

A Bolt from the Blue

Examining the 2009 Changes to the New Zealand Aid Programme and What They Mean Now

NZADDs Working Paper¹

Joanna Spratt² – josprattnz@gmail.com

In late 2008 the New Zealand National Party formed a new government. By early 2009 this government had rescinded the New Zealand government aid programme's Semi-Autonomous Body (SAB) status and changed the aid programme's policy settings from poverty elimination to a core focus on economic development/growth. This Working Paper examines these changes. A history of NZAID is provided, including why the agency was established and what it 'looked' like in 2008 in relation to policy, structure and audits. Information surrounding the 'review' of NZAID in 2009 is examined, leading to the conclusion that there was no review, contrary to the commitment in the 2008 National Party Foreign Affairs Policy. Despite the absence of a review, significant changes were made to the New Zealand government aid programme. Five potential reasons for these changes are explored: concerns from the 2005 'Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID' (Waring Ministerial Review), a perspective that economic growth was a better focus than poverty elimination, concerns that NZAID was ineffective, issues of financial management and accountability, and a desire to align aid policy more closely with non-aid foreign policy. The Working Paper shows that none of these reasons bear scrutiny and determines that the most likely reason for the changes was a desire to implement a 'doing well while doing good' approach to New Zealand aid policy. This approach aims to use aid to improve New Zealand's economic and security status, at the same time as assisting developing countries to achieve their development goals. In practice, the weighting of these dual goals inevitably tends towards New Zealand's self-centred interests, leading to inefficient aid policy of low quality. This Working Paper concludes with a call for more dialogue and discussion of these issues, in order to grow a New Zealand government aid programme that best helps the world's poorest people.

¹ NZADDs working papers do not necessarily reflect the views of NZADDs or its Steering Committee members. Views expressed within NZADDs papers are solely those of the paper's author(s). Other NZADDs working papers can be read online at: <http://nzadds.org.nz/publications/>

² Jo Spratt would like to thank NZADDs members and others who provided comment on this Working Paper. Responsibility for all errors or inadequacies that remain lies solely with Jo. Further feedback is appreciated and should be directed to Jo.

Table of Contents

Table of Contents.....	2
Acronyms	3
1. Introduction.....	4
2. About NZAID.....	5
2.1 History.....	5
2.2 The Reason for NZAID	6
2.2.1 Was NZAID An Improvement on the Past?	9
2.3 NZAID in 2008	9
2.3.1 NZAID Policy Settings	9
2.3.2 NZAID and Foreign Policy	10
2.3.3 Structure: Semi-Autonomy.....	13
2.3.4 Systems: Audits	15
2.4 Summary	17
3. A New Government in 2008: A New Review?	18
3.1 A Review of NZAID?	18
3.2 There Was No Review	19
4. What Changed in 2009?.....	22
5. Exploring the Reasons for Change.....	24
5.1 National Party Foreign Policy – Waring Ministerial Review	25
5.1.1 Challenges with the SAB Model	25
5.1.2 Geographic Spread of ODA	25
5.1.3 Whole of Government Approaches and Policy Coherence.....	25
5.2 Economic Growth Not Poverty.....	27
5.2.1 Sustainable Economic Growth, Poverty and Aid.....	29
5.2.2 Was Economic Development/Growth Being Ignored?	29
5.3 Was NZAID Ineffective?	31
5.4 Accountability and Financial Management.....	32
5.4.1 Audit Reports.....	33
5.4.2 Semi-Autonomy.....	34
5.5 Summary	38
6. Doing Well While Doing Good: The Real Reason for Change?	39
6.1 Aid Policy as Foreign Policy.....	39
6.2 The National Party-Led Government Wanted Greater Alignment.....	40
6.2.1 Who Influence the National Party and Minister McCully?	42
6.2.2 Current New Zealand Aid Programme Policy Focus.....	44
6.2.3 Greater Involvement by New Zealanders	45
6.2.4 Current Weighting of Aid and Non-Aid Foreign Policy.....	46
6.3 Does Doing Well While Doing Good Lead to Effective Aid?	49
6.3.1 A Review of Recent New Zealand Aid History	49
6.3.2 International Evidence	51
6.4 Intentions = Means = Ends.....	53
7. No Review, No Reason: So What Now?	53
Appendix One: Defining Key Concepts	55
References.....	Error! Bookmark not defined.

Acronyms

APEC	Asia Pacific Economic Cooperation
CID	Council for International Development
DAC	Development Assistance Committee
DEV	Development Cooperation Division of MFAT
ERD	External Relations and Defence Committee of NZ Cabinet
IDG	International Development Group
MFAT	Ministry of Foreign Affairs and Trade
NZAID	New Zealand Agency for International Development
NGO	Non-Government Organisation
OAG	Office of the Controller and Auditor-General
OIA	Official Information Act 1982
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PACER	Pacific Agreement on Closer Economic Relations
PICTA	Pacific Island Countries Trade Agreement
SAB	Semi-Autonomous Body
SSC	State Services Commission

1. Introduction

In 2009 significant changes were made to the New Zealand government aid programme, then called NZAID. This Working Paper is predominantly about the two changes that made the headlines: the demise of NZAID as a dedicated aid and development agency; and the removal of poverty elimination as a core focus for New Zealand Official Development Assistance (ODA). An exploration of the reasons for these changes brings to the fore the tensions between aid foreign policy and non-aid foreign policy.

Few established New Zealand organisations working in international aid and development supported the 2009 changes. There was no call for change from those who received New Zealand ODA or international institutions that peer reviewed the New Zealand government's aid efforts. The National Party 2008 election Foreign Affairs Policy highlighted that a review of effectiveness and efficiency would be conducted if the National Party won the election. But significant structural and policy change was not signalled. Within five months of gaining power, the National Party-led government had driven these changes through, without the promised review. This was a bolt from the blue.

This Working Paper³ uses publically available information, and information obtained under the Official Information Act 1982 (OIA) and through conversations with a variety of stakeholders, to first explore whether or not a review of the New Zealand government aid programme took place in 2009. This exploration shows that no such review occurred. Following this, examination turns to the reasons for change provided by the National Party-led government in 2009. This Working Paper concludes that the most likely reason for the changes was a desire to implement a 'doing well while doing good' approach to New Zealand aid policy: to align aid closely with non-aid foreign policy so that it simultaneously improves New Zealand's economic and security status, *and* assists developing countries to achieve their development goals. From the perspective that aid is solely for the benefit of the poor in developing countries, this approach is inefficient and lowers the quality of the New Zealand government aid programme. This is something that a review would have made apparent if one had been undertaken. This Working Paper concludes with thoughts about what this means for the future of the New Zealand government aid programme.

Some might claim that the time has past to examine these changes and how they were justified. A document such as this could be viewed as merely kicking up dust that had already settled. Yet the way in which the changes were made, particularly their lack of foundation in evidence and broad consultation, demands recording in one place. An examination of the changes and why they were made can encourage and support careful consideration about what it is that New Zealanders value in the New Zealand government aid programme, and how New Zealand can best create and maintain a government aid programme that maximally contributes to improving the quality of life for people who suffer poverty.

³ The title 'Working Paper' implies that this document is a work in progress. It is. Your comments, ideas and information are welcome. Please direct them to the author.

Prior to engaging in the content of this Working Paper, the reader is directed to Appendix One, where key concepts or terms used in this Working Paper are defined. These definitions cover: aid, development, policy coherence, foreign policy alignment, economic development/growth, and aid policy and non-aid foreign policy. The definitions are drawn from the literature on international aid and development. They provide the reader with an understanding of the foundations for the author's perspective on international aid and development. Suffice to state here, the author believes that the most effective and efficient government aid programme is that which is solely focussed on achieving the development goals of the poorest people in developing countries. The author believes that this will lead to benefits for New Zealand too, in a more equitable, peaceful and prosperous world.

Before the 2009 changes to the New Zealand government aid programme are examined, it is necessary to provide some historical context for the changes.

2. About NZAID

This section gives historical overview of the New Zealand government aid programme, with the focus on NZAID. This overview covers why NZAID was established, NZAID policy and structure, and the 2007 audit situation. This overview is provided because it is important to ground what happened in 2009 in history: an understanding of what has gone before can enable better comprehension of the current situation.

2.1 History

New Zealand has been giving ODA since the end of World War II in three broad areas: aid to Pacific Island countries, bilateral aid to Asia and multilateral aid.⁴ The roots of New Zealand's current-day aid programme go back to the turn of the 20th Century, when New Zealand took on colonial era responsibility for the Cook Islands and Niue, and then developed similar relationships with Western Samoa and Tokelau.⁵ New Zealand's focus on the Pacific region has increased over time, particularly since the 1980s. New Zealand ODA to Asia has fluctuated from its beginnings under the Colombo Plan (1950) in the post-World War II era when Asia was a key priority (particularly India, Pakistan and Ceylon)⁶, depending on differing priorities and approaches. International organisations and multilateral institutions, such as UN agencies, have consistently benefitted from New Zealand government aid support, more clearly guided by an NZAID assessment process developed in 2004.

Up until 2002 the government entity that administered the bulk of New Zealand aid was a section/department of the Ministry of Foreign Affairs and Trade (formerly Department of External Affairs). This entity had a variety of 'titles' over time: EAC, DAD, DCD and finally DEV - the Development Cooperation Division of MFAT. The government aid programme and the

⁴ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ's Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington.

⁵ Ibid.

⁶ NZAID, 2004, *Asia Strategy*, NZAID: Wellington.

aid it administered were referred to as New Zealand Official Development Assistance (NZODA). In 2002 the New Zealand Agency for International Development (NZAID) was created, and the name referred to both the agency and the funds.

Other New Zealand government agencies also administer small amounts of ODA. In 2008, 7.4 per cent of New Zealand ODA was administered by several other Government agencies in the form of subscriptions to international organisations, the New Zealand Defence Forces in the form of emergency relief work, and the Department of Immigration in assistance to refugees.⁷

Over the years the New Zealand aid programme underwent several reviews. The Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) carries out regular peer reviews of all OECD DAC member aid programmes. These have taken place approximately every five years up to 2010. The NZ government also conducted reviews. In 1986 there was a Ministerial Review of the Division for Development Cooperation and in 1990 the Parliamentary Foreign Affairs, Defence and Trade Select Committee undertook a review of NZODA. An independent assessment of the Ministry of Foreign Affairs and Trade's (MFAT's) culture and management was undertaken in 2001, relevant to the aid programme given that at that point in time it was part of MFAT.

The most significant changes from any review came following the 2001 Ministerial Review of NZODA, entitled 'Towards Excellence in Aid Delivery' (Towards Excellence Review). This Review led to the creation of the semi-autonomous body NZAID. Ex-National Party parliamentarian, Dr. Marilyn Waring, conducted a follow-up review of NZAID's development in 2005, entitled the 'Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID' (Waring Ministerial Review).

