuous learning and improvement (NZAID, 2008d). Implementation has been delayed and the business model it entails is now being revised in light of the new strategic and institutional arrangements. This business model should ensure that high quality delivery is maintained, and should be backed up by sufficient resources (staffing levels and expertise, funding and systems) and career development perspectives, including professional upgrading through regular training. The model should also address the ministry's efficiency target for delivery of ODA which is currently under discussion. While this should not translate into a decrease of the administrative budget in absolute terms, it will require IDG to achieve economies of scale as the aid budget increases.

This efficiency drive, combined with a new emphasis on value for money, calls for a review of New Zealand's portfolio of activities in order to reduce their number. In

2009/10, the New Zealand Aid Programme was implementing 805 projects and programmes, of which 231 had a budget below NZD 50 000 and 95 above NZD 1 million. IDG is committed to supporting fewer, bigger projects in the coming years to reduce transaction costs. While this is valuable for efficiency purposes, the portfolio review and subsequent decisions on closing programmes and projects should be done in ways that do not undermine New Zealand's flexible approach to aid delivery and its long-term approach to development. IDG will also need to ensure that the value-for-money approach does not undermine the less quantifiable initiatives, in particular in the social and governance sectors, which are part of New Zealand's comparative advantage and can bring about valuable development outcomes. Finally, where investing in the private sector, New Zealand should develop sound economic analysis and undertake feasibility and value-for-money studies to ensure that the economic activities it considers supporting are viable and sustainable.

In this transition period, it is necessary to bring staff up to date with the changes to the aid programme's policy setting, mandate, and institutional arrangements in a way that provides support, and encourages a constructive, positive and productive environment. The management is aware of this, and staff have participated in the development of the new policy, business model and organisational reshaping through various consultation processes. These processes have also provided opportunities to explain how the change process enables better aid delivery. These efforts should be pursued, and the new business model should be explained clearly at all levels, both internally in the ministry as well as to external stakeholders.

Maintaining a core cadre of skilled development professionals

The New Zealand aid programme benefits from committed development professionals. This results from a deliberate effort to build a solid staffing basis and professionalise the aid department. The number of staff working in the New Zealand aid programme has increased over the past five years from 141 equivalent full time in 2005/06 to 252 in 2009/10 (Table 2). The number of staff posted in country offices has also increased, in particular the number of locally-engaged staff.

The Cabinet recognises "the importance of maintaining human resources in line with business needs, including appropriate numbers of personnel with relevant skills and experience" (Cabinet, 2009b). With the new needs resulting from the new focus on economic development, IDG should ensure it has the right staff skills and offer appropriate staff training at headquarters and in country posts. MFAT has implemented a footprint review of its staffing at post. It has also set up 15 professional development frameworks covering all key business areas, which aim to identify the main IDG capabilities and meet development needs in an organised way. IDG should build on these achievements to analyse further all posts and headquarters' resourcing needs according to their specific work programme. This analysis should lead to a workforce planning exercise enabling IDG to programme the staff profile and plan recruitment, training and professional development accordingly. The number and ratio of posts between expatriates and locally-engaged staff in country offices may then need to be adjusted.

Table 2. Trends in the New Zealand aid programme staffing numbers (equivalent full time), 2001 to 2010

	2001/02	2005/06	2009/10
Wellington	**79.0**	**105.5**	**186**
Offshore	**23.4**	**35.9**	**67**
Seconded staff	5.9	8.3	20.5
Locally engaged staff	17.5	27.6	46.0
Total	**102.4**	**141.4**	**252.5**

Source: IDG, Wellington, 2010.

While most human resource functions are already (payroll, terms and conditions) or will become ministry-wide (performance management, professional development), it is important that IDG is closely connected with the human resource direction of the ministry, and is able to apply specific regulations where needed. In particular, where the required expertise cannot be sourced from within New Zealand, the aid programme should be able to recruit internationally – although this has become more difficult as the foreign affairs' recruitment process involves security clearance and narrow eligibility criteria.

As the review team has seen in the field (Annex D), New Zealand has committed and skilled locally-engaged staff. Following the integration of the aid programme into MFAT, it is important that the ministry recognises the value of these staff and better understand their roles and potential. IDG has developed a human resources strategy to identify where headquarters can assist country posts with the management of local staff. The 2010-13 work programme involves a review of existing policies that apply to locally-engaged staff. IDG should seize this as an opportunity to explore how it can better leverage their expertise by providing further training and a better career perspective. Options for widening the role and position of local staff and for advancing staff development include: (i) identifying stronger, more differentiated job profiles, including senior positions with a corresponding salary band (*e.g.* senior development programme co-ordinator – two local staff already hold such positions); (ii) linking promotion to performance-based assessment; and (iii) allowing short-term assignments for skilled staff within IDG to strengthen their skills and experience through exposure to work in other contexts. One-off assignments have already occurred. For instance, staff from Samoa participated in a review of small grant schemes with positive results. Longer-term back-filling positions could also be considered, where temporary gaps at post or in Wellington could be filled by local staff on a short-term basis. Exploring these options further requires engaging in a structured dialogue with local staff representatives.

Promoting a results orientation

New Zealand emphasises the need to demonstrate its results and impact. IDG's approach to results is evolving towards a stronger focus on outcomes rather than outputs, which is positive. A new performance reporting framework was introduced in 2008. It entails a standardised annual plan, mid-year stocktake and end-of-year report for each programme. This process links activity management objectives with the multi-year programme strategy and its development outcomes. To help identify challenges, lessons and areas needing attention, each programme's annual report includes ratings of the New Zealand aid programme's contribution to development outcomes.[14] IDG plans to reinforce this system in coming years, alongside new quality assurance processes designed to help staff assess and document how each activity is performing or has performed, what actions are necessary and what lessons can be learned. Guidelines for activity monitoring assessments and activity completion assessments were issued in September 2010.

IDG is also continuing to strengthen its evaluation function, an area identified for improvement in the last Peer Review, by the performance audit report 2008 (OAG, 2008), and the MFAT annual report 2008/09 (MFAT, 2009b). In 2005, an Evaluation Committee chaired by the Executive Director was established. In 2008, IDG introduced a three-year evaluation strategy. It has also set up a professional development framework to strengthen IDG staff's monitoring and evaluation skills. In recent years more attention has been paid to improving the quality of evaluations. A mechanism to record evaluation follow-up actions was recently put in place and a tracking process is under development. The Evaluation Unit in the Strategy Advisory and Evaluation Group commissions and undertakes cross-cutting, sectoral or thematic evaluations; monitors the agency's rolling programme of reviews and evaluations; and provides advisory support to programme and activity evaluations which are managed by the Pacific and Global Programme Groups. Summaries of evaluation reports are published on the website, circulated electronically and shared in staff learning workshops. Other agency staff members have access to evaluation findings via the IDG intranet (OECD, 2010b).

The Evaluation Committee was established to oversee evaluations and ensure close links between evaluation and programming. Yet there is still scope for improvement. IDG does not systematically use evaluations as a forward-looking management tool and the management response and follow-up to evaluations are not made public. The Evaluation Unit staff spend time responding to a high demand for advisory support to improve the quality of activity and programme evaluations at the expense of undertaking more sector and thematic evaluations. Conducting more strategic evaluations is necessary. Meanwhile more autonomy could be given to posts for evaluations, using spot checks for quality assurance.

Reviewing policies and building knowledge: policy teams and communities of practice

In 2003, the New Zealand aid programme established formal, cross organisation "policy teams" (formally called Sector and Thematic Teams) to oversee the development of sectoral or thematic policies and strategy documents and to produce related outputs. As a complement to this, in 2009 IDG set up a formal system of "communities of practice" to support implementation of these policies by sharing lessons and knowledge across the programme. The objectives of the communities of practice are to: (i) contribute to the translation of the New Zealand aid programme policy into practice; (ii) provide a means of drawing on knowledge and experience, identifying and promoting good practice, developing skills, and promoting learning across the organisation; and (iii) share information through proactive outreach activities to staff and development partners.

14. In 2008/09, of 109 strategic development objectives from the 33 programmes that were rated, 5 (5%) were rated "excellent", 63 (58%) were rated "good", 35 (32%) were rated "adequate" and 6 (6%) were rated "unsatisfactory" (MFAT, 2009b).

These communities of practice are open to staff in IDG and the wider ministry. Representatives from other ministries and NGOs are also invited to participate in meetings on issues of shared interest. IDG's performance management system provides incentives to participate in the communities of practice, with roles, responsibilities and time commitments recorded in individual performance reports. Nine communities of practice and one policy team are currently active. They cover the main themes of the aid programme.[15]

This system has proven useful and should be maintained. The Communities of Practice are valuable for reviewing the aid programme policy framework in light of the new orientations and helping to provide appropriate strategic guidance on sustainable economic development, including the social and environment pre-requisite aspects. Communities of practice will be instrumental in supporting the work needed to translate the new orientations of the aid programme into practice. While ensuring that the communities of practice cover all relevant themes, IDG should continue to expand the system across the ministry and to posts in the field, making more use of information technology tools.

Engaging with other stakeholders

The previous peer review recommended that New Zealand continue to review its co-financing schemes for NGOs to ensure consistency between the various funding windows. New Zealand has developed close working relationships with NGOs since a strategic framework was adopted in 2000 which has been reviewed annually. New Zealand values NGOs' proximity to beneficiaries and their ability to provide support in fragile situations. It emphasises service delivery as the main area for working with NGOs through co-funded projects (with 80% being funded by the official aid programme and 20% by NGOs). Following the election of the government in October 2008, New Zealand's support to NGOs entered a period of uncertainty (Chapter 1). In July 2010, new funding arrangements were published. These aim to align more closely NGO co-funded projects to the government's aid policy and priorities.

Until 2010, the KOHA[16] Partnerships for International Community Development (PICD) funding scheme was the government's largest mechanism for directly supporting the work of New Zealand NGOs. It had a budget of NZD 21 million in 2009/10. KOHA-PICD was a peer-assessment based co-funding scheme for NGOs to support community development activities. Some 63 NGOs were registered and eligible for funding through a contestable process with annual applications. A more programmatic approach was developed with multi-year funding allocated to nine "block grant" NGOs. The KOHA-PICD placed particular emphasis on partnership, gender equity, participation and strengthening the capacity of developing country counterparts. Regular KOHA-PICD users were subject to four or five-yearly organisational reviews to ensure funds were being used in line with the scheme's criteria and to identify lessons for wider dissemination.

15. These are: gender, environment, human rights, economic growth and livelihood (including private sector development and trade and development), health, education governance, conflict prevention and humanitarian action, evaluation.

16 . KOHA stands for the Maori for Partnerships for International Community Development (*Kaihono hei Oranga Hapori o te Ao*).

In July 2010 IDG replaced the KOHA-PICD scheme with the Sustainable Development Fund (SDF) and the previous Humanitarian Action Fund with a new Humanitarian Response Fund (Annex C). Guidelines for the new Sustainable Development Fund stipulate that accredited NGOs who have received KOHA-PICD funding in the past two years will be eligible to apply for funding. While clearly stating that the overall purpose of the SDF is to fund sustainable development activities with a focus on economic growth, the guidelines recognise that reducing poverty is critical for full economic growth and trade, and *vice versa*. Basic services are therefore still eligible for funding. The guidelines also provide for a stronger focus on the Pacific (75% of SDF funding will be allocated to this region by 2012/13). The selection committee will no longer comprise NGOs; its membership is now limited to MFAT officials. NGOs will be represented in a consultative group set up to provide feedback to the ministry on the effectiveness of SDF (NZ Aid Programme, 2010). The publication of the guidelines is welcome as it brings clarity after a period of uncertainty. It also comes with the announcement of increased funding through NGOs. In the coming months, the aid programme will benefit from establishing a solid and confident dialogue with NGOs. With the Council for International Development (CID) as the recognised NGO umbrella, New Zealand NGOs will need to ensure it has the capacity to be a strong interlocutor with the ministry. The consultative group should have the opportunity to participate in reviewing the new funding arrangements, checking they ensure open and contestable funding mechanisms. In partner countries, New Zealand should provide a more structured platform to engage in regular and quality dialogue with NGOs, in particular when designing the new country strategy. Finally, in addition to calls for proposals, IDG should look at other ways – such as NGO block grants – to engage strategically with key NGOs with recognised capacity as development partners. This could be important to capture synergies between the aid programme and the NGOs' activities.

New Zealand should also look strategically at how to engage further with other stakeholders. In particular, IDG needs to develop a strategic approach to the private sector to help it address the economic growth agenda in its mandate. As regards engagement with research institutes, the International Development Research Fund (IDRF) aims to enhance development policy and practice through supporting quality international development research that aligns with priority areas of New Zealand aid. IDG also provides support for post-graduate students to undertake development related research. IDG should review the impact of both funds and explore how to build on them to promote a more strategic approach. It is positive that IDG plans to do so.

Future considerations

- The Ministry of Foreign Affairs and Trade needs to consolidate its organisational change process. While building on IDG's strengths, it should recognise the specificity of the aid programme and its related needs, retaining in particular IDG's development expertise capacity.

- IDG should complete the process of adjusting its business model to reflect its new mandate and enable it to continue to deliver an increased aid programme effectively and efficiently. IDG needs to equip posts with appropriate capability, streamline its aid management systems and clarify functions and lines of accountability in order to support more effective delegation of authority to country offices. IDG should strengthen its internal communication to ensure staff buy-in into this transition process.

- IDG needs to maintain a core cadre of development professionals and ensure it has the right skills in the right place. This requires reinforcing its workforce planning, ensuring regular training to upgrade staff skills in line with emerging needs, and considering options for widening the role of local staff. To do so, IDG will need to maintain strong links with the human resource direction of the ministry to be able to communicate clearly its specific assets and needs.

- IDG's efforts towards managing for results and knowledge sharing are positive and should be reinforced. IDG should conduct more strategic evaluations responding to policy and programming needs for evidence, and make more use of them as a forward looking management tool.

- IDG should develop a strategic approach to the private sector and research institutes to implement the new orientations of the aid programme. It should plan a review of the way it engages with NGOs at headquarters and in the field, and ensure it makes best use of synergies between the aid programme and NGOs.