2.2 The Reason for NZAID

The current Minister of Foreign Affairs and Trade, Minister McCully, put forward his perspective as to why NZAID had been created in his speech to the NZ Institute of International Affairs in 2009:

"For those who wish to characterize the decisions I announce today as "political" I simply remind you that the current semi-autonomous NZAID structure is entirely a creature of politics... It was the price of a political coalition deal between the Labour Party and the Alliance back in 2002, and any claim to greater purity of origin than that is simply not supported by the facts."⁸

⁷ OECD DAC, 2010, *New Zealand DAC Peer Review 2010*, OECD: Paris, p. 40.

⁸ McCully, M., Minister for Foreign Affairs, 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

Yet the decision to create NZAID was not purely political. There were clear signs that the New Zealand government aid programme was in need of change, highlighted by external reviews.

The OECD DAC Peer Review of New Zealand in 2000 outlined significant weaknesses in the aid programme. These included:

- the lack of a clear policy direction and country frameworks
- an aid programme structure and staff skill mix that hindered the delivery of effective aid in integrated, coordinated and partner-led contexts
- a need to focus aid expenditure on the underlying sources of poverty, including basic education compared to a heavy investment in scholarships at the time
- the need for a strategic approach to staffing, including clear signals and incentives from senior management regarding the value of development knowledge and experience within MFAT
- a need to reduce the large number of activities and bilateral partners (19 main partners), as well as the support to 40 multilateral organisations with some relatively small contributions.⁹

Further to this, one year later, the 2005 Towards Excellence Review, commissioned by the New Zealand government, was more forthright in outlining where the New Zealand government could improve in its delivery of ODA. While praising individual staff, the Towards Excellence Review brought into the light a number of systemic and cultural problems that undermined the effective delivery of NZ ODA. The Review's overall summary was that "[w]hat is described in this review by a large number of MFAT staff, stakeholders and partners is a failure of systems to support excellence in ODA".¹⁰

Other issues that the Towards Excellence Review described included the below.

- "Management and staff are pursuing poorly defined development assistance, foreign policy and trade objectives. There is a serious confusion of purpose. At the implementing end, desk officers are uncertain and concerned about the core mission of their work."¹¹
- The aid programme had no clear policy or strategic guidance or systems to enable decision-making, including how to annually allocate budgets and how to assess performance.
- Best practice did not guide aid design and delivery.
- There were no clear processes for monitoring and evaluating, so the aid programme could not systematically assess where it worked and why.
- Staff were not selected based on development skills or experience, and the rotational system within MFAT meant that institutional knowledge was lost, country

⁹ OECD DAC, 2000, *New Zealand Peer Review*, OECD: Paris, p. 174.

¹⁰ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ's Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, p. 13.

¹¹ Ibid., p. 11.

programmes could be left without a manager for months, and there was often no support for new desk officers who arrived to disorganised files and work plans.

- Only 25% of contracts were tendered. The remainder were provided on a non-competitive basis.

It is worthwhile quoting this report at length to gain a full appreciation of the situation in 2001.

“Foreign Affairs and ODA have distinctly different missions. ODA asks partner governments: what are your needs and how can we help them? Foreign Affairs asks: what are our needs and how can we advance them? These two missions are not only fundamentally different, they can sometimes be in conflict. The mixed missions muddy transparency of outcomes resulting in an organisation that cannot find out what really works for the achievement of any one goal. It is thereby inhibited in learning how to execute its job more effectively. Foreign Affairs requires different skills from ODA. Quality development assistance is a profession that is becoming increasingly complex and sophisticated. Trainee diplomats are unlikely to provide these professional skills. Development assistance needs to operate within a learning environment, one that is comfortable with risk-taking, rewards effective innovation, learns from failure, encourages debate, is participatory in nature and works through active and equal partnership. MFAT does not provide that organisational culture. Poverty reduction is not core business of MFAT and given the differences in missions it could never be made so. As a fundamental issue of transparency, ODA needs its own stream of contestable policy development and advice going directly to a minister.”¹²

NZODA in 2001 was part of the broader culture of MFAT, which was undergoing independent assessment at approximately the same time as the aid programme within it. The Secretary¹³ of Foreign Affairs and Trade instigated an independent review of MFAT’s culture and management systems, carried out by an Australian firm, Advanced Dynamics. The early findings of this Review highlighted that the Development Cooperation Division (DEV) was part of a culture that required substantial change. The Review described an elitist culture that did not allow learning or engagement with wider policy thinking. Like other reviews it questioned the rotational system of staffing and outlined a need for specialist staff in key roles.¹⁴

¹² Ibid., p. 6.

¹³ The head of a government agency is generally referred to as the chief executive. The Foreign Affairs Act 1988 specifies that the chief executive of the Ministry of Foreign Affairs and Trade will be called the ‘Secretary of Foreign Affairs and Trade’. Therefore, throughout this Working Paper the title ‘Secretary’ is used.

¹⁴ Advanced Dynamics, cited in Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ’s Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, p. 91.

Given the findings of these three independent reviews, it is obvious that the shape and form of the NZ government aid programme in 2000 was problematic and required action. The decision by the Cabinet in 2001 to create NZAID was based on extensive review and analysis about how to improve the NZ government aid programme.

2.2.1 Was NZAID An Improvement on the Past?

In 2005 two reviews of NZAID were undertaken: a regular five-yearly OECD DAC Peer Review and the Waring Ministerial Review. Both reviews pointed out areas for improvement, as would be expected for such a new organization. Yet the overall assessment from both was that NZAID was working well after just three years of existence. The Waring Ministerial Review found that:

“NZAID has established a sound organisational structure and is using its delegated powers to develop a professional staffing profile suitable for the needs of a modern innovative ODA policy and delivery agency.”¹⁵

The 2005 DAC review announced that “[t]he reorientation of New Zealand’s development co-operation has been impressive”¹⁶ and “[t]he creation of NZAID can be considered a success”.¹⁷

2.3 NZAID in 2008

2.3.1 NZAID Policy Settings

NZAID’s mission was clear: to eliminate “poverty through development partnerships”, with a vision of “a safe and just world free of poverty”.¹⁸ The overarching policy document ‘Towards a Safe and Just World Free of Poverty’ outlined four strategic outcomes that NZAID was working towards:

1. fulfilment of basic needs
2. sustainable livelihoods
3. sustainable and equitable development
4. safe, just and inclusive societies.

Poverty was clearly defined by NZAID, encompassing global understanding of what constituted poverty as well as being Pacific relevant, including basic needs poverty, poverty of opportunity and vulnerability to poverty.¹⁹

A comprehensive suite of policies that guided the work of NZAID complemented these high-level policy settings. Policies encompassed trade, education and health, through to

¹⁵ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 58.

¹⁶ OECD DAC, 2005, *DAC Peer Review of New Zealand*, OECD: Paris, p. 12.

¹⁷ Ibid., p. 10.

¹⁸ NZAID, 2002, *Towards a Safe and Just World Free of Poverty, Policy Statement*, Ministry of Foreign Affairs and Trade: Wellington, p. 7.

¹⁹ Ibid.

economic growth and livelihoods. The agency clearly recognised the importance of economic growth and the private sector.

“... NZAID recognises that a robust and vibrant private sector is vital for an improved quality of life in its partner countries and is a necessary condition for reducing poverty sustainably. NZAID considers that growth is important for poverty reduction but that it is necessary to see this translated into benefits for poor people rather than just economies.”²⁰

As well as thematic policy areas, NZAID took action to ensure that issues that cut across all areas of development, such as addressing the different needs of men and women (gender) and human rights, were integrated into every activity that the aid programme undertook. Tools were designed to guide staff as to how to analyse and integrate these ‘cross-cutting’ issues at all stages of the programme life-cycle (feasibility, design, implementation, monitoring, evaluation).

In relation to the Pacific, NZAID’s Pacific Strategy 2007-2015 outlined a comprehensive approach to NZAID’s work in the Pacific, given that the Pacific region was the core geographical focus of the agency. This Strategy articulated that the agency would work to: strengthen governance, achieve broad-based economic growth and improved livelihoods, improve education and health, and reduce vulnerability and build resilience. The Pacific Strategy 2007-2015 also articulated that NZAID would be working towards supporting fewer, larger activities, over longer periods of time.²¹

As global thinking about aid evolved, NZAID refined its operating principles, particularly to implement the Paris Declaration (2005) and Accra Agenda for Action (2008). These two documents outlined key principles that underpin effective aid practice, including: harmonisation of donors (donors working together in a coordinated fashion), alignment of donor activities with partner (developing) country plans, partner (developing) country ownership, working to achieve results and mutual accountability.²²

As the 2005 New Zealand DAC Peer Review noted “the new agency has created a range of new policies and systematic capacities and a strong culture of results-based programming and implementation”.²³

2.3.2 NZAID and Foreign Policy

NZAID was created to manage the blurred priorities of aid and non-aid foreign policy. The focus of NZAID was about the long-term development vision to “create a safe and just world,

²⁰ OECD DAC, 2005, *DAC Peer Review of New Zealand*, OECD: Paris, p. 38

²¹ NZAID, 2007, *Pacific Strategy 2007 – 2015, Te Ara Tupu – The Pathway of Growth: Tackling Poverty in Our Region*, NZAID: Wellington, pp. 24-26.

²² OECD, 2005/2008, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*, OECD: Paris.

²³ OECD DAC, 2005, *New Zealand Peer Review*, OECD: Paris, p. 10.

free of poverty”. This clear focus on development was a response to the past situation, as highlighted in the 2001 Towards Excellence Review:

“Various High Commission staff described the purpose of ODA as advancing New Zealand’s strategic interests, securing in-country relationships, giving profile to MFAT, supporting our broader political relationships and helping to reduce poverty... A clear perception that foreign policy and trade should be the main driver of ODA.”²⁴

“All MFAT activities are to promote and protect New Zealand interests offshore, and to promote New Zealand trade and economic interests.”²⁵

Within the clear aid and non-aid foreign policy goals, NZAID established a system of interacting with MFAT that was assessed to be functioning to achieve good policy alignment between aid and non-aid foreign policy. An internal 2009 document (obtained under the Official Information Act) assessing how to reintegrate NZAID clearly articulates the systems that had been ingrained in NZAID:

“The PAC/AIDPAC²⁶ relationship seems to be a stand-out example. The weekly joint management level meeting is seen as essential to both unit’s effectiveness and is therefore well attended. Other Pacific units also have a scheduled weekly meeting, which is only cancelled when there is agreement not to meet. These regular meetings are supplemented by a good deal of coordination on policy issues, with a strong sense of joint ownership of problems. Similar if less frequent or regular meetings and coordination take place between Asia units and between Development and P3²⁷ staff with common interests in areas such as environment and human rights”.²⁸

Throughout its existence, NZAID had achieved successes in the area of aligning non-aid foreign policy with aid goals, while ensuring that NZ non-aid foreign policy did not completely over-ride developing-country interests. Its policy ‘Harnessing International Trade for Development’ was developed in consultation with MFAT and other Ministries, and NZAID worked with MFAT to develop common positions on various trade issues, such as the World Trade Organisation Doha round. NZAID also worked with MFAT to ensure that development issues were given full attention in trade discussions, including the Pacific Island Countries Trade Agreement (PICTA), Pacific Agreement on Closer Economic Relations (PACER) and Asia Pacific Economic Cooperation (APEC).

²⁴ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ’s Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, p. 47.

²⁵ Ibid., p. 46.

²⁶ Acronyms for business units of MFAT and NZAID, in use at the time of the Review.

²⁷ An acronym for a business unit of MFAT, in use at the time of the Review.

²⁸ Fry, R., December 2009, *NZAID/Ministry Integration: Non-Corporate Issues*, MFAT: Wellington, p. 13. Obtained under the Official Information Act.

NZAID had rectified the situation of 2001 whereby although significant improvements had been made throughout the 1990s, there was no “clearly defined, measurable and accountable policy guidance about intended ODA outcomes and the ways the organisation intend[ed] to achieve these”.²⁹ NZAID was unmistakably about working to achieve the development goals of partner, aid-receiving countries, without the sometimes conflicting goals of working to simultaneously promote New Zealand’s non-aid foreign policy goals.

Challenges Persisted

Despite all this, concerns remained within MFAT about the separation of aid policy goals from non-aid foreign policy goals. These concerns were highlighted in the 2005 Waring Ministerial Review. For this Review, MFAT provided written comments, which are referred to in the Review as the ‘Tipping Report’. These comments highlight the thinking within MFAT about aid policy.

“Consistency between ODA and foreign policy at the strategic level is both a requirement of Government and an institutional necessity for MFAT. MFAT’s view (is) that NZODA should be directed so as to **actively** serve **both** poverty elimination **and other** foreign policy goals.

(There is a broader point here). The creation of NZAID and the terms of its mandate have left a gap. MFAT’s ability to use NZODA **as one of its diplomatic tools** has been made conditional on NZAID concurrence. NZAID concurrence is not always forthcoming, and nor should it be, given the terms of NZAID’s mandate. It may be that there is a case for establishing a new category of development funds in Vote: MFAT devoted to “DAC-able” activities which support FTA negotiations and/or bilateral, or regional, foreign policy goals other than poverty elimination.”³⁰ (Emphasis in original.)

This central issue of the role and place of New Zealand ODA and aid policy as a component of foreign policy had not yet been resolved. There were obvious concerns, and perhaps resentments, regarding MFAT’s loss of the ability to direct ODA to achieve New Zealand’s interests overseas. This is understandable, given the power of funds to influence and motivate. There were also other concerns within MFAT, such as the NZAID specific remuneration rates, which saw development advisors earn more than experience diplomats (in some cases), and the loss of posting opportunities for junior diplomatic staff to the Pacific because, with NZAID, development specialists often filled these posts to provide appropriate skills and experience to the role.³¹ When NZAID was created it was not without its critics.³² This was to have an impact in 2009.

²⁹ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ’s Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, p. 42.

³⁰ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, pp. 60-62.

³¹ Ibid.

³² Schwass, M., 2006, *The Establishment of NZAID: A SAB is Born*, Case Programme, Australia and New Zealand School of Government.

2.3.3 Structure: Semi-Autonomy

There are many ways to structure an aid programme. The OECD DAC (2009) outlines four key models that its members use.

1. The Ministry of Foreign Affairs leads on aid policy and implementation, meaning that aid policy is fully integrated with other foreign affairs policy areas (such as Denmark and Norway).
2. An entity within the Ministry of Foreign Affairs that takes the lead for aid policy and implementation (Ireland and the Netherlands)
3. A Ministry has overall responsibility for policy while there is a separate agency for implementation (such as France, Germany, Japan and the USA)
4. A ministry or agency separate from the ministry of foreign affairs has responsibility for both policy and implementation (such as Australia, Canada and the UK).³³

Along the lines of the second model, NZAID was established in 2002 as a Semi-Autonomous Body (SAB) connected to the MFAT. This was a shift from the previous structural arrangement, whereby the New Zealand government aid programme was situated as a division of the MFAT. The SAB arrangement was one step removed from the recommendation in the 2001 Towards Excellence Review, which suggested a stand-alone agency.

The aim of establishing the aid programme as a SAB was the concept of separateness. This separateness was sought in order to allow the creation of a professionalised New Zealand aid programme that clearly focussed on supporting partner countries to achieve their development goals. The aim was to avoid the previous blurred aspirations between non-aid foreign policy and the international aid and development imperatives that (should) shape aid policy.

A SAB gave this separateness without contributing to a proliferation of stand-alone government entities. At the same time the SAB model prevented aid policy becoming completely divorced from New Zealand's wider foreign affairs policy. As a SAB NZAID was still legally part of MFAT but it carried out specific functions, in this case the delivery of New Zealand ODA.

The SAB model was adapted from a similar approach used in the United Kingdom, one that was not without challenges.³⁴ Similarly, at the time NZAID was established, NZ's past experience with the SAB model had also not been straightforward. The public service accountability framework includes the State Sector Act of 1988 and the Public Finance Act of 1989, neither of which provide any legal framework for a SAB. Under this public sector accountability framework the chief executive of a government department is responsible

³³ OECD, 2009, *Better Aid: Managing Aid: Practices of DAC Member Countries*, OECD: Paris. Note that this information is current in 2009 and some countries may have changed their model in the subsequent years.

³⁴ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington.

and legally accountable to the Minister for what the department does. This includes the functioning of a SAB.

When the Cabinet in 2001 decided to establish NZAID as a SAB, it outlined several key features for NZAID. Some of these were specified in order to manage the challenges outlined above and learn from lessons of the past. This approach conformed with the 1999 Cabinet's agreement that any future SAB establishment must be approved by Cabinet. When approving a SAB's establishment Cabinet must also specify the degree of separateness between the host department and the SAB, and that the standard public service accountability framework applied.

The specifications the 2001 Cabinet made for NZAID included:

- NZAID would have a head executive (the eventual title was Executive Director) who was appointed by and would report to the MFAT Secretary
- the NZAID Executive Director would have a performance agreement with the Minister of MFAT, which would be consistent with the performance agreement between the MFAT Secretary and the Minister
- the NZAID Executive Director would appoint all staff for NZAID, with human resource policies and pay scales internal to NZAID
- shared service arrangements with MFAT would continue
- the NZAID Executive Director had the right to report directly to the Minister(s) responsible to ODA on policy and operational matters.³⁵

The 2001 Cabinet also outlined expectations related to protocols and delegations developed between the MFAT Secretary and NZAID's Executive Director. These expectations were crucial, due to the Secretary's legal accountability for NZAID within a SAB model that gave the NZAID Executive Director significant authority, including reporting to the Minister. These Cabinet expectations were that protocols and delegations could include specifications on strategic direction and leadership on ODA policy and operational matters, procedures for ensuring that the Secretary would be fully informed of all advice given to Minister(s), and the need to work cooperatively on both policy and operations, including areas such as communications and consultations with external parties.³⁶

The 2001 Cabinet decision to establish NZAID as a SAB meant that although NZAID had a separate Vote and its Executive Director had the Cabinet-given right to report directly to the Minister, within the public sector accountability framework the MFAT Secretary remained accountable for the financial management and performance of NZAID. Legally the Secretary of MFAT could not simply delegate his responsibilities (it was a 'his' during NZAID's lifespan) to the Executive Director of NZAID. No decision that Cabinet made could remove this legal accountability of the MFAT Secretary. Similarly, legally Cabinet could not assign any

³⁵ Office of the Minister of State Services, Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Institutional Settings*, NZ Government: Wellington.

³⁶ Ibid.

responsibilities to the Executive Director of NZAID. These had to come from the explicit delegation of the MFAT Secretary.

Therefore, the relationship between the NZAID Executive Director and the MFAT Secretary was central to ensuring that NZAID as a SAB functioned. In practice, the relationship between the NZAID Executive Director and Secretary functioned well. Yet in principle, it can be problematic to have a government structure in place that relies predominantly on a relationship between two senior public sector officials who both work within the same Ministry and report directly to the same Minister. Presumably this is why the Cabinet of 2001 provided clear expectations related to the formal relationship between the MFAT Secretary and NZAID Executive Director (as described above).

Despite the potential challenges it was decided at the time that the importance of achieving separateness for the government aid programme was paramount and that the challenges of SAB's could be managed. Along with this, it is unlikely that any MFAT Secretary would act against a Cabinet decision. This means that although still legally accountable for the SAB, the Secretary would want to follow Cabinet decisions and work to ensure NZAID was an effective entity.

The actual implementation of the change to NZAID as a SAB was assessed positively overall in the 2005 Waring Ministerial Review. Treasury and the State Services Commission were upbeat about how the SAB was doing. The State Services Commission stated: "[i]t took a year to get the systems in place but that's pretty good for the bureaucracy!" and Treasury commented that "[o]n balance having NZAID as a SAB is a compromise which has worked very well to shift the focus and develop a new culture".³⁷

2.3.4 Systems: Audits

A full analysis of the internal systems of NZAID is beyond the scope of this document. But an exploration of the 2009 changes and their reasons requires an examination of what occurred in relation to the Audit New Zealand and Office of the Controller and Auditor-General (OAG) 2007 audits. The background below informs the analysis later in this Working Paper.

Prior to 2007, NZAID functioned with the understanding that all activities were to be put through a contracting process before implementation. The sequence was: concept, design, procure/contract and implement.³⁸ The Contracts and Finance teams managed procurement and contracting, while the Programme teams managed contract development and implementation. Staff received initial training in contract systems. NZAID's systems were assessed as 'good' every year from 2002 to 2006, even though NZAID had no policy, IT systems or clear guidance for staff in relation to contracting and procurement, and NZAID had no internal audit function.³⁹ It was recognised that staff often functioned under urgency

³⁷ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 44.

³⁸ NZAID, 6 May 2009, *Accountability, Effectiveness & Audit Requirements: Getting the Balance Right*, Good Practice in Action Seminar, Accessed on 11 July 2011 at: <http://tinyurl.com/64tw8w2>

³⁹ Ibid.

and in difficult circumstances. Partner capacity was a constraining factor and one that was necessary to take into account when examining contracting processes. This is due to the fact that part of NZAID's role was to build the capacity of aid-receiving partners.