Chapter 5

Aid effectiveness

Political commitment to aid effectiveness

New Zealand is committed to making its aid more effective. Key policy and strategy documents pre-dating the Paris Declaration on Aid Effectiveness show that New Zealand was already moving in this direction through increased emphasis on ownership, alignment and harmonisation (NZAID, 2002). With the onset of the Paris Declaration (OECD, 2005b) and Accra Agenda for Action (AAA) (OECD, 2008e), New Zealand has continued to integrate aid effectiveness principles into its policies, programmes and operations.

The new mandate of the New Zealand aid programme recognises the need to "maintain the benefits achieved in recent years for aid delivery that aims to be in line with international best practice, as set out in the 2005 Paris Declaration on Aid Effectiveness" (Cabinet, 2009a). Further, MFAT has highlighted more effective aid and strengthened management for results as two key priority themes (MFAT, 2010). To date, these priorities have mainly been pursued through an efficiency and value for money lens, which has translated into a heightened emphasis on departmental performance and staff initiative. New Zealand now needs to develop a more detailed position on aid effectiveness, clarifying the importance it attaches to this agenda, and providing guidance to staff on how to strike an appropriate balance between domestic accountability and cost effectiveness, and the need to ensure partner country ownership and long-term development impact. The drafting of a new medium-term strategy would be an opportunity for New Zealand to prepare this.

New Zealand plays an important leadership role in raising the profile of the Paris Declaration among partner countries and within the donor community in the Pacific region. This has included support to the Pacific Islands Forum Secretariat and to a series of aid effectiveness workshops in the region to promote increased awareness and understanding of the principles. In 2007, these workshops resulted in the adoption of the *Pacific Aid Effectiveness Principles.* These principles were derived from the Paris Declaration and designed to fit the local Pacific context. New Zealand was also instrumental in the adoption of the *Cairns Compact on Strengthening Development Coordination in the Pacific* in 2009. The compact sets out actions to improve the co-ordination and use of development resources in the Pacific, in line with international best practice as set out in the Paris Declaration and AAA. New Zealand is following up on implementation of this initiative through funding, membership of the core group, reporting on its own co-ordination efforts, and by acting as a peer reviewer.

At the international level, there is scope for New Zealand to play a more active role in the Working Party on Aid Effectiveness (WP-EFF). New Zealand has traditionally made strategic use of DAC best practice and guidance. In the same vein, it could benefit more from the WP-EFF subsidiary bodies as useful networks to share experiences in implementing aid effectiveness with donors and partner countries alike. Given its leadership role in the Pacific, New Zealand could also capitalise on the WP-EFF as a valuable global platform to champion issues of importance to the region.

A pragmatic approach to implementation

While New Zealand took part in the 2006 and 2008 *Surveys on Monitoring the Paris Declaration* (OECD, 2007b and 2008b), given the low participation of Pacific countries, the data reported represented only 6% and 28% respectively of aid allocated through its country programmes and was not representative enough to draw conclusions on its performance against the Paris Declaration indicators. In order to gain more meaningful insights, New Zealand undertook a donor evaluation as part of Phase I of the Evaluation of the Paris Declaration (OECD, 2008f). New Zealand will not undertake a second donor evaluation, but it is supporting the participation of Samoa and the Cook Islands in Phase II of the evaluation and has produced an update report on progress since 2007.

As a small donor, New Zealand adopts a pragmatic, bottom-up approach to implementation, underlining that much can be achieved at an informal level. One dedicated senior aid effectiveness advisor at headquarters provides leadership, while implementation is the responsibility of all staff. This mainstreamed approach has worked well to date, resulting in sound knowledge and ownership of the Paris Declaration among staff both in Wellington and at post. Following re-integration into MFAT, the aid programme needs to ensure this level of understanding is extended to colleagues across MFAT as well as the other departments involved in delivering aid. This may require a more systematic and formalised approach to implementation to increase understanding of, and commitment to, the Paris Declaration within other divisions.

An action plan to foster a more systematic approach

Almost two years after the High Level Forum in Accra, New Zealand has finalised a *Ministry of Foreign Affairs and Trade Aid Effectiveness Action Plan (AEAP)* (MFAT, 2010b) (Box 4). The plan has been developed for the IDG division as a practical tool for internal purposes, aimed at accelerating implementation of PD and AAA commitments. It identifies a number of barriers that New Zealand has yet to tackle in order to fully internalise the Paris Declaration and AAA into its policies and programming. Progress is reported every six months to aid management and staff.

Despite recognition that "staff in relevant divisions of the wider MFAT also have an important role to play, particularly at post", the action plan contains mainly administrative and technical action to be taken at headquarters level under the responsibility of various sub-divisions within IDG (MFAT, 2010b). While improving IDG's own systems and culture is undoubtedly a key component, the plan would benefit from a broader perspective on how New Zealand could positively influence progress on implementation at country, regional and international levels. Specific action points targeting heads of mission, local staff, other MFAT divisions and government departments involved in implementation would better harness the expertise of all staff, while helping to build ownership and collective responsibility to deliver aid effectiveness commitments and obligations. Tasking country offices with developing country-specific implementation plans to complement the current action plan may be useful in this respect. This could, in turn, provide valuable country level information to complement New Zealand's reporting on ODA in the MFAT annual report.

Box 4. Ministry of Foreign Affairs and Trade Aid Effectiveness Action Plan (AEAP)

The MFAT Aid Effectiveness Action Plan sets out five areas of focus over the next 18 months leading up to the Fourth High level Forum (HLF-4) in Korea. The plan outlines actions required to accelerate progress, and draws on New Zealand's experiences to suggest future work on harmonisation with Australia. It describes how MFAT will work to improve the effectiveness of its aid around the following themes:

- **Advocacy and influence**: enhance understanding within the ministry of aid effectiveness principles and how they should be applied. Actions include developing a policy position on aid effectiveness; putting out a set of clear accessible messages; and setting up an IDG dedicated community of practice.
- **Business processes and capacity**: revise IDG's policies and procedures to make them more cost effective and better aligned with partner country priorities, systems and procedures. Harmonisation with the Australian development agency should be sought where relevant, *e.g.* in assessments of country systems.
- **Prioritisation and dispersal**: reduce dispersion by clearly defining New Zealand's comparative advantage and setting out priority areas for programming.
- **Predictability and transparency**: address obstacles to providing multi-year rolling estimates and allocations. On the basis of a cost-benefit analysis, implement the International Aid Transparency Initiative standards on transparency.
- **Monitoring and results**: ensure that evidence and results better inform New Zealand's policy and decision making. Support partner countries through investment in statistics and reporting capacity.

Source: MFAT (2010b), Ministry of Foreign Affairs and Trade Aid Effectiveness Action Plan, IDG, Wellington.

Ownership: a strong reputation for partnership

As noted in the 2005 peer review, partnership is a fundamental operating principle of the New Zealand aid programme (OECD, 2005a). New Zealand is valued by partner countries for its openness, and particular knowledge and understanding of the Pacific context. Its country strategies are driven by partner country ownership and developed following a participatory approach. This was evident in Vanuatu, where New Zealand holds annual high-level consultations with government, complemented by quarterly meetings at senior level to discuss and monitor implementation, recent developments and upcoming priorities. The Vanuatu country programme provides predictable multi-year core funding to civil society organisations to support service delivery and capacity development. While it can be particularly challenging in partner countries with weak capacity (Box 5), it is important that New Zealand continues to promote country ownership, in particular during the ongoing tightening of the aid programme to focus more on sustainable economic growth.

Box 5. From Paris to the Pacific:
promoting ownership in a challenging operating environment

Delivering ODA in many of New Zealand's core partner countries poses specific challenges for ownership. Pacific countries are often fragile or small island states which have weak leadership and co-ordination capacity, and limited broad-based consensus on national priorities. Many of New Zealand's partners are still struggling to develop robust national and sector strategies, and to strengthen essential management and administrative systems. Given the often limited number of donors active in the region, it is not uncommon for partner countries to advocate for engagement across a wide range of sectors which, in turn, can hamper efforts to reduce aid dispersal (Chapter 3).

Lessons can be learned from encouraging exceptions such as Samoa, which is a good example of strong ownership. New Zealand should support its partners to take leadership and present clear strategies and budgets, without which ownership and alignment remain difficult (Chapter 6).

Source: Interviews, Wellington, 2010.

In common with other donors active in the Pacific, the link between the New Zealand regional and bilateral co-operation programmes is somewhat disjointed. Regional thematic or sectoral programmes are quite diverse and employ different modalities, from multi-country initiatives delivering assistance nationally under the broad mandate of the Pacific Plan, to regional agency programme and project support, such as funding to the Pacific Financial Technical Assistance Centre (PFTAC) and Pacific Association of Supreme Audit Institutions (PASAI). At field level, there is a perception that these programmes are developed in Wellington and are disconnected from national level activities. New Zealand could reinforce these links to ensure that regional initiatives respond better to partner government policies and priorities, and have more impact at the national level. This may require including the regional dimension in the country performance monitoring framework, and thoroughly revising the way New Zealand co-operates with regional organisations, in particular in the Pacific.

Alignment: developing and promoting sector-wide approaches

As the examples of Vanuatu (Annex D) and Samoa illustrate, New Zealand's country programmes are aligned well to government priorities, policies and systems, and sufficiently flexible to respond to needs. Nevertheless, several partners and civil society organisations at country level underlined that New Zealand's current administrative arrangements are too constraining. They felt that New Zealand needs greater flexibility to allow it to adapt to evolving partner country priorities. This could be achieved by implementing and increasing further the delegations of authority from HQ to New Zealand's country offices (Chapter 4).

In line with the recommendations of the 2005 peer review, New Zealand has continued to pursue sector-wide approaches (SWAps) in several countries, often playing a leadership role in promoting harmonisation and programme-based approaches (OECD, 2005a). In Vanuatu, for example, New Zealand has actively promoted the establishment of a sector-wide approach to education (Box 6).

Box 6. Actively promoting sector-wide approaches in Vanuatu: multi-donor pooled funding in the education sector

In December 2009, the Government of Vanuatu signed a joint partnership arrangement with development partners to contribute towards the funding and implementation of the Vanuatu Education Road Map (VERM).

Under the joint partnership, three donors – New Zealand, Australia and UNICEF – have agreed to pool their funding with the Government of Vanuatu to support the VERM. Other donors who are signatory to the joint arrangement and support the VERM, but who do not pool their funds, include the EU, France, Japan, UNESCO, the World Bank, Peace Corps and the Secretariat of the Pacific Community.

The financial assistance from the pooling partners is provided through separate grant arrangements agreed between the government and the relevant donor partner. Two tranches of payment are made to the Government Development Fund Account (DFA) annually. The pool fund is managed by the Ministries of Education and Finance, while the Prime Minister's Office is responsible for overall co-ordination and alignment with government priorities.

The pooled funds are earmarked solely for activities within the scope of the VERM. Under this overarching framework, specific policy projects are prepared by the government and agreed by the VERM Steering Committee. Accounting and reporting procedures for the fund are modelled on the government's own accounting systems. The Ministry of Finance presents a Development Fund Detail Report each month through the Smartstream Financial Management Information System.

New Zealand has committed up to NZD12 million (USD 8.5 million) over three years to put the VERM into practice. In the 2010 calendar year, the New Zealand Government will provide approximately NZD 3 million (USD 2.2 million) directly to the ministry to help implement the work plan and support technical advisors.

Source: Joint Partnership Arrangement in relation to the Vanuatu Education Road Map and New Zealand website (www.aid.govt.nz).

With the change in policy, the aid programme should avoid reverting to a free-standing project approach. Building on progress since the last peer review, New Zealand should continue to promote sector-wide approaches, and to progress towards its stated target to "move much more of its activity support to the higher order modalities that allow for larger and more strategic programmes with a high degree of ownership" (NZAID, 2008e). Important lessons can be learnt from the positive experience of providing budget support in Samoa to bolster the tsunami recovery. As recognised in New Zealand's *Ministry of Foreign Affairs and Trade Aid Effectiveness Action Plan*, provision of assistance through modalities such as budget support will need to be backed up by appropriate training and guidance from headquarters (IDG, 2010). New Zealand needs to equip itself to handle the different accountabilities and risks associated with these modalities, and to strengthen programme design and risk assessments to enable greater use of programme-based approaches and country systems for aid delivery (OECD, 2010d). It has already taken some steps in 2010, with IDG piloting an Activity Risk Guideline, and the Ministry of Foreign Affairs and Trade preparing a risk management policy.

New Zealand’s aid is almost fully untied (84%). The remaining tied aid relates to the costs of refugees in New Zealand, and New Zealand-based delivery mechanisms such as scholarships and deployment of New Zealand Police. New Zealand aims to untie 90% of its bilateral ODA by 2012 (OECD, 2010e).

Harmonisation and co-ordination

New Zealand is recognised as a transparent and constructive partner within the donor community. In the Pacific, where it is often among the top three donors, New Zealand coordinates and engages in joint activities and takes a lead role in key sectors such as education. As a small donor in Asia, New Zealand seeks to minimise its ODA footprint by engaging in larger multi-year activities, often in co-operation with other bilateral and multilateral donors through multi-donor trust funds.

New Zealand and Australia have a long history of close co-ordination, with a number of delegated co-operation and co-funding arrangements in place. In August 2009, the Australia-New Zealand *Partnership for Development Cooperation* set out a shared vision and high-level objectives for further co-operation and harmonisation of development programmes in the region. In the Cook Islands, for instance, Australia channels AUD 2.2 million into a single co-ordinated programme managed by New Zealand. In Samoa, New Zealand and Australia have developed a joint assistance strategy with the government which aims to “enhance aid effectiveness by strengthening partnerships between the three governments and maximising the benefits of aid harmonisation” (NZAID, 2006b). In the coming years, as New Zealand scales up assistance to the Pacific, it is encouraged to extend these joint arrangements and to engage more with other donors active in the region, not least as a helpful way to reduce transaction costs.