In July 2006 the Ministry of Economic Development released the 'Mandatory Procurement Rules', which led to NZAID updating contract templates and providing a general guidance document to staff. From 2007 the OAG placed a specific focus on procurement and contracting in their audit processes.

In 2007 Audit New Zealand and the OAG audited NZAID, examining how effectively the agency managed the aid programme. The Audit NZ audit focussed on NZAID's contract management while the OAG focussed on wider performance, including programme planning and design, implementation, monitoring and evaluation. The audits were conducted one after then other, meaning that when Audit New Zealand gave a 'poor' judgement on NZAID's contract management, the OAG subsequently decided to include contract management in their audit. This led to their similar conclusion that "[a] lack of comprehensive, clear, and accessible processes and procedures for putting in place and monitoring funding arrangements for delivering aid programmes was an area of particular concern during the audit".⁴⁰ The failures in the area of contract management did not involve any loss of funds, legal actions or crumbling contracts.

Senior management at NZAID took swift action. Within a few weeks of the August 2007 audit the agency had taken ownership of the problem and had consultatively devised a 'Control Environment Strengthening Programme' (CESP). The CESP was put in place in agreement with the OAG and Audit New Zealand, and was to run for two years to August 2009. Progress would be monitored through annual audits in 2008, 2009 and 2010, with the aim to lift the control environment rating from the assessed poor in 2007 to good in 2009. Monthly reporting to Government stakeholders was also instigated as part of the CESP.⁴¹ This included the Foreign Affairs, Trade and Defence Select Committee, which kept a close watch on NZAID's response.⁴²

During this process, further new guidance was developed by the OAG on relational purchases, entitled 'Procurement Guidance for Public Sector Entities – June 2008'. This Guidance recognised that some public sector purchases are not appropriate for market-based contracting systems, and gave advice on the purchase of services with entities that

⁴⁰ Controllor and Auditor-General, 2008, *Performance Audit Report, New Zealand Agency for International Development: Management of overseas aid programmes*, Office of the Auditor-General: Wellington, p.2.

⁴¹ NZAID, 6 May 2009, *Accountability, Effectiveness & Audit Requirements: Getting the Balance Right*, Good Practice in Action Seminar, Accessed on 11 July 2011 at: <http://tinyurl.com/64tw8w2>

⁴² Young, A., 18 February 2008, *NZAid 'too weak' to Cope With More Money, Say MPs*, Accessed on 11 July 2011 at: http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10492992

were non-commercial and focused on public interests, or for building relationships.⁴³ Of all the procurement that NZAID carried out, 80 percent of it fell into this category.⁴⁴ While not an excuse for NZAID's 'poor' control environment, this recognition of the need for different contracting systems highlights potential weaknesses in the audit system prior to the release of this Guidance, particularly in relation to relationship-focused contracting in the public interest, as carried out by NZAID.

In November 2008, the same month that the National-led Government came to power, Audit New Zealand conducted the first of their annual follow-up audits, finding that:

“NZAID is on track to full implementation of its Control Environment Strengthening Programme over the two year target timeframe [by June 2009]... There has been a noticeable improvement in the quality of contract management file information being documented, good practice being followed, and improved focus on risk management and observance of probity matters such as recognition of potential/perceived/real conflicts of interest... NZAID have done well to get to where they are in less than a year. To do this both in Wellington and the challenging environment in overseas posts is commendable.”⁴⁵

In a routine follow-up report, the Controller and Auditor-General specifically mentioned NZAID's positive response in the introduction to the report: “based on our analysis and the work done as part of our 2007/08 and 2008/09 annual audits of NZAID, we consider that NZAID responded positively and comprehensively to our recommendations”.⁴⁶

2.4 Summary

At the end of 2008, when the new National-led government came to power, NZAID was a globally respected, well-functioning government aid programme. It was clearly focussed on an unambiguous goal of building a safe and just world, free of poverty, through a broad-based approach that included engaging with the private sector and promoting pro-poor economic growth. NZAID had professional and experienced staff that had constructive relationships with partners across the Pacific and the wider world. Independent reviews found the unorthodox SAB model to be working well. A non-hierarchical culture of learning and responsiveness had been achieved, evidenced by the rapid response to the audit reports in 2007. NZAID was not a perfect agency by any means and there was room for

⁴³ Controller and Auditor General, June 2008, *Public Sector Purchases, Grants, and Gifts: Managing Funding Arrangements with External Parties, Good Practice Guide*, Office of the Auditor General: Wellington; Controller and Auditor General, June 2008, *Procurement Guidance for Public Entities, Good Practice Guide*, Office of the Auditor General: Wellington.

⁴⁴ NZAID, 6 May 2009, *Accountability, Effectiveness & Audit Requirements: Getting the Balance Right*, Good Practice in Action Seminar, Accessed on 11 July 2011 at: <http://tinyurl.com/64tw8w2>

⁴⁵ Audit NZ cited in NZAID, 6 May 2009, *Accountability, Effectiveness & Audit Requirements: Getting the Balance Right*, Good Practice in Action Seminar, Accessed on 11 July 2011 at: <http://tinyurl.com/64tw8w2>

⁴⁶ Controller and Auditor-General, 2010, *Performance Reports from 2008: Follow-up Report*, Office of the Auditor-General: Wellington, p. 24.

improvement in aspects of its functioning. Yet radical structural and policy changes were not necessary or widely anticipated. In many ways, they came as a bolt from the blue.

3. A New Government in 2008: A New Review?

Following the NZ General Election in November 2008, the NZ National Party formed a coalition government with the NZ ACT Party, United Future and the Maori Party. The new Minister of Foreign Affairs, Hon. Murray McCully, (hereafter referred to as Minister McCully) quickly took action to reshape the New Zealand government aid programme. He did this under the auspices of the National Party Foreign Affairs Policy. This Policy, released in the lead-up to the 2008 NZ General Election, committed to:

1. “review the operation of NZaid [sic] to ensure aid expenditure is effective and to make sure problems identified in recent reports are rectified”⁴⁷
2. “require an even greater focus of our aid effort on the South Pacific”⁴⁸
3. “maintain the current and future aid spending levels laid out in Budget 2008”⁴⁹ committing to “see New Zealand’s expenditure on ODA reach \$600 million by 2010”.⁵⁰

3.1 A Review of NZAID?

Soon after assuming his position, Minister McCully commissioned “officials of MFAT and NZAID to review the mandate and policy settings of NZAID to reflect the priorities of the Government as set out in the pre-election manifesto”.⁵¹ In the meantime, the State Services Commission (SSC) was, in the words of its Deputy Commissioner, “asked orally by the Minister of Foreign Affairs to develop advice, jointly with the Ministry of Foreign Affairs and Trade including NZAID, about a way to ensure greater integration of NZAID within the Ministry of Foreign Affairs and Trade”.⁵² An email obtained from the NZ Treasury under the OIA, shows that this integration was being viewed as a removal of NZAID’s SAB status: “Minister McCully has requested that SSC commence work on developing advice... that proposes a way to ensure greater integration of NZAID with MFAT (i.e. removing the SAB status of NZAID)”.⁵³ It appears that the review Minister McCully was seeking was about *how* to remove the SAB status of NZAID, not *if* it should be removed. This indicates a predetermined outcome at odds with the National Party Foreign Affairs Policy’s broader commitment to review NZAID’s operations.

⁴⁷ The NZ National Party, 2008, *National Party Foreign Affairs Policy*, Upper Hutt, p.4.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid., p.3.

⁵¹ Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Mandate and Policy Settings*, NZ Government: Wellington, p. 1.

⁵² Quilter, H., Deputy Commissioner, System Improvement, State Services Commission, 20 March 2009, Unpublished Letter in Response to an Official Information Act Request from the Council for International Development of 24 February 2009.

⁵³ State Services Performance Specialist, 13 January 2009, Email Entitled: *MFAT/NZAID*, NZ Treasury: Wellington. Obtained under the OIA.

Despite the specificity in relation to the outcome of changes to NZAID's SAB status, there was a lack of clarity about *why* changes were being sought. In documents obtained under the OIA from the New Zealand Treasury, Treasury note that there were no terms of reference provided for the review, leading to misunderstandings and inadequate consideration of the issues:⁵⁴

"[w]e do not have any specific information of *what* Hon. McCully's concerns are. However, our best guess is a combination of: a desire for greater weight on foreign policy objectives in delivery of aid; a concern that the separation is creating unnecessary additional 'back office' costs; and a desire to ensure that NZAID funding is being well managed".⁵⁵ (Emphasis in original.)

3.2 There Was No Review

By any understanding of the word, there was no review of NZAID, as promised in the 2008 National Party Foreign Affairs Policy. It is the government of the day's prerogative to set government policy in line with their manifesto and priorities. Yet one would expect that when significant changes are made they are based on a thorough exploration of what is working, what is not working and, if change is deemed necessary, what the most appropriate changes might be. This expectation lies at least partially in the recognition that significant organisational changes within government consume substantial resources that could be otherwise used for addressing policy problems and improving society. As Minister McCully said: "You don't make changes like this if you don't have to...".⁵⁶

The Oxford Dictionary gives the meaning of the word 'review' as: "a formal assessment of something with the intention of instituting changes if necessary".⁵⁷ Past reviews of the New Zealand government aid programme have taken an approach consistent with this definition. The reviewers, all independent and with experience in international aid and development, talked widely amongst people inside and outside of government, used the latest global thinking on the topic, examined the history of NZ aid and development, and applied critical analysis to assessing options. Many with an interest in New Zealand's government aid programme assumed that a 2009 review that was signalling potentially radical changes in the NZ government aid programme - an aid programme that at the time was thought well of internationally and domestically - would involve a similar approach.

⁵⁴ NZ Treasury, no date, *Treasury Comments for SSC on Draft Paper*, NZ Treasury: Wellington. Obtained under the OIA.

⁵⁵ NZ Treasury, 16 Feb 2009, *Options for Reform of NZAID – Treasury's Initial Views*, NZ Treasury: Wellington, p. 1. Obtained under the OIA.

⁵⁶ Ventner, N., 2009, *Why McCully is Reining in NZAID*, Opinion, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>

⁵⁷ Oxford English Dictionary online, Accessed on 20 December 2012 at: <http://oxforddictionaries.com/definition/review?q=review>

Several years before, Minister McCully appeared to agree with the need for open discussion and consultation. In a 2006 speech to the NZ Institute of International Relations, Minister McCully, then Opposition Spokesperson for Foreign Affairs, stated that:

“New Zealand political and public life is notably short of debate in these areas... a result of the closed-door approach to decision-making which has prevailed in this country.... Having just expressed a desire for greater debate and consultation in government, it is my intention to follow precisely that course in opposition.”⁵⁸

Minister McCully’s perspective appears to have changed by the time he became part of the government in 2008. In his paper to the Cabinet External Relations and Defence Committee, Minister McCully stated of the review of NZAID that “[t]his is an internal review...”.⁵⁹ He later informed the Dominion Post that he had consulted “within the ministry, with the state services commissioner and with the auditor-general whose staff have authored two critical reports on the agency, highlighting poor contract management and inadequate financial systems”.⁶⁰

In his speech to the New Zealand Institute of International Affairs in early May 2009, Minister McCully outlined a slightly different perspective of whom he had consulted with.