Predictability: good practice

Stakeholders in Vanuatu consider that New Zealand performs well on in-year predictability, and this view was echoed in interviews with a number of multilateral donor headquarters, who welcome the reliability and timeliness of New Zealand’s annual contributions. While information on disbursements is regularly disclosed, in a self-reporting exercise to the DAC, New Zealand acknowledged the need to “create more consistency in practice including around timeliness” (OECD, 2010d).

Since the last peer review, New Zealand has increasingly moved towards five to ten-year programming frameworks for its bilateral and regional programmes, alongside three-year allocations. The New Zealand legislature sanctions annual budgets with in-built flexibility to rollover over-spends of up to 10% and under-spends of up to 20%. This level of flexibility is much higher than for most other donors, and has proved a useful management tool for the New Zealand aid programme. Three-year forward allocations have already improved the predictability and transparency of New Zealand’s funding, allowing investment in partner countries’ medium-term expenditure plans through sector support and other programme-based interventions (OECD, 2009f). New Zealand is encouraged to prioritise action on exploring ways to improve delivery on its AAA commitments on medium-term predictability, and to extend its approach of multi-year commitments to its multilateral appropriations (Chapter 3). The ongoing discussion within IDG on a new process for developing strategic frameworks for programmes is a useful opportunity to examine this further.

Working towards mutual accountability and managing for development results

In common with many donors, the New Zealand aid programme is facing growing internal and domestic demands for high-quality reporting to inform decision-making and demonstrate results to the public (Chapter 4). New Zealand is seeking to improve results-based management, for example by working with partners in the Pacific on a regional project to upgrade statistical systems and improve data collection. New Zealand is encouraged to continue to work with other donors to strengthen partner countries' results frameworks, and to link its contribution increasingly to outcomes agreed with partner countries and the donor community. This could, in turn, help establish and strengthen mutual accountability initiatives at country level.

This is a particular concern in the Pacific, where only a few partners use the Paris Declaration to manage their relationships with donors:

> *"Only a few of NZAID's core Pacific partners currently use the Paris Declaration to advocate for changes in donor behaviour. If NZAID were to enhance efforts to increase the profile of the commitments on mutual accountability and introduce mutual performance review processes, it could help create more demand for change from partners. Currently the Samoa Joint Strategy provides for a review process but this was a more formalised example than in many other programmes"* (OECD, 2008d).

The process of developing the *Pacific Principles on Aid Effectiveness* was an important opportunity for awareness raising and dialogue between donors and partners. Similarly, the *Papua New Guinea Commitment on Aid Effectiveness* (PNG, June 2008) was an important exercise in mutual accountability, setting out a series of specific measurable actions for development partners and government alike. New Zealand is encouraged to build on such examples and, together with partner countries and other donors, to establish more effective country-level review mechanisms built on regular and joint evidence-based assessments of progress.

Future considerations

- While commitment to the Paris Declaration and the AAA is strong among IDG staff, the broader ministry and other government departments need to demonstrate the same level of understanding and dedication. New Zealand should develop a policy position on aid effectiveness, clarifying the importance it attaches to this agenda.

- As a complement to its aid effectiveness action plan, New Zealand should set out a more systematic approach by developing country-specific implementation plans, and including them in its internal monitoring and reporting system.

- The aid programme should avoid reverting to a free-standing project approach. In its welcome move towards greater use of programme- and sector-based approaches and budget support, New Zealand should equip itself to handle the different accountabilities and risks associated with these modalities. This includes ensuring appropriate training and guidance, and strengthening programme design and risk assessments.

- New Zealand should reinforce the link between its regional and bilateral co-operation programmes to ensure that national and regional initiatives fit better with partner country policies and priorities. To this end, it may wish to consider including the regional dimension in country dialogue and performance monitoring frameworks. It could also increase its focus on improving the way the regional architecture functions in the Pacific.

- New Zealand is encouraged to explore ways to make its aid more predictable in the medium term in line with its Accra Agenda for Action commitments. The ongoing discussion within IDG on a new process for developing strategic frameworks for programmes is a useful opportunity to examine this further.

Chapter 6

Special issues

Capacity development

New Zealand's approach to capacity development

The OECD-DAC defines capacity as "the ability of people, organisations and society as whole to manage their affairs successfully" (OECD, 2006c). The objective of capacity development is to strengthen the abilities of individuals, create functioning organisations and ensure an enabling environment to allow societies to use resources effectively and achieve their goals in a sustainable way.

New Zealand supports the Paris and Accra commitments to ensure country-owned, demand-driven, co-ordinated capacity development, and recognises the importance of tailoring this support to specific country contexts. Like many donors, New Zealand does not have an overarching policy or vision for capacity development, and instead relies on OECD-DAC definitions and the approaches of like-minded donors for guidance in this area. While this may be an appropriately pragmatic approach for a small donor, the peer review team did not find clear evidence of a commonly-accepted understanding across IDG of what capacity development is, or its implications for development co-operation. Most staff referred to capacity development simply as "the essence of many of New Zealand's development interventions". Even though capacity building, organisational development, institutional strengthening or training feature in most of New Zealand's activities, an external review found that guidelines for activity management do not address the issue in sufficient depth and that better understanding of the factors which promote or hamper capacity development was required (NZAID, 2009c).

Within IDG, there is one senior advisor responsible for capacity development, among other things. The IDG intranet site contains a dedicated section on capacity development, and "Friday Forums" are held on an ad hoc basis. While internal dialogue on capacity development does take place at sector level around education or governance, the peer review team found that good practice was not sufficiently documented or shared across themes, programme countries, or with other donors. In the absence of a clear discourse or vision on capacity development which cuts across the aid programme, New Zealand may wish to consider complementing these initiatives with specific training or a dedicated community of practice on capacity development.

Translating policy into implementation in the field

Improving the effectiveness of scholarships to support capacity development

New Zealand uses a range of tools to support capacity development. The most important are scholarships and training, both long-standing tools in the aid programme. In providing students from developing countries with the opportunity to study at tertiary institutions in New Zealand or within the region, these schemes aim to facilitate their contribution to the economic and social advancement of their country. This is particularly important in Pacific island states with weak capacity and often limited human resource pools and populations. The 2005 peer review recommended that NZAID continue reviewing its scholarship schemes by increasing their development impact and cost effectiveness (OECD, 2005a). Since then, New Zealand has completed evaluations in order to strengthen the development impact of scholarships and to recommend appropriate policy approaches, taking into account the aid effectiveness agenda and cost-benefit considerations. Scholarship programmes are now more closely co-ordinated with those of AusAID,[17] and better aligned with country programme strategies. IDG is also looking at ways to further improve its cost effectiveness. In order to ensure greater impact, New Zealand could consider building on these achievements by systematically linking scholarships and training more explicitly with its support to capacity development. This was confirmed in a review of scholarship and training schemes in Papua New Guinea:

> *"… although the New Zealand Development Scholarships and Short Term Training Awards scholarships offered to PNG are aligned to the PNG Programme's development assistance focus and the Government of PNG's involvement in the selection of awardees has increased substantially, the lack of an NZAID human resource development strategy to support in-country training and capacity building with New Zealand-based scholarships and training means that the impact of NZAID scholarships will remain difficult to measure. Consideration could be given to the application of this across NZAID country programmes."* (NZAID, 2007d)

Ensuring appropriate use of technical assistance

Technical assistance also features in the New Zealand aid programme. New Zealand adopts a whole-of-country approach whereby technical advisors from different government departments and the private sector partner with IDG to carry out placements in partner country institutions. Consistent with its commitments to aid effectiveness, New Zealand seeks to provide demand-driven, co-ordinated technical assistance which is flexible and can adapt to partners' evolving priorities and needs. The recent *Aid Effectiveness Action Plan* foresees further action to strengthen guidelines to ensure partners are supported in recruiting and managing technical advisors themselves (IDG, 2010). Technical advisors typically demonstrate an in-depth understanding of local contexts and cultures. This was observed first-hand in Vanuatu, where advisors from the New Zealand Department of Corrections mentor and train Vanuatu counterparts as part of a programme to strengthen institutions.

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17. For example, in Samoa, where scholarships are a significant component of the aid programme, New Zealand supports government training and tertiary education needs through a scholarships programme harmonised with AusAID.

Technical assistance is a common phenomenon across the Pacific. In fragile and/or small island states, partner government capacity is often weak and donors need to work harder to ensure ownership and avoid undermining emerging systems and government institutions. While external action in the form of technical assistance is often necessary to overcome capacity constraints, inappropriate "gap filling" or "poaching" of partner country staff can weaken local capacity and threaten local labour markets.[18] New Zealand should address these issues, as well as challenges around absorption capacity and retention in its dialogue with partners in order to ensure a sound assessment of the underlying capacity development needs. If contextual issues are not addressed from the outset, this can lead to unsustainable activities and results in the longer term.

Making effective use of different tools: towards a holistic approach to capacity development

In addition to scholarships and technical assistance, New Zealand also has a number of programmes which focus specifically on capacity development, for example a programme to strengthen institutions in the justice sector in Samoa. As observed in Vanuatu (Annex D), an important principle of New Zealand's engagement in SWAps is to help partners build the capacity required to manage the processes involved, including through "in service" or "on-the-job" training. New Zealand also provides support to public financial management (PFM) programmes, notably through the IMF's regional technical assistance facility (PFTAC) as well as directly through some country programmes, for example the Public Sector Improvement Facility in Samoa and support to strengthening tax administration in the Solomon Islands and Niue. New Zealand co-ordinates well with other development partners (notably AusAID) who are particularly active in this area.

It would be useful for New Zealand to review the overall impact of the different tools it uses for capacity development – including scholarships, training, technical assistance and dedicated capacity development programmes – in order to develop a more integrated and strategic approach to capacity development. As a first step, New Zealand may wish to consider conducting an analytical stocktake of the range of modalities, with recommendations on how these may be more effectively linked together. New Zealand and Australia undertake some combined work on capacity development including joint evaluations. This includes tripartite support (with the Government of Samoa) for the Samoa Public Sector Improvement Facility. New Zealand is encouraged to extend collaboration in this area, borrow from Australia's substantial knowledge base and analysis, and make further links into efforts of the broader international community to share experiences and identify good practices for capacity development.

To date, New Zealand's approach to capacity development has focused mainly on the government sector and, to some extent, civil society organisations. There is scope to broaden this understanding of capacity development to include other non-state actors such as the private sector, a constituency which is a particular focus for the current government. A business mentoring service launched recently for the Pacific region, and piloted first in Samoa, to help small and medium-sized businesses is a positive step in this direction (Box 7).

18. New Zealand does have a database of local consultants in a few Pacific countries, but in general the labour market is too small to meet the capacity demands. For example, currently the Solomon Islands has a total of eight engineers.

Box 7. Business mentoring in Samoa: good practice for developing capacity

A new Pacific Business Mentoring Programme was launched in Samoa on 5 July 2010. The programme, managed by Business Mentors New Zealand, aims to assist small and medium-sized businesses in the Pacific to manage and grow their businesses in a way that supports sustained increases in production and employment over time. The mentoring services will be guided by Samoan business needs and will create a path by which Samoan businesses can access quality, professional business expertise from New Zealand and, increasingly, through locally trained business mentors.

As a first step a team from Business Mentors New Zealand is working with the Samoa Chamber of Commerce to roll out the pilot initiative funded by the New Zealand aid programme. Their goal is to select priority businesses that have real potential for growth and then link them to experienced, high calibre New Zealand mentors. It is hoped that these relationships will provide the strategic advice needed to help Samoan business people with good ideas and products to take the next step in developing their business. Advice could range from improving accounting practice to strengthening business planning and linking to export markets.

In 2010, the pilot year, the programme is being rolled out to three Pacific Island countries (Cook Islands, Tonga, and Samoa). It will then be made available over a staged three year period in each of the eleven Pacific Island countries where there is a bilateral New Zealand aid programme. New Zealand is working with the Pacific Island Private Sector Organisation (PIPSO), the private sector donors' network, and other stakeholders to share experience and lessons learned in the pilot, and calibrate further targeting and refinement of the programme. The mentor pool is 33% female and the programme is aiming to increase this further.

Source: NewZAID (2010), *Newsletter* N° 71, July 2010, NZAID, Wellington.

Fisheries, food security and donors' responses

Given the importance of fisheries to national economies and food security in the Pacific, the special topic of agriculture, food security and donors' responses is specifically focused on fisheries. New Zealand's direct response to the high food prices crisis is presented in Box 8.

Box 8. New Zealand's response to the high food prices crisis

New Zealand developed a single cross-government policy to respond to the crisis in food prices. This document informed New Zealand's positions in a wide range of fora, including the Rome World Food Security summits, the Asia Pacific Economic Co-operation, OECD, Pacific Forum, and in donor co-ordination meetings.

New Zealand also increased its funding to multilateral organisations to support their response to the food price crisis. In May 2008, the aid programme allocated NZD 1 million of complex emergencies funding to support FAO work to reduce post-harvest losses in Timor Leste. In 2008, New Zealand also provided a one-off grant of NZD 2.19 million to the Consultative Group on International Agricultural Research (CGIAR) Challenge Programme on Water and Food (through the International Water Management Institute) and made an additional one-off contribution to the UN World Food Programme of NZD 7 million. This accompanied increased core funding to both WFP and CGIAR.

Alongside its support to the multilateral channel, NZAID also stepped up its policy engagement to seek stronger needs and market assessments and to tailor its responses to need. This would include greater consideration of the role of cash and voucher transfers as opposed to an assumed food aid response.

Source: OECD (2009e), Donor Responses to High Food Prices, OECD, Paris.

Fisheries: an important sector in the Pacific

Fisheries are of great importance to the Pacific region, with Pacific island states and territories depending heavily upon this sector for their economic and social development, as well as their food security. Recent estimates have valued the region’s oceanic fisheries to be worth approximately USD 2 billion, with some USD 800 million of the catch taken within the exclusive economic zone of Pacific island countries. However, coastal states only derive an estimated USD 60 to 70 million of this amount, mostly from access fees paid by foreign companies (Ministry of Fisheries, 2006). For many Pacific countries, increasing the value they can derive from their fisheries resources is therefore a key priority. However, most lack the capacity to set up a conducive economic and legal environment for developing onshore processing facilities and/or port services which would benefit local communities through increased employment.

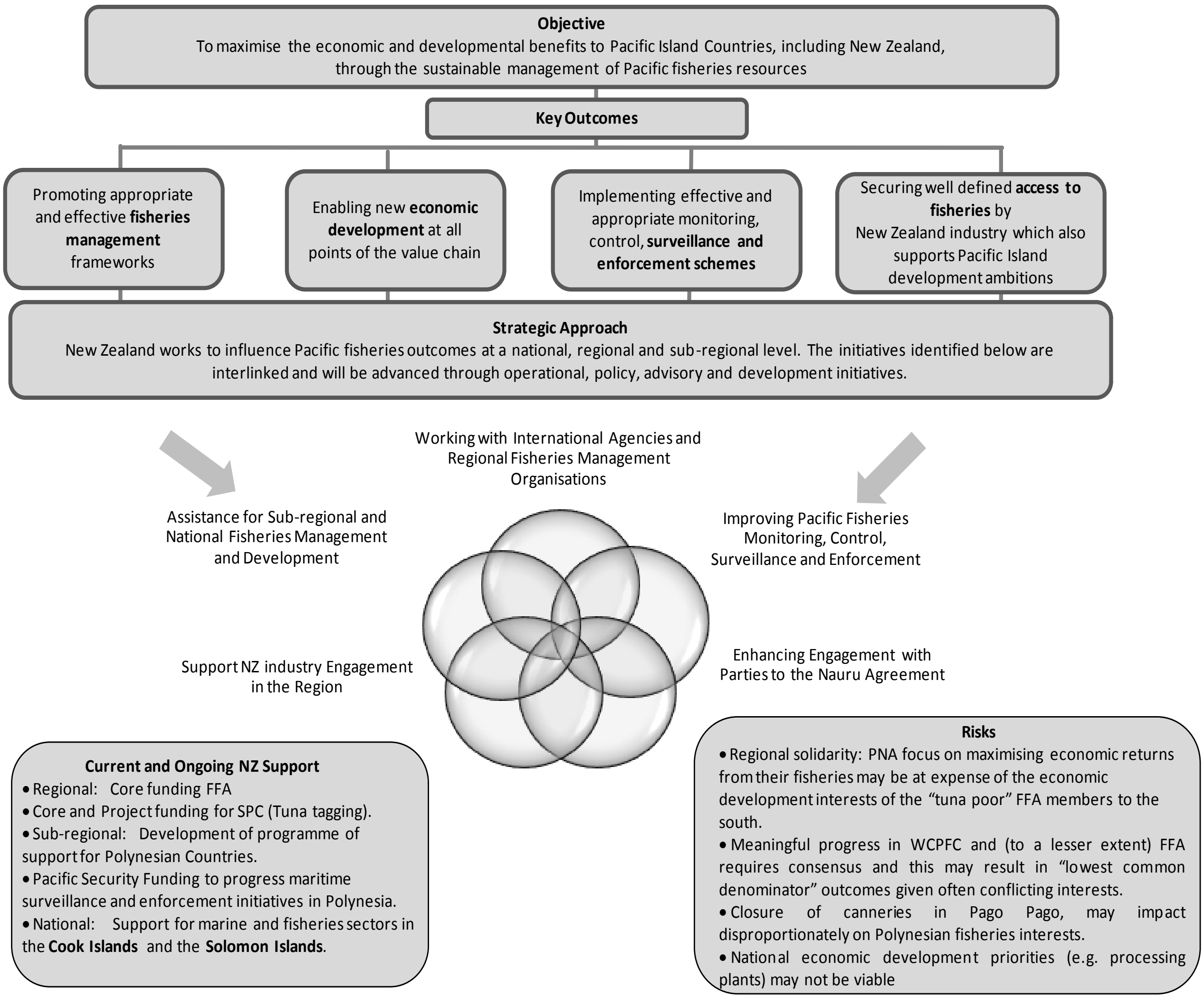
National fisheries administrations have also to take into account the regional dimension, with the Western and Central Pacific Fisheries Commission responsible for ensuring the sustainable use of the fisheries resource. To achieve this, the commission attempts to strike a balance between the interests of developing coastal states and the industrialised fishing nations.

A broad, long-term whole-of-government approach to fisheries

Fisheries is a good example of New Zealand’s whole-of-government approach to a sector, with a strong focus on capacity development. However, New Zealand’s ODA allocated to this sector has been limited to date. With USD 2.5 million on average allocated to the fishing sector in 2007/08, New Zealand spent only 1% of its total aid on fishing. In the coming years, the stronger emphasis of the New Zealand aid programme on sustainable economic development should lead to stronger support to fisheries in the Pacific. An example of this is the recently finalised Te Vaka Moana Co-operation Arrangement between the fisheries administrations of Cook Islands, New Zealand, Niue, Samoa, Tonga and Tokelau that seeks to secure, protect and enhance associated long-term economic benefits able to be derived from such fisheries, and to protect the important contribution these fisheries make to the food security of communities. It intends to strengthen cross-departmental work in partner countries and co-operation between partner countries leasing to greater sustainable economic development outcomes. This new emphasis was also clearly stated by New Zealand Foreign Minister when hosting a Pacific fisheries meeting in June 2010: “We are committed to greater co-operation, and we share a common desire for fisheries to be an important driver of sustainable economic growth in the Pacific” (McCully, 2010). New Zealand, Kiribati, Nauru, Solomon Islands and Tuvalu participated in the meeting, the purpose of which was to discuss formalising closer co-operation on fisheries management and development. The five countries agreed to develop an arrangement on fisheries co-operation, which includes a commitment by New Zealand to increase its support to promoting employment opportunities, strengthening fisheries institutions and tackling illegal fishing.

Since 2005, New Zealand has been pursuing a co-ordinated strategy involving MFAT, NZAID (now IDG) and the Ministry of Fisheries for enhancing its engagement in Pacific fisheries. Its objective is to “maximise the economic and developmental benefits to Pacific island countries, including New Zealand, through the sustainable management of Pacific fisheries resources”. The strategy has four key outcomes and combines initiatives at national, regional and sub-regional level. It draws on the DAC guidelines on natural resources and pro-poor growth (OECD, 2008c) and relies on operational, policy, advisory and development initiatives. This cross-government strategy enables a broad-based approach with complementary components and levels of action which are mutually reinforcing. Its implementation involves close co-operation among the Ministry of Fisheries, MFAT and IDG in New Zealand, as well as with other bilateral and regional actors, including Australia, France (*e.g.* the trilateral agreement on fisheries surveillance), the Pacific Island Forum Fisheries Agency and the Secretariat for the Pacific Community (Box 9).

Box 9. Fisheries for development: a new strategy for New Zealand to promote fisheries in the Pacific



Source: Ministry of Fisheries, New Zealand.

The cross-government fisheries strategy is aligned with partner countries’ priorities to create secure and attractive investment environments, support economic growth, protect the resource and ensure food security. The strategy has led to positive results, driving long-term arrangements with Pacific Island countries and reinforcing policy coherence in this sector. As an example, New Zealand has set up a 10-year partnership arrangement for fisheries sector development with the Solomon Islands (2009-2018). This arrangement is aligned to the New Zealand/Solomon Islands Programme Strategy (2009-2018) and aims to strengthen the capacity of Solomon Islands fisheries in order to improve livelihoods, food security and economic benefits. In line with the strategy, New Zealand is engaged at various levels (regional, sub-regional, bilateral) and tries to build synergies among these levels. New Zealand works closely with key actors and institutions in the region, including Pacific Regional Organisations - notably the Pacific Islands Forum Fisheries Agency and the Secretariat of the Pacific Community. The trilateral agreement between Australia, France and New Zealand on fishery surveillance in the Pacific region is another example of New Zealand's inclusive approach.

Capacity development is a strong feature of New Zealand's support to fisheries. In 2006, the Ministry of Fisheries developed a *Pacific Capacity Development Programme Framework* in consultation with MFAT and the New Zealand aid programme (Ministry of Fisheries, 2006). The framework aims to develop fisheries capacity for the conservation and sustainable use of Pacific fisheries resources. Its specific objectives are:

i) Ensuring that Pacific region capacity development initiatives are durable and take into account environmental, economic and social aspects of sustainable development.

ii) Encouraging and facilitating collaboration within and between (i) policy makers, scientists, managers, communities, fishers, fish workers and other stakeholders; (ii) fisheries and other sectors; and (iii) the public and private sector.

iii) Improving co-operation, co-ordination and collaboration with other capacity development donors to ensure that the programme delivers the maximum possible benefits in the most efficient manner to Pacific island countries.

In line with the Paris Declaration, the framework emphasises the need to work in close co-operation with all actors involved in fisheries capacity development in the Pacific, including the regional agencies, the Western and Central Pacific Fisheries Commission and the few bilateral donors engaged in this area.

Building on progress

This cross-government approach sets a good example and could be replicated in other government policies. However, reinforced in two ways:

i) Whilst all ODA projects are screened for compliance with the New Zealand aid programme strategy and action plan on gender equality and women's empowerment (NZAID, 2007b and c), the integration of cross-cutting issues (e.g. gender equality) into the Pacific Fisheries Strategy could add and strengthen this important dimension.

ii) The interdepartmental strategy on fisheries lacks common monitoring and evaluation tools. There is no framework with indicators and targets with time-bound plans for delivering results. Each department has its own monitoring, reporting and evaluation process and there is no combined or joint system for reporting to ministers on implementation progress. Various components of the strategy are monitored in their own ways and against different statements of intent. No impact evaluation has been planned. New Zealand would gain from setting up a cross-department framework for monitoring and evaluation, pulling together information and sharing lessons to manage the programme and review the strategy orientations.

Future considerations

- New Zealand should consider developing a guiding definition of capacity development and setting up a dedicated community of practice to promote an internal discourse and improved understanding of this complex issue across IDG and other departments involved in delivering the aid programme. In doing so, it is encouraged to draw upon efforts of the broader international community to share experiences and identify good practice in capacity development.

- Consistent with its commitments on aid effectiveness, New Zealand should carry out an assessment of the range of tools at its disposal, and their contribution to capacity development.

- There is scope to broaden New Zealand's understanding of capacity development beyond the government sector to include non-state actors, in particular the private sector.

- New Zealand should integrate cross-cutting issues further into the government's Pacific fisheries strategy, and set up a common monitoring, evaluation and reporting framework for the strategy.

Annex A

Progress since the 2005 DAC Peer Review recommendations

Key issues	Recommendations 2005	Progress since 2005
Overall framework and new orientations	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.	New Zealand has developed strategic frameworks to ensure policy priorities are translated into the programme. It has adopted a new approach to results with a stronger focus on monitoring outcomes and has taken steps to improve its monitoring systems. A new performance reporting framework was introduced in 2008 to monitor the aid programme's contribution to New Zealand's development objectives. New Zealand now puts a stronger emphasis on quality assurance and risks assessments, with IDG piloting an Activity Risk Guideline, and the Ministry of Foreign Affairs and Trade preparing a risk management policy.
	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.	In 2008, New Zealand has published an Economic Growth and Livelihoods Policy. The policy emphasises the importance of macro-economic stability and defines four inter-related areas for engagement, including creating an enabling environment and promoting pro-poor domestic and international markets. The policy emphasises the need for policy coherence for development in the areas of trade, foreign investment, health, education, security and migration. New Zealand has provided support to build regional and national capacities. Yet, the share of ODA allocated to economic activities remained limited during the period. In the coming years, New Zealand will strengthen its support to sustainable economic growth in line with the new Cabinet mandate.
	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.	New Zealand has maintained its engagement in fragile states in the Pacific in close co-ordination with other partners, in particular Australia. It also provides support to Afghanistan and Timor-Leste. In 2008 New Zealand developed a Guideline on Aid Effectiveness in Fragile States, which was shared with other relevant MFAT divisions. Formal whole-of-government co-ordination mechanisms have been established for key partnerships including Afghanistan, Timor-Leste and the Solomon Islands. New Zealand provided support to the Solomon Islands pilot of the Principles for Good Donor Engagement in Fragile States and participated in monitoring the principles in Timor-Leste.
	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.	New Zealand has implemented its 2005 communication strategy through a number of activities aimed at improving public information and addressing gaps identified by the opinion polls. New vehicles for informing people about the aid programme include an improved website and the magazine *Currents*. New Zealand has also increased its budget for development education, working in close relationship with civil society organisations. However, the communication budget is still limited. Despite these efforts, development awareness and confidence in the effectiveness of aid remain weak, both among the public and at the political level.

Key issues	Recommendations 2005	Progress since 2005
Policy coherence for development	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.	NZAID took the lead on the policy coherence agenda, developing a *Strategy for Action to Improve Policy Coherence 2006/07-2009/10* and appointing one staff member to monitor implementation of the strategy, among other things. Current priorities include trade and economic development (PACER Plus), climate change, and fisheries. The government has also strengthened its co-ordination mechanisms to oversee whole-of-government engagements in partner countries, particularly fragile states. Formal and informal arrangements seem effective, with good results in some sectors (*e.g.* the Regional Seasonal Employment and the whole-of-government Pacific fisheries strategy).
	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.	New Zealand does not have a high-level policy statement on policy coherence for development. The *Strategy for Action to Improve Policy Coherence 2006/07- 2009/10* only provides a framework for IDG. It lacks clear indicators and targets to which each relevant department would contribute. New Zealand's departments should jointly set inter-departmental targets in priority areas and develop results frameworks and joint monitoring and reporting systems to monitor, report and assess the impact of efforts towards policy coherence in these areas.
Aid volume and distribution	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%.	Since 2004, New Zealand has steadily increased its aid volume. Yet, with total ODA equivalent to 0.28% of GNI in 2009, New Zealand remains below the DAC average and falls far short of the United Nations target of 0.7%. Rather than setting an intermediate ODA/GNI target clearly establishing a path towards the 0.7% target, the current government has committed to increasing ODA from NZD 500 million in 2009/10 to NZD 600 million in 2012/13.
	Given its intention of engaging more actively with selected international organisations, NZAID should use part of any significant increases in ODA to strengthen its contribution to, and voice in, selected multilateral development agencies.	New Zealand has strengthened and streamlined its strategic approach to multilateral organisations. It focuses on substantial and intensive engagements with 10 main multilateral partners, participating in their board meetings, and being actively involved in informal consultations and regional meetings. This was facilitated by the establishment of new positions in Geneva, New York and Paris.
	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.	New Zealand has increased its focus on the Pacific, which received 66% of its bilateral ODA in 2008, compared with 50% in 2005. It plans to further strengthen this strong geographical focus. New Zealand has also deepened its engagement with fewer core bilateral countries in Asia. It has withdrawn from China and is reviewing its presence in the Philippines and Vietnam. New Zealand has also started implementing its stated policy of "fewer, bigger" activities to concentrate, enhance impact and decrease the burden on partner countries. Yet, with the exception of Indonesia, New Zealand aid remains thinly spread across Asia.