“Over the five months since the general election, the new Government has been reviewing the current approach to aid delivery... We have had input from a range of sources: the State Services Commissioner, the Treasury, the management of the Ministry of Foreign Affairs and Trade and NZAID, as well as a number of private citizens and a good many organisations active in the field.”⁶¹

⁵⁸ Hon. McCully, National Party Spokesperson on Foreign Affairs and Trade, 2008, *Speech to the New Zealand Institute of International Affairs*, February 2006, Accessed on 7 June 2011 at: <http://www.scoop.co.nz/stories/PA0602/S00297.htm>

⁵⁹ Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Mandate and Policy Settings*, p. 2.

⁶⁰ Ventner, N., 2009, *Why McCully is Reining in NZAID*, Opinion, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>

⁶¹ McCully, M., Minister for Foreign Affairs, 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

Contrary to the statement above, consultation with “a good many organisations active in the field”⁶² did not occur. As Barry Coates of Oxfam New Zealand and then Chair of the Council for International Development outlined:

“Unlike the previous four comprehensive studies that supported poverty reduction and some autonomy for NZAid [sic], the reviews will be quick and without public consultation or parliamentary debate. This has been met with deep concern across the political spectrum. Decisions on the effectiveness of spending almost \$500 million should not be taken without proper evidence and consultation with development experts, in New Zealand and abroad, especially since it flies in the face of the practice of most of the donor agencies of the OECD... Oxfam and the other 93 agencies that are members of the Council for International Development are calling on the minister to recognise the seriousness of this decision.”⁶³

A Press Release from the NGO Caritas, reinforces the point:

““What's been particularly frustrating,” says Caritas Director Michael Smith, “is the lack of consultation and apparent consideration of the views of development organisations such as ourselves. Despite repeated requests, we have not been granted a meeting with the Minister Murray McCully over the issue.” The Board of the aid agency umbrella body Council for International Development was only able to meet the Minister shortly before news of the so-called review became public, and then again 10 days after the restructure had taken place.”⁶⁴

It does not appear that any of the established international development organisations or academics in New Zealand were consulted. Letters from the Council for International Development (CID) to the Prime Minister, Deputy Prime Minister and Minister of Finance, and Minister McCully, outlining concern about the potential changes to NZAID, all received a standard reply provided by Minister McCully’s office, referring to the National Party Foreign Affairs Policy manifesto and stating:

“Reviews of the structure and mandate of NZAID are currently being undertaken... you can be assured that the points raised by you and the NGO community at large will be given careful consideration before any final decisions are made.”⁶⁵

Examining the final documentation of the review - the three papers presented to Cabinet (listed below in Section Four) - there was no inclusion of concerns raised by any entities

⁶² Ibid.

⁶³ Coates, B., 13 March 2009, *Aid is About Poverty, Not Politics*, Op-ed, Dominion Post: Wellington.

⁶⁴ Caritas Press Release, May 2009, *Refocusing Our Aid – Will the Poor Be Lost From View?*, Accessed on 12 January 2012 at: <http://www.caritas.org.nz/newsroom/media-releases/refocusing-our-aid---will-poor-be-lost-view>

⁶⁵ Unpublished letter from the Prime Minister, 19 March 2009, to the Executive Director of the Council for International Development.

other than the Ministries asked to look at the structure and policy settings of NZAID, nor any evidence that the Controller and Auditor-General had provided input.

By 2011, in response to an oral parliamentary question about who gave advice to change the focus from poverty to sustainable economic development/growth, Minister McCully told his colleagues in parliament that he had:

“... consulted a wide range of individuals, including heads of mission, former heads of mission, officials, non-governmental organisation leaders, and representatives of the Governments that receive New Zealand’s development assistance. I also consulted the New Zealand public, who considered National’s policy of changing the previous focus of the aid programme and elected a National-led Government.”⁶⁶

As shown, there is no public evidence for these claims. There was also no evidence in the Cabinet Papers of consultation with aid-recipients. The final point to make here is that there was no commitment in the National Party Foreign Affairs Policy to change the policy focus of the New Zealand government aid programme. The document does not even contain the word ‘poverty’ or the words ‘sustainable economic development’ or ‘economic growth’.⁶⁷

NZ Treasury provides a clear summary regarding the ‘review’. In a March 2009 document, obtained under the OIA, the following advice is given to the Minister of Finance.

“Substantive changes to NZAID’s policy, mandate, and institutional settings would ideally be accompanied by thorough analysis, articulating the rationale, options considered and pros and cons of each, and risks of change, which could be made publically available once decisions are made. We do not consider that this suite of Cabinet papers meets such a test.”⁶⁸

There was no review of NZAID.

4. What Changed in 2009?

What has been called a review was merely an internal government assessment of how already determined changes could be made. As a result of this internal assessment requested of the State Services Commission (SSC), NZAID and MFAT, three papers were produced for the Cabinet External Relations and Defence Committee (ERD), which Minister McCully chairs. These papers informed the final April 2009 Cabinet decision regarding NZAID’s structure and policy settings. The following discussion refers to these papers a good deal and so they are listed here.

⁶⁶ McCully, M., April 2011, Response to Oral Question in Parliament, Accessed on 21 January 2012 at: <http://www.parliament.nz/CmsSystem/Templates/Documents/DetailedListing.aspx?NRNODEGUID=%7b41728f84-9c5a-4f74-9ebb-8a3c0b73574c%7d&search=1904705>

⁶⁷ The NZ National Party, 2008, *National Party Foreign Affairs Policy*, Upper Hutt.

⁶⁸ NZ Treasury, 7 April 2009, *Aide Memoire: ERD Briefing: NZAID’s Mandate, Policy Settings and Institutional Arrangements*, NZ Treasury: Wellington, p. 2. Obtained under the OIA.

- An 'Overview Paper' from the Office of the Minister of Foreign Affairs and the Office of the Minister of Trade (no date) entitled 'Pacific Island Forum Countries: NZ Policy on Aid, Trade and Economic Development'.
- A paper from the Office of the Minister of State Services and Office of the Minister of Foreign Affairs (no date) entitled 'New Zealand Agency for International Development: Institutional Arrangements'.
- A paper from the Office of the Minister for Foreign Affairs (no date) entitled 'New Zealand Agency for International Development (NZAID): Mandate and Policy Settings'. The Annex to this paper was the result of the internal review of NZAID, by NZAID and MFAT, and provided one page each on: consistency of ODA and non-aid foreign policy, core policy focus for ODA, core focus on the Pacific, geographic coverage, cross-cutting and thematic issues, effectiveness, efficiency, and accountability.

The Cabinet Minutes of Decision (2009)^{69, 70} articulated the decisions made for the fate of NZAID and the delivery of NZ ODA. Amongst other decisions, Cabinet agreed that:

- "the SAB status of NZAID be removed, and that NZAID be brought into line with the standard management and accountability arrangements for MFAT;
- a separate Vote for New Zealand ODA be retained"⁷¹
- "it is desirable 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"⁷²
- "it is important to maintain transparency and accountability around the funding, objectives, and outcomes of New Zealand's ODA programme and the performance measures and standards for the delivery of the programme"⁷³
- "New Zealand's ODA outcomes should be consistent with, and support, New Zealand's foreign policy and external relations outcomes under the direction of the Minister of Foreign Affairs"⁷⁴
- "the mission statement for New Zealand's ODA be to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world",⁷⁵ within this, the core focus be on sustainable economic development

⁶⁹ Cabinet Office, 2009, CAB Min (09) 13/3C, *Minute of Decision: NZ Agency for International Development: Mandate and Policy Settings*, NZ Government: Wellington.

⁷⁰ Cabinet Office, 2009, CAB Min (09) 13/3A, *Minute of Decision: NZ Agency for International Development: Institutional Arrangements (Paper 2)*, NZ Government: Wellington, p. 3.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Cabinet Office, 2009, CAB Min (09) 13/3C, *Minute of Decision: NZ Agency for International Development: Mandate and Policy Settings*, NZ Government: Wellington, p. 1.

⁷⁵ Interestingly, at the time this was exactly the same mission statement/high level statement as the Canadian Government's aid programme (although Canada has subsequently changed theirs), as listed

- “the Pacific remain the core focus, and receive an increased portion of, New Zealand’s ODA”⁷⁶
- issues of gender, human rights and environment will be “pursued as a means to ensure good outcomes and manage risks”⁷⁷
- there needed to be greater efficiencies in the overheads of New Zealand’s ODA programme.

The funding commitment in the National Party Foreign Affairs Policy was altered from the original Policy to achieve the absolute amount of NZ\$600 million by 2012/2013, rather than by 2010.⁷⁸ (In the 2011/2012 budget the deadline was further extended to beyond the 2013/2014 financial year.⁷⁹) The use of an absolute amount rather than a percentage was a departure from New Zealand’s international commitment to achieve 0.7 per cent of Gross National Income in ODA.

5. Exploring the Reasons for Change

This section examines the various reasons provided by Minister McCully and the National-led government for the major changes to the New Zealand government aid programme’s structure and policy settings (or mandate). It is difficult to find a clear set of reasons due to the lack of specificity in the National Party Foreign Affairs Policy, the absence of terms of reference for the internal assessments by government agencies, the variety of reasons provided in media coverage and speeches, and the fact that even a cursory assessment of where NZAID was at in 2008 gives no clear rationale for change. Nevertheless, the five main reasons that will be explored below are:

1. the concerns in the National Party Foreign Affairs Policy that major problems from the 2005 Waring Ministerial Review had not been previously addressed
2. the idea that economic growth is a more appropriate focus for a government aid programme than poverty elimination (or reduction)
3. a perception that NZAID was ineffective
4. concerns regarding accountability and financial management, with a focus on the 2007 NZAID audit reports and the SAB structure
5. a desire for greater alignment of aid policy and non-aid foreign policy.

in the Cabinet Paper ‘New Zealand Agency for International Development (NZAID): Mandate and Policy Settings’.

⁷⁶ Cabinet Office, 2009, CAB Min (09) 13/3C, *Minute of Decision: NZ Agency for International Development: Mandate and Policy Settings*, NZ Government: Wellington, p. 1.

⁷⁷ Ibid., p. 2.

⁷⁸ McCully, M., Minister for Foreign Affairs, 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

⁷⁹ NZ Treasury, 2011, *Performance Information for Appropriations, Vote Official Development Assistance*, NZ Treasury: Wellington.

5.1 National Party Foreign Policy – Waring Ministerial Review

The 2008 National Party Foreign Affairs Policy committed to “review the operation of NZaid [sic]... to make sure problems identified in recent reports are rectified”.⁸⁰ This Policy identified the recent reports as the 2007 audit reports and the 2005 Waring Ministerial Review. The audit reports are dealt with below, under accountability and financial management. Here the concerns from the 2005 Waring Ministerial Review are discussed.

The Waring Ministerial Review drew an overall conclusion of NZAID that was positive, as noted further above. The Review also pointed to areas where NZAID could improve. Due to the lack of specificity in the National Party Foreign Affairs Policy it is not clear exactly what the National Party viewed as “the major problems identified in the 2005 report by Professor Marilyn Waring [which had been] left unattended”.⁸¹ To attempt to assess what the National Party was alluding to in its Foreign Affairs Policy a reading of the Waring Ministerial Review is combined with the public statements made by Minister McCully, and the eventual changes in NZAID structure and policy.

5.1.1 Challenges with the SAB Model

The 2005 Waring Ministerial Review found that the challenges with the SAB model (as outlined earlier) were being well-managed and that NZAID as a SAB was working.

“This SAB has been satisfactorily established and is working well. There are some Machinery of Government and other issues which have arisen from adoption of the model and these may have to be further addressed.”⁸²

In order to address these issues the Waring Ministerial Review recommended exploration of legislative change to see if it was possible to incorporate the SAB model within the public sector legal accountability framework. There was no recommendation to rescind the SAB status.

5.1.2 Geographic Spread of ODA

Another issue raised in the Waring Ministerial Review was the continuing number of countries to which aid was dispersed – 100 in 2005, according to the Review, with 19 core bilateral partners.⁸³ This was a serious issue and had been raised in earlier reviews. NZAID was working to attempt reductions but it was taking time. While an essential issue to improve on, country reductions did not entail a restructure or a change in policy mandate to achieve.

5.1.3 Whole of Government Approaches and Policy Coherence

The most significant issue identified in the Waring Ministerial Review was the lack of a coherent and consistent approach across all NZ Government agencies working in the Pacific.

⁸⁰ The NZ National Party, 2008, *National Party Foreign Affairs Policy*, Upper Hutt, p.4.

⁸¹ Ibid.

⁸² Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 46.

⁸³ Ibid., p. 25.

From an aid-policy perspective, this relates to policy coherence – achieving whole of government policies that are consistent with development outcomes in countries that receive New Zealand ODA. (Further definition is provided in Appendix One.) Problems with the Pacific Division of MFAT were described, with comments from people interviewed for the Review about how the Division was under-resourced with high turnover, and seemed unable to “handle the increased NZAID focus in the Pacific”.⁸⁴ (What seem to be MFAT, not NZAID, issues.) The Waring Ministerial Review described a real need for an MFAT-wide (ie: including NZAID) strategic approach to MFAT’s place within the wider New Zealand government engagement with Pacific countries, suggesting that “NZAID’s ‘best practice’” could be used as a model for other agencies.⁸⁵ MFAT was aware of this need and had already “been rethinking how to enhance interagency coordination, and have recently consulted Ministers and CEOs about it”.⁸⁶

Several government agencies work in the Pacific and the Waring Ministerial Review pointed out that at times the ODA and non-ODA-related work of these agencies may not necessarily be consistent with NZAID’s policies, including best development practice. The most striking example in the review related to scholarships.

“While NZAID was trying to build coherence, in particular in ongoing work with NZIS [NZ Immigration Service] to see Scholarship students returning home; while NZAID was moving to harmonise all tertiary scholarships with Australia and to ensure just one annual round for all applications, the Ministry of Education announced it was ‘Going Global’ with a package that included international scholarships as a carrot to encourage qualified immigrants in to New Zealand.”⁸⁷

In response to these issues, the Waring Ministerial Review made recommendations for: “a programmed and inclusive strategic process, directed at coherence, operational sustainability and effectiveness of delivery, which recognizes the Pacific strengths of NZAID”⁸⁸ that would “enable a cohesive multi-agency process for Pacific engagement”.⁸⁹ Other recommendations for increased policy coherence placed NZAID at the centre of development work, particularly in the Pacific, as the government entity with development expertise.

In response to these policy coherence concerns, NZAID developed ‘A Strategy for Action to Improve Policy Coherence for Development: 2006/07 to 2009/10’ (obtained under the OIA).⁹⁰ This included a comprehensive stock-take of NZAID’s relationships with other

⁸⁴ Ibid., p. 23.

⁸⁵ Ibid.

⁸⁶ Ibid., p. 67.

⁸⁷ Ibid., p. 77.

⁸⁸ Ibid., p. 25.

⁸⁹ Ibid., p. 25.

⁹⁰ NZAID, no date, *A Strategy for Action to Improve Policy Coherence for Development*, NZAID: Wellington, obtained under the OIA.

government agencies.⁹¹ In the 2010 assessment, the DAC Peer Review commended these efforts but urged the New Zealand government aid programme to take a longer-term approach and to create stronger results frameworks with other government entities. The DAC Peer Review also expressed a concern that there was little buy-in and ownership from other government agencies.⁹²

The Waring Ministerial Review also highlighted issues in the whole of government approach to Niue, and by proxy Tokelau and to some extent the Cook Islands. Streamlined and improved relationships were necessary. This is one of the reasons why the MFAT/NZAID Special Relations Unit was established, in order to give consistency and attention to relationships with these particular countries.

Policy coherence is a significant and sometimes unwieldy issue, and the Waring Ministerial Review uncovered some areas of concern. Yet in its recommendations the Review emphasized the importance of NZAID in efforts to improve whole of government approaches and policy coherence, often referring to NZAID's 'best practice' in development. There was no suggestion that a radical structural rethink was necessary. In fact, whether or not the New Zealand government aid programme was a SAB or a programme within MFAT, these problems would exist if the New Zealand government remained committed to achieving positive development outcomes for aid-receiving partner countries.

The problems articulated above, while concerning, did not warrant significant change to NZAID or call for it. In most cases action had been taken since the Waring Ministerial Review to address the concerns it raised. The National Party-led government did not undertake any assessment of the action that had been taken or describe what their ongoing concerns from the Waring Ministerial Review were. The problems identified in the Waring Ministerial Review did not provide a rationale for the 2009 changes.

5.2 Economic Growth Not Poverty

The second main reason given for the 2009 changes was a desire to move away from a core focus on poverty to one on economic development/growth. At first glance this reason relates only to the changes in the policy mandate but, as discussed later in this Working Paper, the changes in policy also relate to the changes in structure.

⁹¹ Ibid.

⁹² OECD DAC, 2010, *DAC Peer Review of New Zealand*, OECD: Paris.

Written from the perspective of Minister McCully and the Minister for Trade, Tim Groser, the Overview Paper⁹³ for Cabinet outlined the rationale for the review of NZAID and the perspectives of the two Ministers. The Ministers’

“concerns were not simply about institutional arrangements. We also indicated clearly: ... [t]he need to go beyond the UN-derived mandate of ‘poverty elimination’ as the foundation stone for delivering effective development assistance to the Pacific. They need jobs, help with exporting and basic economic development infrastructure.”⁹⁴

The Ministers also expressed their perspective that the current focus of the NZ aid programme was not working. “We should be clear about one thing: present policy directions are not advancing the interests of the Pacific region...”⁹⁵

The Ministers believed that the Pacific region is “going sideways economically, and, in some cases, backwards politically”,⁹⁶ and that:

“far too much has been channeled into bureaucracies, under the rubric of ‘improving governance’. These States are certainly weak. But yet further growth of bureaucracy is not the answer.”⁹⁷

The Ministers’ answer was “new approaches to working with weak private sector institutions”.⁹⁸

Elsewhere Minister McCully articulated further:

“NZAID's mandate currently focuses on the rather nebulous concept of poverty alleviation. Poverty alleviation is important, but it is only a starting point. With limited resources to work with, we need to make hard choices about where our aid dollars will go. Poverty alleviation is too incoherent a guide for that purpose. So the Government has set a new mandate by which it and NZAID can be judged in relation to the effectiveness of our aid. That mandate requires a clear focus on sustainable economic growth as the means by which we seek to improve the lives of our poorest neighbour’s... Lifting people out of poverty depends directly on increasing economic

⁹³ Office of the Minister of Foreign Affairs and Trade, Office of the Minister of Trade, no date, *Pacific Island Forum Countries: NZ Policy on Aid, Trade and Economic Development*, NZ Government.

⁹⁴ Ibid., p. 2.

⁹⁵ Ibid., p. 4.

⁹⁶ Ibid., p. 1.

⁹⁷ Ibid.

⁹⁸ Ibid., p. 2.

growth and strengthening trade. No country in the world has achieved one without the other.⁹⁹

There is a good deal to unpack in this rationale for changing the policy mandate of the NZ government aid programme. The key issues explored below are:

1. the relationship between sustainable economic growth, poverty and aid
2. whether poverty elimination and NZAID ignored economic development/growth

5.2.1 Sustainable Economic Growth, Poverty and Aid

The validity of the policy mandate change to a core focus on economic development/growth rests on an assumption that economic development/growth is effective in achieving development goals and poverty alleviation, and that aid is effective in bringing about economic development/growth. Economic development/growth is an important aspect in poverty reduction and development but it needs a supportive institutional, legal and policy context to confer benefits to the poor. Efforts need to be made to ensure that economic development/growth is pro-poor and does not merely benefit those who already have power, increasing inequality^β. Also, to a point, it is possible to improve health and education in developing countries in the absence of economic development/growth.¹⁰⁰

There is a wealth of information available regarding the relationship between aid and economic development/growth. Considering all the evidence at this point in time (the debate continues), on average it is not clear that aid makes a significant contribution to economic growth.¹⁰¹ Within this overall average result, the impact of aid probably varies across countries and across time. It is more likely that aid is more consistently effective in other areas of development, such as health and education.¹⁰²

Given this, the claim that economic growth is a better core focus for the New Zealand government aid programme is not based on evidence. It also confuses the means with the ends: economic development/growth is one way to achieve the end of improved quality of life, but it is not an end in itself.