Key issues	Recommendations 2005	Progress since 2005
	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.	The share of New Zealand aid spent on basic education has increased in absolute and relative terms since 2005 and is well above the DAC average: aid to basic education represented 7% of bilateral ODA in 2007/08, while the DAC average was 2%. New Zealand has completed evaluations in order to strengthen the development impact of scholarships. Scholarship programmes are now more closely co-ordinated with AusAID and better aligned with country programme strategies. IDG is currently looking at new ways of improving the cost-effectiveness of scholarships.
Aid management and implementation	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.	New Zealand has increased its capacity in partner countries with more professionals posted in country offices and the establishment of development counsellor positions in the most complex programmes. Plans to strengthen further staffing capability in the field were interrupted by budget constraints. IDG has implemented a review of its staffing in its country offices. It could draw on this to develop a workforce planning exercise to make sure it has the appropriate skills mix, while considering options for providing locally-engaged staff with wider career prospects.
	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.	New Zealand has taken steps to broaden the scope of bilateral country strategies to include all ODA engagement in the country and to provide regular updates to partners on non-bilateral flows. However, the link between the New Zealand regional and bilateral aid programmes is still somewhat disjointed, and the regional dimension is only partially included in country performance reports. New Zealand also lacks a structured platform for engaging in regular and quality dialogue with NGOs in partner countries, which could be important to build synergies.
	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.	New Zealand has continued to pursue sector-wide approaches in several countries (*e.g*. Vanuatu, the Solomon Islands), often playing a leadership role, in particular in the education sector. It has set as a target to move "much more of its activity support to the higher order modalities that allow for larger and more strategic programmes with a high degree of ownership".
	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 judgement.	New Zealand has strengthened evaluation of the aid programme, introducing a three-year evaluation strategy and establishing an Evaluation Committee. Programme reviews and evaluations are commissioned and managed by programme managers. An Evaluation Unit in the Strategy Advisory and Evaluation Group provides support to these evaluations and undertakes sector or thematic reviews. However, conducting more strategic evaluations would be necessary. IDG could also make more use of evaluations as a forward-looking management tool, providing a management response to the recommendations and ensuring appropriate, transparent follow-up.

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Net disbursements

New Zealand	1994-98	1999-2003	2004	2005	2006	2007	2008
Total official flows	**128**	**130**	**217**	**281**	**266**	**328**	**356**
Official development assistance	**128**	**129**	**212**	**274**	**259**	**320**	**348**
Bilateral	99	98	159	224	203	247	278
Multilateral	29	31	53	50	56	73	70
Other official flows	-	**1**	**5**	**7**	**7**	**8**	**8**
Bilateral	-	1	5	7	7	8	8
Multilateral	-	-	-	-	-	-	-
Net Private Grants	**15**	**15**	**29**	**94**	**48**	**50**	**48**
Private flows at market terms	**12**	**18**	**25**	**26**	**24**	**26**	**29**
Bilateral: *of which*	12	18	25	26	24	26	29
Direct investment	12	18	25	26	24	26	29
Export credits	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	**155**	**163**	**271**	**401**	**338**	**404**	**433**
for reference:							
ODA (at constant 2008 USD million)	*186*	*221*	*249*	*297*	*298*	*312*	*348*
ODA (as a % of GNI)	*0.24*	*0.24*	*0.23*	*0.27*	*0.27*	*0.27*	*0.30*
Total flows (as a % of GNI) (a)	*0.29*	*0.31*	*0.30*	*0.40*	*0.35*	*0.34*	*0.38*
ODA to and channelled through NGOs							
- In USD million	5	10	26	47	36	51	62
- In percentage of total net ODA	*4*	*7*	*12*	*17*	*14*	*16*	*18*
- DAC countries' average % of total net ODA	*4*	*8*	*8*	*9*	*7*	*7*	*7*

a. To countries eligible for ODA.

ODA net disbursements
At constant 2008 prices and exchange rates and as a share of GNI

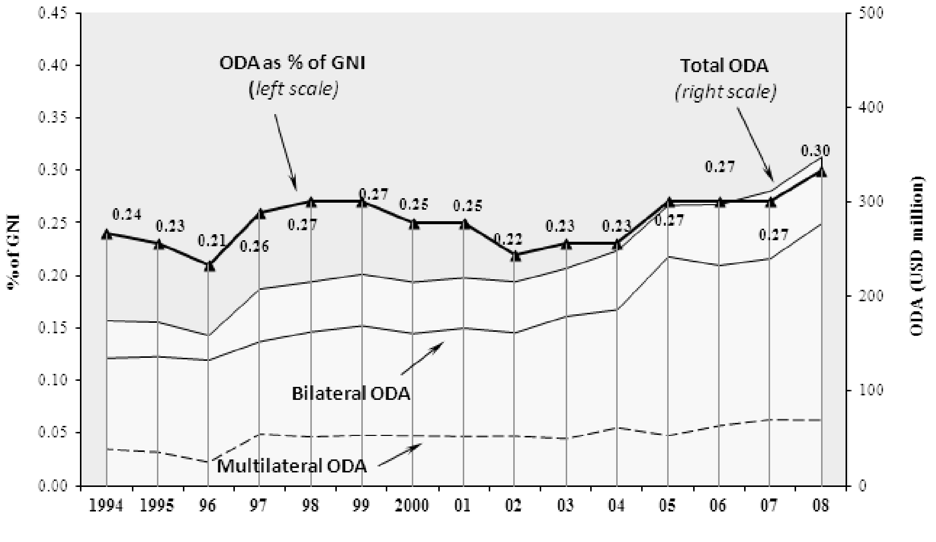


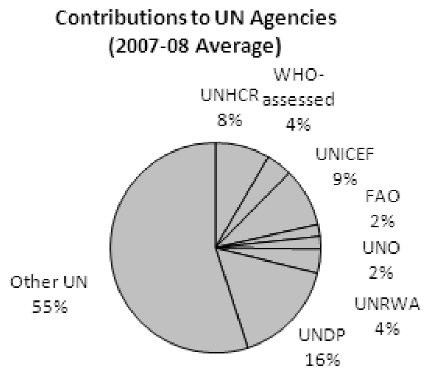
Table B.2. ODA by main categories

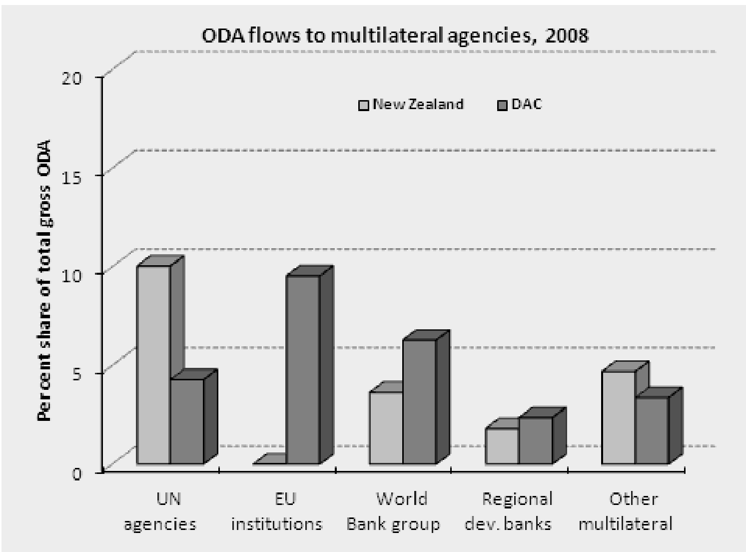
Disbursements

New Zealand	Constant 2008 USD million					Per cent share of gross disbursements					Total DAC 2008%
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
Gross Bilateral ODA	**187**	**243**	**233**	**241**	**278**	**75**	**82**	**78**	**77**	**80**	**74**
Grants	*187*	*243*	*233*	*241*	*278*	*75*	*82*	*78*	*77*	*80*	**65**
Project and programme aid	66	90	96	94	128	26	30	32	30	36.82	24
Technical co-operation	54	44	56	56	58	22	15	19	18	17	13
Developmental food aid	1	2	1	1	1	0	1	0	0	0	1
Humanitarian aid	19	57	25	28	26	8	19	8	9	8	6
Action relating to debt	-	0	0	-	-	-	0	0	-	-	8
Administrative costs	16	17	19	20	23	6	6	6	6	7	4
Other grants	32	33	36	42	41	13	11	12	13	12	8
Non-grant bilateral ODA	-	-	-	-	-	-	-	-	-	-	*9*
New development lending	-	-	-	-	-	-	-	-	-	-	8
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	0
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
Gross Multilateral ODA	**62**	**54**	**64**	**71**	**70**	**25**	**18**	**22**	**23**	**20**	**26**
UN agencies	19	16	27	35	35	7	5	9	11	10	4
EU institutions	-	-	-	-	-	-	-	-	-	-	10
World Bank group	10	9	10	10	13	4	3	3	3	4	6
Regional development banks (a)	8	7	7	7	6	3	2	2	2	2	2
Other multilateral	26	22	21	20	16	11	7	7	6	5	3
Total gross ODA	**249**	**297**	**298**	**312**	**348**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	-	-	-	-	-						
Total net ODA	**249**	**297**	**298**	**312**	**348**						
For reference:											
Associated financing (b)	-	-	-	-	-						
Net debt relief	-	*0*	*0*	-	-						
Imputed student cost	-	-	-	-	-						
Refugees in donor countries	*13*	*12*	*12*	*13*	*12*						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.





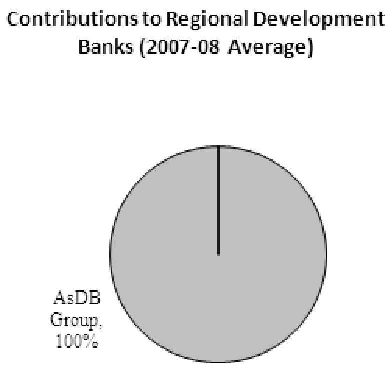
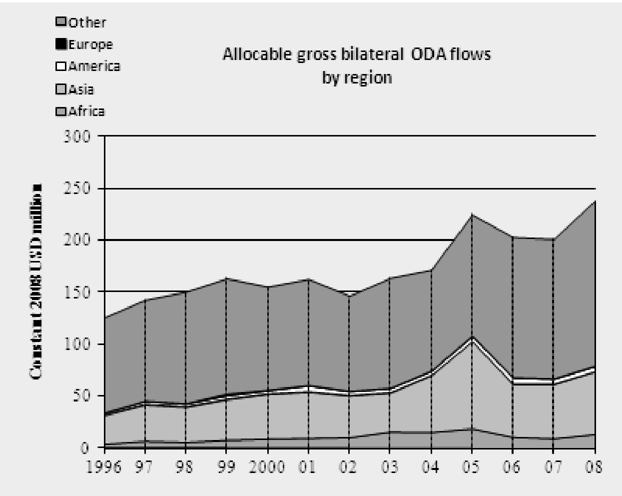
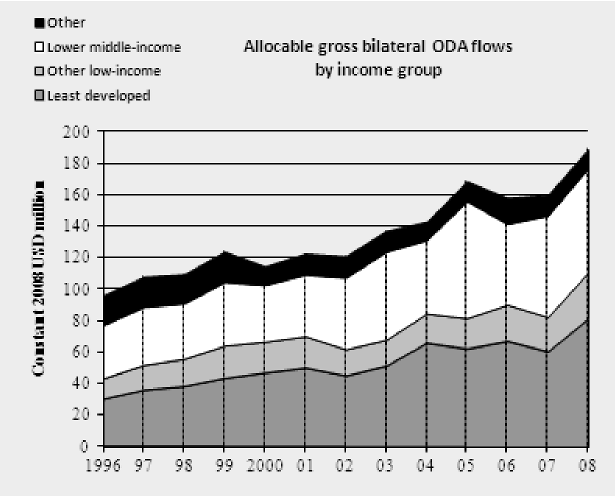


Table B.3. Bilateral ODA allocable by region and income group

Gross disbursements

New Zealand	Constant 2008 USD million					Per cent share					Total DAC
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2008%
Africa	16	20	11	10	14	9	9	6	5	6	**37**
Sub-Saharan Africa	16	20	11	10	14	9	9	6	5	6	**32**
North Africa	0	0	0	-	0	0	0	0	-	0	**4**
Asia	54	84	51	52	60	32	37	25	26	25	**30**
South and Central Asia	19	23	11	12	18	11	10	6	6	7	**16**
Far East	34	36	38	40	42	20	16	19	20	18	**13**
America	4	5	6	5	5	2	2	3	2	2	**10**
North and Central America	1	2	3	2	1	1	1	1	1	1	**4**
South America	2	2	3	3	3	1	1	2	1	1	**4**
Middle East	4	4	5	5	3	2	2	2	2	1	**17**
Oceania	93	113	130	130	156	54	50	64	64	66	**2**
Europe	-	-	-	-	-	-	-	-	-	-	**4**
Total bilateral allocable by region	**172**	**225**	**203**	**202**	**238**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	66	62	67	61	81	46	37	42	38	43	**34**
Other low-income	18	19	23	22	29	13	11	14	14	15	**10**
Lower middle-income	47	75	52	65	67	33	44	33	40	35	**46**
Upper middle-income	12	13	17	13	12	8	8	11	8	6	**10**
More advanced developing countries	-	-	-	-	-	-	-	-	-	-	-
Total bilateral allocable by income	**143**	**169**	**158**	**160**	**189**	**100**	**100**	**100**	**100**	**100**	**100**
For reference:											
Total bilateral	187	243	233	241	278	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated by region	*15*	*18*	*30*	*39*	*39*	*8*	*7*	*13*	*16*	*14*	***19***
of which: Unallocated by income	*44*	*74*	*75*	*81*	*89*	*23*	*30*	*32*	*34*	*32*	***27***