5.2.2 Was Economic Development/Growth Being Ignored?

In justifying its changes to the New Zealand government aid programme, the National Party-led government argued that the concept of poverty did not recognize the importance of economic development/growth. This is mistaken. Conceptually, as the OECD DAC notes:

“[t]he poverty reduction agenda adopted by the international community... includes trade and private sector development, peace building and conflict prevention and the

⁹⁹ Murray McCully, May 5 2009, *Aid Overhaul Essential to Ensure Our Dollars Reach Those in Need*, NZ Herald: Auckland, Accessed on 16 June 2011 at: http://www.nzherald.co.nz/nz-foreign-aid/news/article.cfm?c_id=1500904&objectid=10570326

¹⁰⁰ Wood, T., 2011, *Is Economic Development and Appropriate Focus for and Aid Programme?*, NZADDs Working Paper, Accessed on 7 January 2012 at: <http://tinyurl.com/3gtkgt9>

¹⁰¹ Ibid.

¹⁰² Ibid.

wider aspects of governance. Hence there is no inherent restriction on the scope of donor activities apart from the requirement to shape aid programmes around poverty reducing development outcomes, which provides a discipline on aid priorities and delivery modalities.”¹⁰³

And, as the 2005 NZAID DAC Peer Review highlighted, NZAID’s poverty elimination focus explicitly recognised that a vibrant and diverse private sector was important for development.¹⁰⁴ The very first policy created by NZAID was the one focused on trade. NZAID’s ‘Economic Growth and Livelihoods Policy’ (launched in 2008) clearly outlined the significance of economic growth in achieving poverty elimination:

“[e]conomic growth is a cornerstone of most countries’ poverty reduction and national development strategies. Economic growth creates employment and income-generating opportunities, which enable people to invest in their families’ education, health and other assets. This can help reduce vulnerability, empower people and be a source of pride. The growth and the employment it creates are fundamental to providing long-term social stability and avoiding conflict. Growth can help generate income and tax revenues for spending on health and education and the other services needed to secure people’s rights. Economic growth is directly correlated with improved indicators for life expectancy, maternal and infant mortality, and educational attainment.”¹⁰⁵

NZAID was not neglecting these areas of development. In fact, the agency was poised to begin to implement their Economic Growth and Livelihoods policy and Pacific Strategy at the time it was put into organizational upheaval by the restructuring and policy changes of 2009. Even before this NZAID had been engaging in activities that directly contributed to economic development/growth. Examples include Pacific regional fisheries activities, roading infrastructure and tax reform in the Solomon Islands, and assistance in various Asian countries for trade facilitation capacity building, eco-tourism, agriculture and agribusiness, production processes, income generation and natural resource management.¹⁰⁶

There was no need to change the New Zealand government aid programme’s core policy focus on poverty elimination, which already included economic development/growth. The 2009 changes to economic development/growth were based on incorrect assumptions, and ran contrary to international norms and understandings of the concept of poverty elimination. Risks are inherent in a dominating focus on economic development/growth, in that the poorest people may actually be neglected and New Zealand aid-receiving partners may actually have different priority needs and goals.

¹⁰³ OECD DAC, 2005, *New Zealand Peer Review*, OECD: Paris.

¹⁰⁴ Ibid., p. 11.

¹⁰⁵ NZAID, 2008, *Economic Growth and Livelihoods*, NZAID: Wellington, p. 12.

¹⁰⁶ NZAID, 2004, *Asia Strategy*, NZAID: Wellington.

5.3 Was NZAID Ineffective?

The third reason put forward for the 2009 changes to the New Zealand government aid programme was that it was not effective. The quotes in Section 5.2 above highlight this perspective, as do comments in the media from Minister McCully stating that “[p]ayments had become “a handout rather than a hand up”.¹⁰⁷

Minister McCully publically cited only two examples of potential ineffectiveness. These were both occurrences in Tonga.

“Yet when real and genuine challenges have arisen, as with the need to commence the re-building of downtown Nuku'alofa in Tonga following the November 2006 riots, we were missing in action. And there... others, from outside the region, have moved in to the space that we have unwisely vacated.”¹⁰⁸

“In the second, NZAid [sic] money was used to fund a worthwhile project that could have boosted Tongan exports, but nothing was done when the plant ceased running soon after the grant was made.”¹⁰⁹

These are serious issues to consider and are worth exploring fully.¹¹⁰ But without this exploration, which could provide good answers as to why these things occurred, partial anecdotes do not provide adequate evidence to disestablish an entire entity and change the policy mandate.

No systematic evidence was produced in 2009 to show that NZAID was ineffective. A 2009 assessment of effectiveness could not have occurred without reading through at least a representative sample of activity/programme evaluations, visiting country programmes, assessing achievement of desired programme outputs and outcomes, and talking to a range of people. This sort of assessment would take a reasonable amount of time and require a team. For example the AusAID Aid Effectiveness review of 2011 took a team of five people several months to produce a review document of about 350 pages. During this process 288

¹⁰⁷ Johnston, M., and Gower, P., March 2009, *Government Wants More Say on \$480m Foreign Aid*, NZ Herald: Auckland, Accessed on Thursday 1 March 2012 at:

http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10559626

¹⁰⁸ McCully, M., 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

¹⁰⁹ Venter, N., 2009, *Why McCully is Reining in NZAID, Opinion*, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>

¹¹⁰ Reasonable explanations regarding NZAID's approach to these two examples most likely exist. For the rebuilding following the riots, it is possible that a careful approach was being taken to ensure corruption was avoided, and that aid was coordinated (such as with Australia) and did not create moral hazards. In relation to the fumigation plant, it is quite possible that the original deal for the building of the plant stipulated that the ongoing responsibility for maintenance would lie with the Government of Tonga – aiming to ensure sustainability of the infrastructure rather than a long-term reliance on aid.

submissions were received from the wider international aid and development community, and subsidiary studies were undertaken.¹¹¹ There was no assessment made in 2009 as to whether or not NZAID was effective in contributing to its vision of a 'safe and just world, free of poverty'.

Yet in a press release Minister McCully articulated the conclusion that what NZAID was doing was not working:

"Given that the objective of our aid should be to reverse the negative trends we see in the Pacific, current policies are clearly failing. Our money has generally done little to build strong economies providing jobs and the promise of a brighter future."¹¹²

In drawing this conclusion (which was also articulated in the 2009 Cabinet papers), no evidence was provided of the link between New Zealand ODA, and economic and political challenges in the Pacific. It is true that in some parts of the Pacific economic development has been poor but it does not follow from this that NZAID's work was the cause of this. Such a conclusion ignores the potential counter-factual that without New Zealand aid the situation in Pacific countries may have been even worse. It also overlooks the fact that in several of the Pacific countries with the greatest development challenges, New Zealand aid is relatively small in relation to the overall economy size and so is unlikely to be a key factor in the general status of their development.

What evidence *is* available of NZAID's effectiveness shows that it was doing well. Positive comments about NZAID's approach even emerged in the 2010 Solomon Island Government-RAMSI People's Survey.¹¹³ During the seven years of its existence (2002 to 2009) NZAID underwent several reviews, which have been referred to throughout this Working Paper. No review suggested a dismantling of the SAB status or the need to move away from a focus on poverty elimination. Areas for improvement were noted but overall NZAID was repeatedly praised for its work.

5.4 Accountability and Financial Management

The fourth key reason provided by the National Party-led government for the 2009 changes involved issues of accountability and financial management. This reason related predominantly to the rescinding of NZAID's SAB status. Minister McCully argued that NZAID as a SAB was beyond control of the government. This was disingenuous, considering that a core government control mechanism – audits – were also cited as a reason to disestablish

¹¹¹ Commonwealth of Australia, *Independent Review of Aid Effectiveness*, 2011, AusAid, Commonwealth of Australia: Canberra, Accessed on 17 January 2012 at: <http://www.aidreview.gov.au/index.html>

¹¹² McCully, M., 1 May 2009, *Aid Increases as NZAID Changes Focus*, Press Release, Accessed on 29 April 2011 at: <http://www.beehive.govt.nz/release/aid-increases-nzaid-changes-focus>

¹¹³ ANU Enterprise, 2011, *Solomon Islands Government – RAMSI People's Survey 2010*, ANU Enterprise: Canberra, p. 122.

NZAID, and that NZAID was created to ensure direct reporting to the Minister. Publically, Minister McCully articulated these concerns in a variety of ways in speeches and the media.

“At the outset, let me deal with the proposition... that New Zealand's aid budget is some kind of sacred cow that should be placed above and beyond the stewardship of the government of the day...”¹¹⁴ and “...that being a semi-autonomous body entitled it to operate outside the normal state sector controls.”¹¹⁵

“We will also be removing NZAID's semi-autonomous status - largely a technical change that will quite rightly bring it into line with standard public service accountability mechanisms.”¹¹⁶

The Minister of Trade, Tim Groser, and Minister McCully informed Cabinet that: “[r]eintegration of NZAID is an essential step to aligning delivery with objectives and improving financial management and accountability.”¹¹⁷

Discussion below focuses on the two key issues relating to the change rationale of improving accountability and financial management: the 2007 audit reports and NZAID’s SAB structure.

5.4.1 Audit Reports

The Audit New Zealand and the OAG audits of NZAID in 2007 were cited often, in the National Party Foreign Affairs Policy, media reports and the 2009 Cabinet papers, as a rationale for the need to rescind NZAID’s SAB status. In the Cabinet papers of April 2009, Ministers McCully and Groser noted “... the Auditor General had also issued a series of concerns regarding inadequate financial management and confused accountability”.¹¹⁸ In the media Minister McCully was quoted as stating: “...in terms of the audit reports that have been brought down... I made up my own mind that I wasn't going to carry the can for those things.”¹¹⁹

¹¹⁴ McCully, M., Minister for Foreign Affairs, 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

¹¹⁵ Venter, N., 2009, *Why McCully is Reining in NZAID*, *Opinion*, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>

¹¹⁶ McCully, M., May 5 2009, *Aid Overhaul Essential to Ensure Our Dollars Reach Those in Need*, NZ Herald: Auckland, Accessed on 16 June 2011 at: http://www.nzherald.co.nz/nz-foreign-aid/news/article.cfm?c_id=1500904&objectid=10570326

¹¹⁷ Office of the Minister of Foreign Affairs and Trade, Office of the Minister of Trade, no date, *Pacific Island Forum Countries: NZ Policy on Aid, Trade and Economic Development*, NZ Government, p. 3.

¹¹⁸ *Ibid.*, p. 1.

¹¹⁹ Venter, N., 2009, *Why McCully is Reining in NZAID*, *Opinion*, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>

As outlined earlier, by the time the National-led Government was in power in late 2008, Audit NZ and the OAG had already commended NZAID for improvements made. Despite this, Minister McCully used the earlier poor rating as evidence that NZAID was not functioning, even though when he made decisions based on the poor rating, the current reality was that NZAID's systems were much improved and functioning satisfactorily.