1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Gross disbursements

New Zealand	1997-2001 average			Memo:
	Current USD million	Constant 2008 USD mln	Per cent share	*DAC countries' average %*
Papua New Guinea	7	12	7	
Solomon Islands	5	9	5	
Samoa	5	9	5	
Tonga	4	7	4	
Vanuatu	4	7	4	
Top 5 recipients	**26**	**44**	**27**	**26**
Tokelau	4	7	4	
Fiji	4	6	4	
Cook Islands	3	6	4	
Indonesia	3	6	4	
Niue	3	5	3	
Top 10 recipients	**44**	**74**	**45**	**41**
Philippines	2	4	2	
Viet Nam	2	4	2	
Kiribati	2	3	2	
Cambodia	1	2	1	
Tuvalu	1	2	1	
Top 15 recipients	**53**	**89**	**55**	**51**
China	1	2	1	
Thailand	1	2	1	
Timor-Leste	1	2	1	
India	1	1	1	
South Africa	1	1	1	
Top 20 recipients	**57**	**97**	**60**	**59**
Total (120 recipients)	**69**	**116**	**71**	
Unallocated	28	47	29	16
Total bilateral gross	**96**	**163**	**100**	**100**

	2002-06 average			Memo:
	Current USD million	Constant 2008 USD mln	Per cent share	*DAC countries' average %*
Solomon Islands	10	12	6	
Niue	9	11	6	
Papua New Guinea	9	11	6	
Tokelau	8	10	5	
Indonesia	8	9	5	
Top 5 recipients	**44**	**54**	**27**	**39**
Samoa	5	7	3	
Afghanistan	5	6	3	
Vanuatu	5	6	3	
Tonga	4	6	3	
Cook Islands	4	5	2	
Top 10 recipients	**68**	**84**	**42**	**52**
Iraq	4	5	2	
Fiji	4	5	2	
Philippines	3	4	2	
Timor-Leste	3	4	2	
Cambodia	3	4	2	
Top 15 recipients	**84**	**105**	**52**	**58**
Viet Nam	3	3	2	
Sudan	2	3	1	
Kiribati	2	2	1	
China	2	2	1	
Laos	1	2	1	
Top 20 recipients	**94**	**118**	**58**	**64**
Total (122 recipients)	**116**	**146**	**72**	
Unallocated	45	55	28	20
Total bilateral gross	**161**	**201**	**100**	**100**

	2007-08 average			Memo:
	Current USD million	Constant 2008 USD mln	Per cent share	*DAC countries' average %*
Solomon Islands	20	20	8	
Tokelau	17	16	6	
Papua New Guinea	15	15	6	
Niue	14	14	5	
Indonesia	13	12	5	
Top 5 recipients	**78**	**77**	**30**	**39**
Tonga	9	9	3	
Vanuatu	9	9	3	
Viet Nam	7	7	3	
Samoa	7	7	3	
Afghanistan	6	6	2	
Top 10 recipients	**116**	**115**	**44**	**52**
Cambodia	5	5	2	
Cook Islands	5	5	2	
Timor-Leste	4	4	2	
Fiji	4	4	1	
Tuvalu	3	3	1	
Top 15 recipients	**137**	**136**	**52**	**60**
Philippines	3	3	1	
Kiribati	3	3	1	
Iraq	3	3	1	
Laos	2	2	1	
Sudan	2	2	1	
Top 20 recipients	**151**	**149**	**57**	**65**
Total (111 recipients)	**177**	**175**	**67**	
Unallocated	86	85	33	19
Total bilateral gross	**262**	**259**	**100**	**100**

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursements - Two-year averages

New Zealand	1998-2001 average [1]		2002-06 average		2007-08 average		2007-08
	2008 USD million	Per cent	2008 USD million	Per cent	2008 USD million	Per cent	Total DAC per cent
Social infrastructure & services	**85**	**56**	**88**	**44**	**105**	**41**	**40**
Education	57	38	43	22	45	18	9
of which: basic education	5	3	11	6	17	7	2
Health	7	5	10	5	11	4	4
of which: basic health	4	2	6	3	7	3	3
Population & reproductive health	1	1	4	2	5	2	6
Water supply & sanitation	2	2	2	1	3	1	5
Government & civil society	11	7	22	11	38	15	12
of which: Conflict, peace & security	-	-	2	1	6	2	3
Other social infrastructure & services	7	5	6	3	3	1	4
Economic infrastructure & services	**7**	**5**	**7**	**3**	**11**	**4**	**15**
Transport & storage	1	1	2	1	5	2	6
Communications	1	1	0	0	0	0	0
Energy	2	1	1	1	1	0	5
Banking & financial services	1	1	2	1	1	1	3
Business & other services	1	1	1	0	3	1	1
Production sectors	**10**	**7**	**10**	**5**	**13**	**5**	**6**
Agriculture, forestry & fishing	6	4	5	3	7	3	5
Industry, mining & construction	1	1	1	1	3	1	1
Trade & tourism	2	1	3	2	4	1	1
Multisector	**8**	**5**	**9**	**4**	**10**	**4**	**7**
Commodity and programme aid	**10**	**7**	**17**	**8**	**29**	**11**	**5**
Action relating to debt	**-**	**-**	**0**	**0**	**-**	**-**	**10**
Humantarian aid	**6**	**4**	**25**	**12**	**27**	**11**	**8**
Administrative costs of donors	**13**	**9**	**16**	**8**	**21**	**8**	**5**
Aid to NGOs (core support)	**10**	**7**	**18**	**9**	**28**	**11**	**2**
Refugees in donor countries	**-**	**-**	**11**	**6**	**12**	**5**	**2**
Total bilateral allocable	**152**	**100**	**200**	**100**	**258**	**100**	**100**
For reference:							
Total bilateral	*166*	*76*	*201*	*78*	*259*	*79*	*76*
of which: Unallocated	*14*	*6*	*1*	*0*	*2*	*1*	*1*
Total multilateral	*53*	*24*	*57*	*22*	*71*	*21*	*24*
Total ODA	***219***	***100***	***258***	***100***	***330***	***100***	***100***

1. 1997 not available.

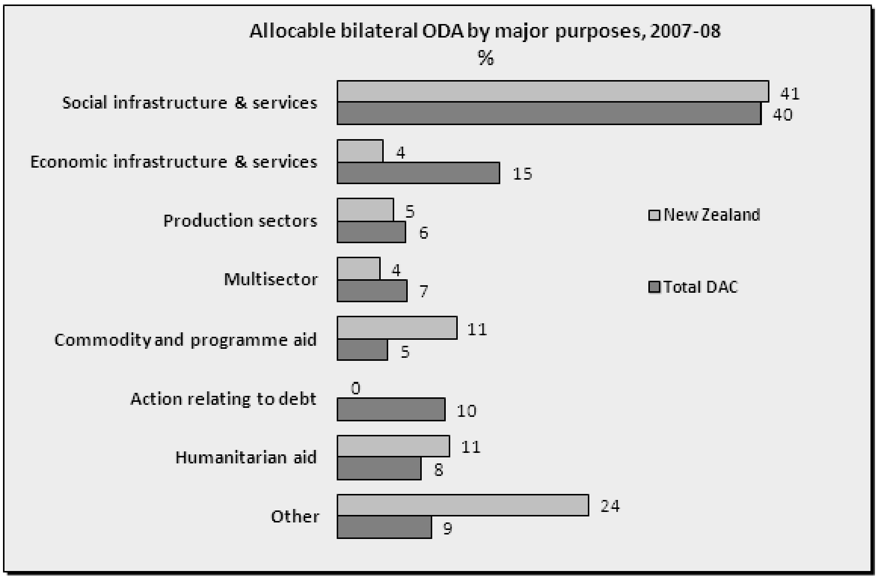


Table B.6. Comparative aid performance

Net disbursements

	Official development assistance			Grant element of ODA (commitments)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies	
	2008		2002-03 to 07-08 Average annual % change in real terms	2008	2008				2008	
					% of ODA		% of GNI			
	USD million	% of GNI		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNI
Australia	2 954	0.32	8.2	100.0	10.2		0.03		25.9	0.08
Austria	1 714	0.43	18.1	100.0	28.0	10.9	0.12	0.05	16.3	0.07
Belgium	2 386	0.48	-0.1	99.7	42.3	19.3	0.20	0.09	39.0	0.19
Canada	4 795	0.33	6.3	100.0	29.8		0.10		38.8	0.13
Denmark	2 803	0.82	0.6	100.0	34.8	25.1	0.28	0.21	39.1	0.32
Finland	1 166	0.44	7.7	100.0	40.5	22.4	0.18	0.10	34.3	0.15
France	10 908	0.39	1.7	90.0	40.8	17.6	0.16	0.07	28.0	0.11
Germany	13 981	0.38	8.7	92.1	35.2	15.1	0.13	0.06	25.9	0.10
Greece	703	0.21	3.6	100.0	55.6	21.6	0.12	0.05	20.5	0.04
Ireland	1 328	0.59	13.4	100.0	29.9	18.3	0.18	0.11	50.8	0.30
Italy	4 861	0.22	3.7	99.0	62.2	26.9	0.14	0.06	32.7	0.07
Japan	9 579	0.19	-1.8	85.3	28.8		0.05		26.1	0.05
Korea	802	0.09	12.4	85.7	32.8		0.03		29.3	0.03
Luxembourg	415	0.97	6.8	100.0	32.9	24.3	0.32	0.24	39.1	0.38
Netherlands	6 993	0.80	4.0	100.0	25.6	16.6	0.21	0.13	29.0	0.23
New Zealand	348	0.30	8.1	100.0	20.17		0.06		29.1	0.09
Norway	3 963	0.88	3.3	100.0	23.4		0.21		37.8	0.33
Portugal	620	0.27	1.6	79.2	39.8	13.8	0.11	0.04	36.2	0.10
Spain	6 867	0.45	14.7	94.3	30.1	15.0	0.13	0.07	21.9	0.10
Sweden	4 732	0.98	7.5	100.0	33.6	25.8	0.33	0.25	32.5	0.32
Switzerland	2 038	0.44	4.4	100.0	23.9		0.11		24.5	0.11
United Kingdom	11 500	0.43	6.8	100.0	36.3	18.6	0.16	0.08	36.5	0.16
United States	26 842	0.19	7.3	100.0	11.1		0.02		30.8	0.06
Total DAC	**122 296**	**0.30**	**5.5**	**95.8**	**28.9**		**0.09**		**30.4**	**0.09**
Memo: Average country effort		0.46								

Notes:

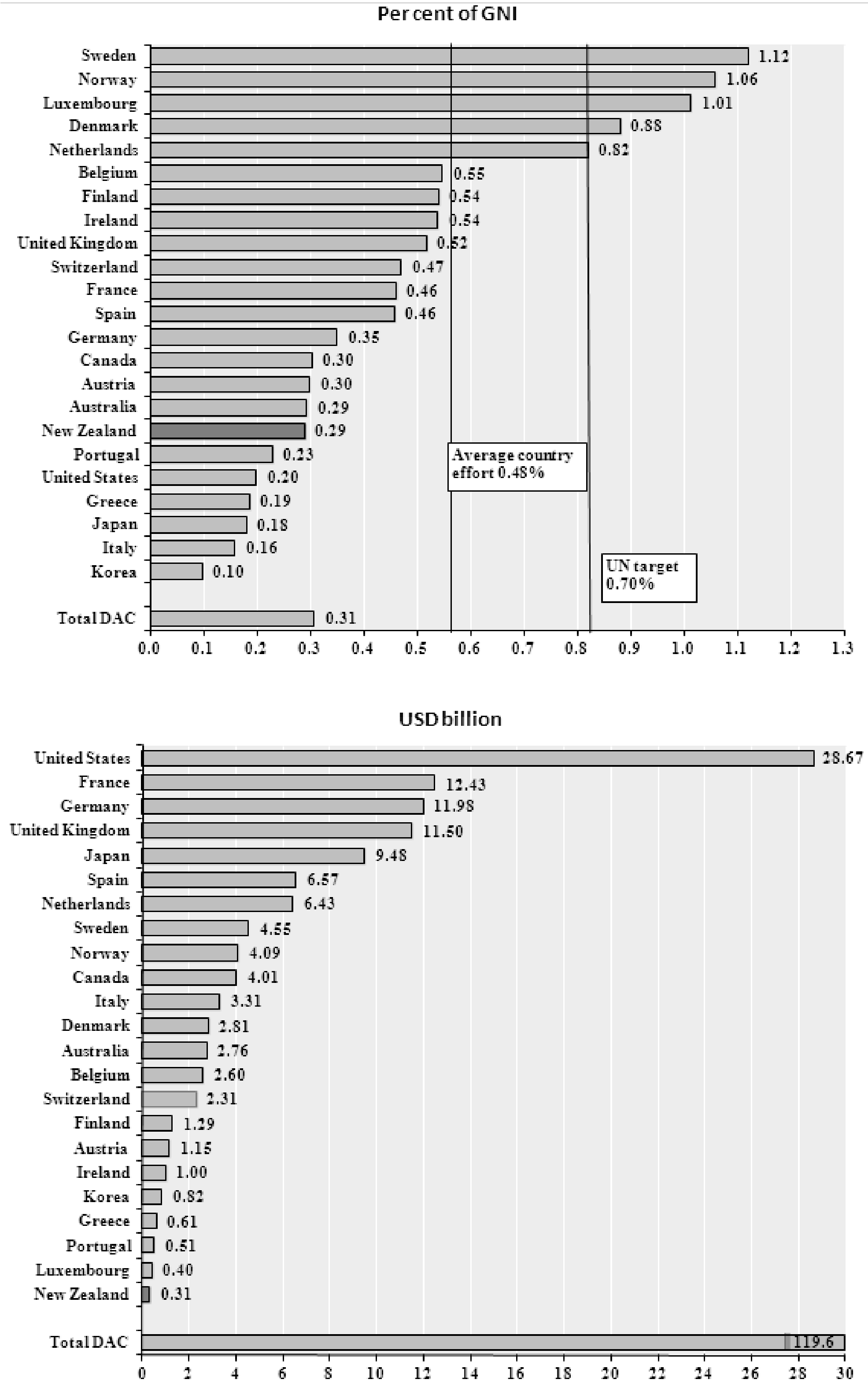
a. **Excluding debt reorganisation.**

b. **Including EU institutions.**

c. **Excluding EU institutions.**

.. **Data not available.**

Figure B.1. Net ODA from DAC countries in 2009



Annex C

Assessment of New Zealand's Humanitarian Action

Introduction

New Zealand's humanitarian response in the Pacific is timely and effective, and the country punches above its weight in global fora and policy discussions on humanitarian action. New Zealand endorsed the *Principles and Good Practices of Humanitarian Donorship* in 2005 and has been an active member of the Good Humanitarian Donorship (GHD) group since then. New Zealand has not yet developed a national plan on how it will implement its GHD commitments. The previous peer review did not contain any humanitarian-specific recommendations: this peer review is the first time that New Zealand has been assessed by the DAC against its GHD commitments (OECD, 2005a).

The review has been conducted in accordance with the 2009 humanitarian assessment framework (OECD, 2009g). It is structured in line with four thematic clusters of the GHD principles and good practices: (i) policy framework for humanitarian action; (ii) funding flows; (iii) promoting standards and enhancing implementation; and (iv) learning and accountability; and two additional non-GHD clusters: (v) organisation and management of humanitarian action; and (vi) cross-cutting themes. It concludes by identifying issues for further consideration by New Zealand. The report draws on a series of meetings held in Wellington in June 2010 with representatives of IDG, Ministry of Defence and New Zealand Defence Forces, the police, and New Zealand NGO representatives. Supplementary comments were also sought from multilateral agencies in the region and at their headquarters.

Legislative and policy framework for New Zealand humanitarian action

The need to further clarify New Zealand's humanitarian role beyond the Pacific

NZAID's five year strategy 2004/05-2009/10 identifies humanitarian support as a key factor for reducing vulnerability to poverty and thereby ultimately reducing poverty (NZAID, 2004b). The strategy identifies three areas for humanitarian support:

i) Incorporating disaster preparedness strategies into programmes where appropriate.

ii) Ensuring responses to emergency and disaster relief situations are timely, well targeted and relevant.

iii) Pursuing a seamless transition from humanitarian to development phases of disaster recovery and addressing the risks of creating dependency and economic distortions.

While official published documents on the new mandate of the aid programme did not make specific reference to humanitarian action, meetings and draft policy documents suggest that a rapid and visible response to emergencies in the Pacific region is a high priority for the government, using both New Zealand government and NGO assets, as well as by providing support through affected governments. New Zealand takes the view that its proximity, cultural understanding, history and political relations in the Pacific, as well as the number of Pacific Island residents in New Zealand, give it a comparative advantage in the region over most other donors.

The priority given to humanitarian needs outside the Pacific, where New Zealand has previously provided funding through multilateral agencies and the Red Cross movement, is still to be clarified. New Zealand could usefully develop its criteria for responding to complex emergencies and natural disasters outside the Pacific. An explicit statement should be included in a revised humanitarian policy of how it interprets its GHD commitment to allocate funding according to need and irrespective of the geographical/sectoral priorities of the rest of New Zealand's development co-operation.

The approach taken is that New Zealand should focus its small levels of funding where it has a comparative advantage and an understanding of the context. This is more difficult in more distant locations where it works through partners and has no field presence. On the other hand, as a "good global citizen", New Zealand has had disproportionate influence in international fora, such as the Good Humanitarian Donorship initiative, bringing an important Pacific voice to global discussions.[19] In order to inform this engagement, as well as to show international solidarity, New Zealand should continue to offer financial support to international crises beyond the Pacific region, so long as it is given on the basis of need.

The previous five-year strategy emphasised the importance of links between humanitarian and development activities. IDG's small size makes it relatively easy to ensure collaboration between humanitarian and development approaches. These approaches have been integrated in particular in the Pacific group (Figure 5, Chapter 4), as well as in complex emergency situations like Afghanistan. However, disaster risk reduction could be pursued more aggressively as a thematic area at the interface of humanitarian and development approaches, given the likely impacts of climate change on the Pacific region. For instance, as was noted by the peer review team in Vanuatu (Annex D), the huge range of natural risks there calls for the further mainstreaming of disaster risk management into the bilateral aid programme.

The humanitarian action policy: GHD-consistent but in need of an implementation plan

New Zealand's humanitarian action policy is currently under review (NZAID, 2009b). The existing policy was finalised and approved before the election of the new government in 2008. It has not been published, although it is used for internal guidance. It is being updated to reflect the new environment.The New Zealand NGO community is unclear about its current status.

The policy is consistent with the GHD principles and good practice for effective humanitarian action. However, it is not clear how comprehensively NZAID/IDG has been able to implement the policy. For example: (i) while New Zealand is committed to the

19. For example, New Zealand took over the Chair of the OCHA Donor Support Group in July 2010, and is active in a number of agency governing bodies, including those of the UNHCR and the International Organization for Migration (IOM).

Hyogo Framework for Action on disaster risk reduction, it is unclear how IDG is building links to development actors involved in disaster risk reduction; and (ii) while it is committed to the Oslo and Military and Civil Defence Assets guidelines on the role of the military in humanitarian action, there is scope for more clarity on the role of New Zealand defence forces in delivering assistance in Afghanistan. These issues are partly a question of staff capacity, but an updated policy outlining New Zealand's new priorities in greater detail would provide important guidance both internally and externally. A complementary action plan giving a timetable for implementing the policy and New Zealand's GHD commitments would enhance the ways in which policy was put into practice – this could be boosted further by increased technical advisory support (see below).

Since 2009 there is a perceived new emphasis on making New Zealand's humanitarian action more visible. While maintaining public support and demonstrating transparency are legitimate goals, it is important that the scale and type of New Zealand's response continue to be driven by the needs of those affected.

In addition to the provision of material assistance, support for the protection of civilians in armed conflict is an important part of the GHD principles. New Zealand's current humanitarian policy underplays what it is doing in practice to protect civilians, which limits the opportunities to do more in this area and to do so more strategically.[20]

Strong policy coherence with other national actors

New Zealand's response to natural disasters in the Pacific is well rehearsed through IDG's co-ordination of the cross-government Emergency Task Force which brings together military and civilian assets to provide a timely and effective response. The annual cyclone season is relatively predictable in terms of the likely needs, allowing appropriate stockpiling and immediate despatch of relevant relief goods when cyclones strike in the region. There is close co-operation and co-ordination with New Zealand NGOs, which strengthens the response further.

Financing humanitarian action

Management

IDG takes the lead in co-ordinating the government response to humanitarian crises in developing countries. Humanitarian action is funded through the Global and Pacific budget lines and programmed by these teams. The Global budget includes a specific annual allocation of NZD 14-16 million for humanitarian action. While there are annual regional allocations for humanitarian action, country allocations to the Pacific budget are also used for humanitarian action as required. In addition, until recently the Humanitarian Action Fund (HAF) has provided NZD 5 million every financial year for NGOs' response to humanitarian crises, of which 16.5% was set aside for project-by-project applications. The remainder was allocated to eight NGOs as block grants to enable immediate response

20. For example, New Zealand already provides support to populations displaced in the Democratic Republic of Congo (through UNHCR); to child protection in the occupied Palestinian territories (through UNICEF); and core support to the work of the International Committee of the Red Cross (ICRC). However, neither the rationale nor strategy for this funding have been defined.

to a humanitarian crisis. The HAF is being replaced by a new fund (the Humanitarian Response Fund) which was being designed during the period of the review.

Volume: small but generous

New Zealand is a small but generous humanitarian donor which makes effective use of its limited funding. The previous peer review noted an increased share of humanitarian funding, from 3% of New Zealand's bilateral ODA to 10% in 2003. New Zealand has more or less maintained this increase, with 8-9% of bilateral ODA in a typical year spent on humanitarian action, compared to the DAC average of 6% (2008 figures, Table B.2, Annex B). Funding in 2005 was unusually high, with a doubling of funds due to the Indian Ocean tsunami. New Zealand was also prompt to respond to the 2009 Pacific tsunami, providing budget support to Samoa. Combined with the multilateral contributions to humanitarian agencies, NZAID figures show 13% of the 2007/08 total ODA going to humanitarian support. It is important that New Zealand at least maintains this level of humanitarian expenditure given the increased levels of humanitarian need likely due to the changing climate, which may particularly affect Pacific island states.

The use of appropriate aid channels given New Zealand's small size

In 2007/08, NZAID contributed NZD 51.5 million to humanitarian support. This was broken down as follows (Table C.1):

Table C.1. Humanitarian allocations, 2007/08

Contribution	NZD millions 2007/08	Percentage
Core contributions to humanitarian agencies	19	37
Humanitarian emergencies outside Pacific via UN/Red Cross	14	27
NGOs for Pacific responses	6.5	13
Other government agencies/Pacific governments	12	23
Total	**51.5**	**100**

Source: Wellington, 2010.

Outside the Pacific, New Zealand makes most of its contributions through multilateral agencies and the Red Cross movement which have the capacity and mandate to identify and respond to needs. New Zealand also makes an annual contribution of USD 1 million to the UN Central Emergency Response Fund (CERF).

In the Pacific, New Zealand provides both direct support in the form of relief supplies and technical assistance, as well as support through partner governments, NGOs, the Red Cross and multilaterals.[21] The allocation of funds to NGOs via the former HAF scheme was widely appreciated and seen as a good way of supporting a rapid and effective Pacific response. Its replacement, the Humanitarian Response Fund, has now been outlined. It will be important that the GHD principles of speed, flexibility, local participation and the key role of NGOs are retained.

21. For example New Zealand pre-positions NZD 1 million with the New Zealand Red Cross each year to allow it to deploy delegates into the region rapidly when needed and provides funding support to the Ministry of Civil Defence and Emergency Management to specially support and build the capacity and capability of select Pacific National Disaster Management Offices.

A flexible and predictable donor

New Zealand is seen as a flexible humanitarian donor given its low levels of earmarking, useful contributions to the CERF and agency core funding, and so far its flexible HAF block grants. It maintains consistent and predictable partnerships with multilateral agencies to which it provides core support. It is important that the use of these effective but less visible approaches is not threatened by a drive to make New Zealand's humanitarian aid more visible, using earmarked modalities.

Multi-year appropriations are very important for supporting effective humanitarian action and giving agencies continuity in contributions. They allow New Zealand to provide funding to sudden crises without negatively affecting other support to existing programming: in effect, they smooth the inevitable peaks and troughs that characterise global humanitarian need.

Promoting standards and enhancing implementation

The role of NGOs

NGOs play an important role in informing and implementing New Zealand's humanitarian policy in the Pacific. There has previously been a strong relationship, in which New Zealand had an open dialogue with NGO partners and there was mutual discussion of key humanitarian challenges. It is important that these relations are maintained so as not to undermine future responses.

The FRANZ mechanism

New Zealand collaborates with Australia and France on disaster relief in the Pacific through a trilateral arrangement known as the FRANZ mechanism. This mechanism, which ensures efficient use of military assets and avoids duplication, is generally seen as effective. There may be scope to deepen the relationship and the degree of collaboration with other stakeholders, such as NGOs and the UN. This would allow more comprehensive identification of needs and more effective coordination of delivery and distribution on the ground.

Disaster risk reduction

The focus on economic development under the new government provides opportunities to look at infrastructure through the lens of disaster risk reduction. This would be a useful entry point to strengthen this area of activity with a focus on building national capacity.

Learning and accountability: the need for a robust evaluation culture

New Zealand's Humanitarian Action Policy places a high priority on monitoring the outcomes and impact of humanitarian actions, and on learning lessons (NZAID, 2009b). However in practice there has been insufficient focus on implementing this priority in terms of monitoring systems and credible evaluations which go beyond internal reflection. A robust evaluation culture needs to be developed where major responses and themes are evaluated and lessons disseminated, building on the draft guideline for evaluating humanitarian assistance. This would help to build a less risk-averse culture in which the inevitable problems of delivering humanitarian response can be openly discussed. Increasing the number of humanitarian technical specialists in the team could support this.

In line with the GHD, agencies' reporting requirements are kept to the minimum – for example consolidated annual reports are accepted from multilateral agencies.

Organisation and management: better co-ordination required despite progress

Humanitarian action is programmed by separate teams in the Global and Pacific groups. As staff capacity has increased in recent years – including surge capacity for crises – the two teams have begun to work more closely on humanitarian issues and to link them better with development activities. It is important that both teams engage consistently and substantively with New Zealand's representation in Geneva and New York to influence and bring Pacific perspectives to international debates. Programming would be improved by bringing the humanitarian specialists together into one team.

Operational co-ordination takes place through the weekly cross-agency humanitarian action group. Broader analysis is done by the wider "community of practice" on humanitarian action, which is viewed as a useful forum.

Cross-cutting issues

New Zealand's humanitarian action policy refers to vulnerable groups, including women and children, as well the need for equity in response. Gender has not been identified as a critical issue in Pacific responses but further exploration would be valuable of how gender operates in humanitarian action in the Pacific and beyond. A revised policy could usefully highlight specific ways in which New Zealand approaches gender aspects of humanitarian action, such as gender-based violence and the different needs of women.

New Zealand includes environmental impact assessment to ensure its humanitarian response does not exacerbate environmental problems. Conflict assessments are also carried out in contexts such as Afghanistan. In revising the HAF it would be useful to set out how New Zealand sees partners approaching such cross-cutting issues, including HIV/AIDS.

Future considerations

- New Zealand should clarify its rationale for engaging in both global response and policy debates, and explain how these are linked and mutually supportive.

- New Zealand should bring together into one team the Pacific and Global humanitarian teams.

- Monitoring and evaluation of humanitarian action needs to be strengthened considerably.

- New Zealand should develop a stronger vision of how its development and humanitarian activities are linked, particularly in the area of disaster risk reduction, where the recent focus on infrastructure, for example, offers opportunities.

Annex D

Field visit to Vanuatu

As part of the peer review of New Zealand, a team comprising one examiner from Austria, two examiners from the European Union and two OECD/DAC Secretariat staff members, visited Vanuatu in June 2010. The team met with New Zealand officials and representatives of the Vanuatu government in Port Vila, as well as some key external stakeholders and partners. This annex provides a summary of the peer review team's observations

Country context

Vanuatu is a small island state with a population of approximately 243 000, highly dispersed over 4 main islands and some 80 smaller islands. After a long period of instability resulting in 13 changes of government between 1992 and 2004, the political situation has stabilised in recent years. Today, Vanuatu is one of the fastest growing economies in the Pacific region. According to the Asian Development Bank, annual growth averaged almost 6% between 2003 and 2008 and is estimated to have reached 6.6% in 2008. This rapid growth has been underpinned mainly by services, tourism and land development. Stable leadership in recent years has encouraged donors to increase their aid allocations. All major development partners (Australia, New Zealand, the EU, China, Japan, France and the World Bank Group) plan to scale up further in the coming years, adding to Vanuatu's momentum.

Despite this strong performance, Vanuatu is ranked at 126 on the 182 listed states in the 2009 UN Human Development Index, and is lagging behind in achieving some of the key Millennium Development Goals. Delivery of essential health and education services and standards of housing and sanitation are among the poorest in the Pacific. Youth unemployment is high and, as a result, crime rates are perceived to be increasing. The government has struggled to translate economic growth into new jobs for the majority of the population which lives a subsistence rural lifestyle in remote communities (close to 80%), resulting in significant pockets of exclusion. Vanuatu's remote location, small domestic market size, vulnerability to natural disasters, weak institutions and limited capacity to absorb aid are key factors constraining its development.

The Vanuatu government first developed a *Priorities and Action Agenda* (PAA) in 2003. The PAA is the country's poverty reduction strategy and was updated in 2006 to cover the period 2006 to 2015 (GoV, 2006; see below). While it sets out a number of policy objectives and matching performance targets (seven in total), these are not listed in any order of priority, and the strategy is not backed by a systematic monitoring framework.

Key features of New Zealand’s development co-operation in Vanuatu

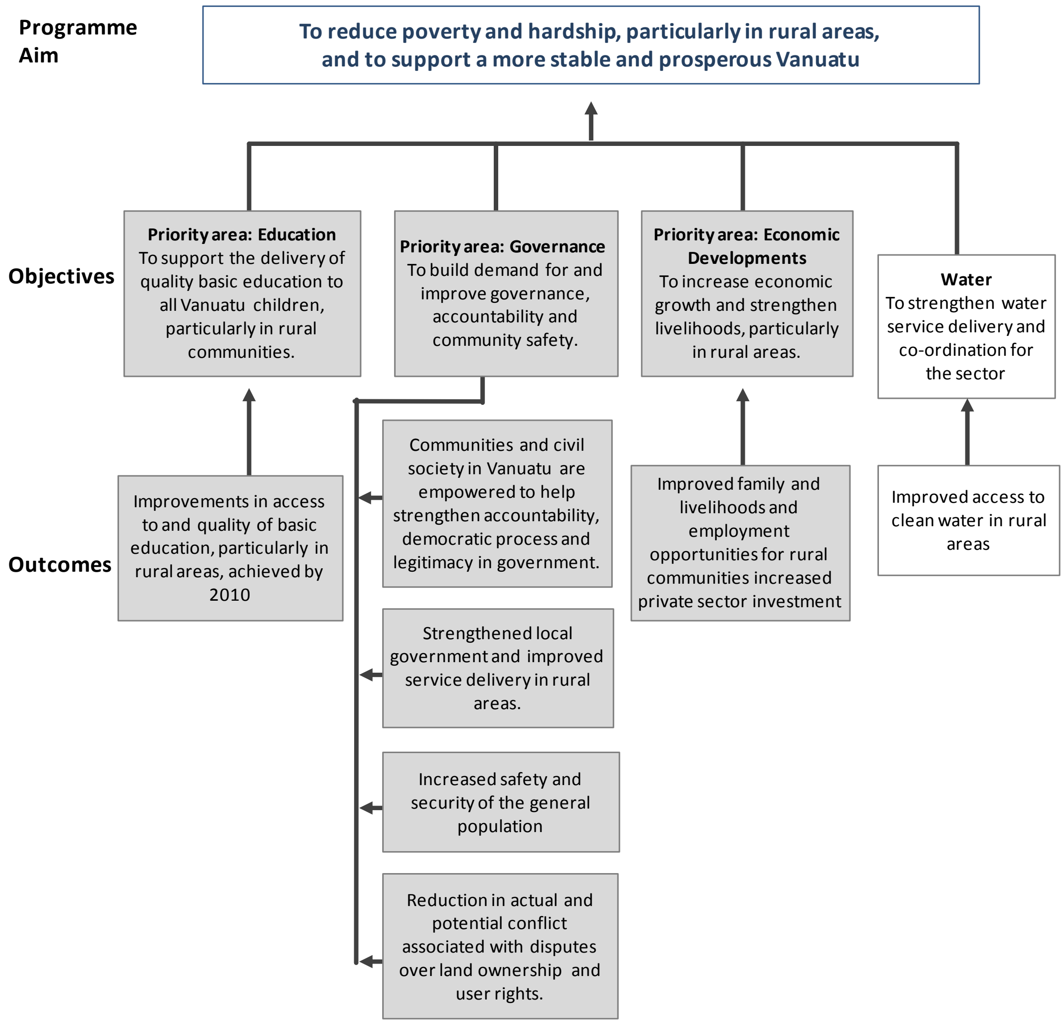
Since 1997, Vanuatu has consistently remained among the top 10 recipients of New Zealand aid. This continuous support is appreciated by the Government of Vanuatu, which also values New Zealand’s knowledge and understanding of the Pacific context. Total bilateral aid assistance to Vanuatu in 2009/10 was NZD 18 million and is projected to increase to NZD19 million in 2010/11. In addition to the bilateral programme, Vanuatu also benefits directly from New Zealand’s support to regional initiatives and regional agencies such as the University of the South Pacific, the Secretariat of the Pacific Community, the South Pacific Regional Environment Programme, the Forum Fisheries Agency, and the South Pacific Applied Geoscience Programme. In 2009/10, these non-bilateral sources provided approximately NZD 4.9 million.

New Zealand’s aid programme in Vanuatu is guided by the *NZAID/Vanuatu Development Programme Strategy 2006-2010* (NZAID, 2006c) and supports the Vanuatu Government’s *Priorities and Action Agenda 2006-2015* (GoV, 2006). The aid programme aims to “reduce poverty and hardship, particularly in rural areas, and to support a more stable and prosperous Vanuatu” by focusing on three priority areas: education, governance and economic development (Figure D.1). The economic development component of the aid programme has increased since 2008, with infrastructure projects such as road rehabilitation and inter-island shipping networks becoming a major focus. In 2009/10, economic development accounted for 40% of New Zealand’s bilateral funding to Vanuatu, while 35% was allocated to education, 21% to strengthening governance and 4% to the small projects and medical treatment schemes. Given that economic growth is one of the three pillars of New Zealand’s strategy in Vanuatu, the new orientations from headquarters have not resulted in major adjustments to the country programme. As the office starts to design the new country strategy, it will be important to maintain New Zealand’s capital of good practice in Vanuatu, including in areas where the direct contribution to sustainable economic growth may be less tangible, like basic education.

Within the three priority areas, the aid programme covers a wide range of activities, implemented through 26 different projects/programmes. For instance, 10 activities are implemented under the economic development pillar, ranging from trade capacity building and infrastructure programmes to support to rural development training centres, land sector programmes and farm support associations. The design of the new country strategy is an opportunity to introduce a more strategic approach based on New Zealand’s comparative advantage, and to streamline the programme further into fewer, bigger projects. This would reduce the transaction costs, better match office capacity in terms of staff numbers and skills, and strengthen the impact of the aid programme.

As observed with other donors active in the Pacific, the link between the New Zealand regional and bilateral co-operation programmes is somewhat disjointed. Regional activities are designed by headquarters and only a few regional projects of direct interest to the programme *(e.g.* infrastructure and judicial programmes) are monitored at country level. It would be useful to reinforce the links in order to ensure regional initiatives respond to government policies and have higher impact at the national level. This may require the systematic inclusion of the regional dimension in the country performance monitoring framework.

Figure D.1. Schematic overview of New Zealand country programme in Vanuatu



Source: NZAID (2006c), *NZAID/Vanuatu Development Programme Strategy 2006-2010*, NZAID, Wellington.

Some programmes supported by New Zealand in Vanuatu involve departments other than the Ministry for Foreign Affairs and Trade. This is illustrated by the inter-departmental co-ordination around the Vanuatu Correctional Services Project, which involves the New Zealand Department of Corrections and the Pacific Seasonal Labour scheme (Box 2, Chapter 2). New Zealand could build on its pragmatic joined-up policy encouraged at headquarters to formalise its whole-of-government position in Vanuatu (including the aid programme).

Although efforts have been made to mainstream gender into the programme (staff training, systematic screening of programme submissions, etc.), there is scope to further integrate cross-cutting issues into the programme, starting from the design level. To do so, the aid programme's "communities of practice" in headquarters (Section 4.2.4) should reach out to the staff in the country office so that lessons can be shared at the field level, including on gender and environment. Funding to support disaster risk reduction efforts in Vanuatu is provided through the New Zealand's regional programme, and is therefore channelled through regional organisations. However, the potential for a huge range of natural disasters in Vanuatu calls for mainstreaming disaster risk management and prevention into the bilateral aid programme, with systematic risk assessments.

Implementation and aid effectiveness

The Government of Vanuatu considers New Zealand to be a respectful and open partner. It appreciates the high-level discussions conducted in Port Vila every two years and complemented by quarterly technical meetings on the aid programme. The New Zealand country programme is aligned to government priorities and sufficiently flexible to respond to needs.

An increasing part of New Zealand's funding is channelled through Vanuatu's Ministry of Finance, and New Zealand is making further progress towards using partner country systems. It is actively promoting a sector-wide approach to education in Vanuatu, and now provides 30% of its bilateral programme to sector support through pooled funding. The next step could be to provide (sector) budget support in education, while continuing to advocate for its use in other sectors where New Zealand is actively engaged. This should be backed by appropriate training and guidance from headquarters.

New Zealand is recognised as an active and constructive partner within the donor community. It co-ordinates its work well with others, and is engaged in a number of joint activities in areas like education, scholarships, public financial management and support to civil society organisations. New Zealand has been playing a particularly proactive role in key sectors such as education.

Capacity building is not yet fully internalised in the aid programme. In the Pacific context, where government lacks capacity in many areas, New Zealand could consider systematically including a capacity-building component in each programme where this could add value. Scholarships represent 18% of the aid budget. They are awarded through four different schemes: the New Zealand Development Scholarships (Public), the New Zealand Development Scholarships (Open), the Regional Development Scholarship and the short-term training awards. As in other Pacific partner countries, New Zealand seeks to align its development scholarships to the national human resource development plan. Given their importance, scholarships should be more closely connected with the aid programme and their impact should be documented. Together with Australia, New Zealand could promote a more systematic approach to linking scholarships and capacity development.

New Zealand is developing a more strategic approach to civil society organisations and has started providing predictable multi-year core funding. It could, however, use more open and contestable mechanisms in its funding arrangements. It could also provide a more structured platform to engage in regular and quality dialogue with these organisations, in particular when designing the new country strategy.

Organisation and management

New Zealand's High Commission in Port Vila comprises 6 expatriates and 15 local staff, including the staff managing the aid programme. The aid programme is located within the High Commission. This reflects New Zealand's joined-up policy which aims to draw together under one roof all its various actors in Vanuatu. Now that the aid programme is part of the Ministry of Foreign Affairs and Trade, lines of accountability, respective roles, functions and responsibilities will need to be better defined internally – in particular between the High Commissioner and the Development Counsellor in charge of the aid programme – and in relation to headquarters.

Decentralisation is limited. Wellington takes the driving seat in developing the country strategy, designing the projects, and reviewing and evaluating the programme. Headquarters also approves major contracts. The High Commissioner has financial authority up to NZD 500 000, but can only use this authority for small projects and scholarships, since appropriate systems are not in place for other larger or more complex activities. Meanwhile, financial management and reporting requirements appear burdensome and could be better streamlined, while ensuring they are fit for purpose. Further decentralisation of the aid programme will improve dialogue with partners and ensure effective and timely delivery. To be effective, decentralisation should be backed by adequate systems and appropriate staff training.

In recent years, New Zealand has significantly increased both its aid to Vanuatu and the number of staff dedicated to the aid programme. The country office has an appropriate skills mix, composed of three New Zealand posted and five locally-recruited staff. Strong development expertise should be maintained and further developed in order to continue to deliver a quality aid programme. New Zealand’s local staff are committed and skilled. This could be enhanced by providing further training and better career prospects. While internal communication is good in the office, sharing of knowledge between posts could be improved. A local staff representative would help New Zealand understand the specific needs and prospects of its local staff.

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.[22]

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funds 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 the Development Co-operation Report.

DAC LIST OF ODA RECIPIENTS: For statistical purposes, the DAC uses a list of ODA recipients which it revises every three years. From 1 January 2007, the list 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 GNI USD 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

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

22. For a full description of these terms, see the *Development Co-operation Report 2009*, Volume 10, No. 1.

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** (the gross amount 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 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). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. 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 DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; 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): Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25%.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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): The flow data are expressed in United States dollars (USD). 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. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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