Further to this, no up-to-date analysis was made of NZAID's systems, or of MFATs. The latter was important considering reintegration of NZAID into MFAT would see the aid programme using MFATs' systems. Some evidence indicates that MFAT's systems may not have been up to the job of providing a robust control environment for relationship-based funding arrangements involving millions of dollars. The 2005 Waring Ministerial Review found that "considerable frustration exists in overseas posts where administrative and logistical systems in place are effective for diplomacy but quite unsuitable for ODA delivery".¹²⁰

The audit reports of 2007 did not provide a reason for rescinding NZAID's SAB status.

5.4.2 Semi-Autonomy

The 2009 Cabinet Paper entitled 'New Zealand Agency for International Development: Institutional Arrangements'¹²¹ (SSC Paper) provided a background summary, rationale and proposal for its recommendation to rescind the 2001 Cabinet decision to create NZAID as a SAB 'attached' to MFAT. The SSC Paper was written predominantly from the perspective of the SSC but included comment from NZAID and Treasury. As stated in the SSC Paper, the SSC did not examine alternative institutional arrangements between NZAID and MFAT. This was because:

"the change proposed in this paper is at the level of MFAT's management and accountability arrangements rather than a structural change in the traditional sense of either establishing or disestablishing a separate body. Legally, NZAID is part of MFAT and its employees are MFAT employees".¹²²

In effect, the SSC Paper argues, rescinding the 2001 Cabinet decision to create NZAID as a SAB would mean that the MFAT Secretary would no longer have to comply with a Cabinet decision that complicated his legal accountabilities that made him directly and solely responsible for the aid programme as a component of MFAT. The Secretary would then make decisions about the specific structure of the NZ aid programme within MFAT, rather than requiring a further Cabinet decision. In the SSC's strict adherence to the public sector accountability framework, one can understand the decision not to provide further analysis. Yet, given that there were significant risks involved in rescinding the SAB status of NZAID (not least a return to the situation pre-2002), the SSC missed an important opportunity to

¹²⁰ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 56.

¹²¹ Office of the Minister of State Services, Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Institutional Settings*, NZ Government: Wellington.

¹²² *Ibid.*, p. 1.

provide the Cabinet with information that could have enabled full consideration of the issues.

The SSC Paper provides two key reasons for rescinding NZAID's SAB status: the risks in public sector accountability that arise from the SAB model and, related to this, the transaction costs of maintaining NZAID's autonomy (good aid policy) at the same time as cohesion with MFAT (alignment with non-aid foreign policy).

Transaction Costs of a SAB

The SSC Paper outlines several transaction costs in maintaining the relationship between NZAID as a SAB within MFAT. The SSC sees these transaction costs as related to the development of policies and processes "at each intersect between NZAID and the broader department"¹²³ and the need for ensuring alignment of aid and non-aid foreign policy advice. These transaction costs include: ongoing relationship management, particularly offshore; management challenges; challenges in divergent policy perspectives; human resources; information technology; audit review; and records services.

What the SSC failed to explore was that many of these transaction costs would exist regardless of the structure of NZAID. At the heart of these costs is the tension between the development needs and goals of New Zealand's developing country partners, and the non-aid foreign policy needs and goals of New Zealand. These two sets of needs and goals are not always mutually compatible. The recognition of this, and the past record of New Zealand's aid being used to advance New Zealand's non-aid foreign policy, was the key rationale for establishing NZAID as a SAB: the desire for separateness, while avoiding creating a new government department. Reintegration within MFAT may have led to savings in some transaction costs, such as in IT or records. However, transaction costs overall may well increase as staff focussing on development goals have to work harder in a structure and policy environment that prioritises New Zealand's "economic growth and success".¹²⁴

Implementing an effective aid programme, focussed on development goals, requires a different set of staff, skills and systems to that of non-aid foreign policy. At the same time, aid and non-aid foreign policy need to be aligned. These realities mean that regardless of structure there will always be challenges and associated costs to manage in trying to achieve aid and non-aid foreign policy goals. This is particularly so when aid policy is focussed on achieving the development goals of New Zealand aid-receiving partners.

Accountability Risks

Another of the main concerns of a SAB discussed in the SSC Paper was the accountability risks in relation to New Zealand's:

¹²³ Ibid., p. 6.

¹²⁴ Ministry of Foreign Affairs and Trade (MFAT), 2010, *Statement of Intent 2010-2013*, MFAT: Wellington, p. 4.

“public management arrangements as set out in the State Sector Act 1988 and the Public Finance Act 1989. The risks are manageable, but often rely heavily on the efforts, commitment and personalities of the senior executives involved”.¹²⁵

The SSC Paper recognised the features put in place by NZAID to manage these risks (described earlier in this Working Paper) but emphasised that “the success or otherwise of NZAID’s establishment and ongoing operations is highly dependent on the people and protocols in place”.¹²⁶ This is not the first time the SSC voiced its views that the SAB model depends on the people involved. When interviewed for the 2005 Waring Ministerial Review of NZAID, they stated, “[i]t tends to work if the right people make it work”.¹²⁷

The SSC points out that the public service accountability framework can be weakened if a Minister, chief executive of the department to which the SAB is attached, or the head of the SAB, function in a manner that does not conform with the accountability framework.¹²⁸ An example would be if there are expectations by a Minister or the SAB head (in this case the NZAID Executive Director) that they should be acting autonomously from the chief executive of the host department (in this case the MFAT Secretary), or if any behaviour, action or expectation compromises the chief executive’s (Secretary’s) ability to have oversight and influence for what they are legally accountable for. In a busy department with different personalities, assumptions are made and misunderstandings emerge, which can have significant impact on performance and accountability, particularly if the structure does not provide clarity.

The SSC’s strongest reason for rescinding NZAID’s SAB status lies in the need for simplicity and clarity in terms of government accountability. The SSC Paper states:

“It was noted in 1999 that a SAB should be created rarely and only in circumstances where the case for their establishment had been rigorously tested. With the passage of time and on-going experience with machinery of government arrangements generally, the State Services Commission is of the view that, unless there are strong reasons to establish legally separate agencies, the Crown should deliver executive government business through departments with accountability arrangements that are as direct, simple and transparent as possible. Structures within departments should support the legal responsibilities of the chief executive. Consequently, a ‘standard’

¹²⁵ Office of the Minister of State Services, Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Institutional Settings*, NZ Government: Wellington, p. 3.

¹²⁶ *Ibid.*, p. 6.

¹²⁷ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 44.

¹²⁸ Office of the Minister of State Services, Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Institutional Settings*, NZ Government: Wellington.

business unit accountable to the chief executive should normally be used for the department's functions."¹²⁹

When interviewed in 2005 for the Waring Ministerial Review, the Treasury agreed but with a caveat in the case of NZAID.

"In principle one should not design governance models that require good will. On balance having NZAID as a SAB is a compromise which has worked very well to shift the focus and develop a new culture."¹³⁰

What the SSC ignores, and the Treasury hints at, is that there was a compelling reason for establishing NZAID – to achieve a separate aid programme that had a clear focus on poverty elimination without contributing to a proliferation of government entities. There were clear protocols in place to manage the risks of NZAID as a SAB, which were assessed to be working well within MFAT and NZAID (as discussed earlier). Beyond describing the theoretical risks to public sector accountability, the SSC Paper to Cabinet in 2009 did not present any evidence that NZAID as a SAB had actually caused the realization of any of these risks. Yet the risks of rescinding NZAID's SAB status *were* highlighted, if not fully considered.

Divergent Views

In writing the SSC Paper, the SSC consulted with Treasury and NZAID/MFAT.

In an early Treasury document entitled 'Options for Reform of NZAID – Treasury's Initial Views' (18 February 2009, obtained under the OIA), a summary of Treasury's position described potential risks to removing the SAB status (as well as chancing the policy settings):

- "We see some likely risks of changing the objectives of NZODA:
 - Loss of clarity of purpose
 - Loss of transparency
 - More difficulty in evaluating effectiveness
- And, more importantly, risks of structural reform:
 - Loss of human resource capability
 - Transition costs.
- We would encourage the review to consider non-structural options that might achieve the Minister's objectives, while minimising these risks."¹³¹

Treasury's final comment in the SSC Paper was that overall it did "not see a strong case for the removal of the SAB"¹³² due to these potential risks (also articulated by NZAID) but they

¹²⁹ Ibid., p. 5.

¹³⁰ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 44.

¹³¹ New Zealand Treasury, 18 February 2009, *Options for Reform of NZAID – Treasury's Initial Views*, unpublished document obtained under the OIA.

were satisfied that the suggested risk mitigation strategies in the SSC Paper would minimise these risks. (Strategies such as maintaining a separate Vote, ensuring appropriate human resources, and keeping a focus on aid effectiveness - listed earlier in this Working Paper, under the description of the 2009 Cabinet decision).

Treasury also commented that the SSC Paper did not discuss to what extent removing the SAB status would achieve greater alignment in foreign policy. This was assumed to be a key rationale for rescinding the SAB status. Treasury's comment in the SSC Paper stated that: "[t]he Treasury does not think greater alignment should be a motivation for removing the SAB because, in its view, changing NZAID's objective and strategies could be more effective and have lower risks."¹³³ The Treasury thought that the decision could be deferred until the other planned changes to NZAID, such as mandate, objectives and foreign policy alignment, were further advanced.

NZAID's comment in the SSC Paper stated that the SAB status was achieving good delivery of New Zealand's ODA. NZAID pointed out that the accountability risks and transaction costs viewed as inherent in SABs were being well managed. They also highlighted that an arrangement that saw any less clarity in terms of policy and resourcing than what the SAB status provided would lead to an increase in transaction costs. NZAID's view was that the Government's desire for alignment between non-aid foreign policy and aid policy could be, and indeed was being, met. NZAID commented that any change "would need to ensure that the management and operational effectiveness, as well as the organisational health, of what is a large and complex operation with sizeable accountabilities, was not compromised".¹³⁴

NZAID as a SAB was working and offered a potentially useful model for the government structure 'toolkit'. While understandable given their mandate, the SSC seemed to take a predominantly theoretical perspective of the public sector accountability framework. Without a critical analysis of the safeguards that had been put in place by the 2001 Cabinet, based on previous experience of SABs, combined with exploration of why NZAID as a SAB had been successful, it is difficult to come to the conclusion that the SAB status of NZAID had to be rescinded purely on accountability grounds or to reduce transaction costs.

5.5 Summary

Thus far this Working Paper has explored four of the five reasons for change provided by the National Party-led government in 2009. These are: the National Party Foreign Affairs Policy, which outlined concerns regarding findings from the 2005 Waring Ministerial Review; a notion that economic growth was a better focus for a government aid agency than poverty elimination; a belief that NZAID was ineffective; and accountability and financial management concerns. This exploration shows that if the National Party-led government

¹³² Office of the Minister of State Services, Office of the Minister of Foreign Affairs, no date, *New Zealand Agency for International Development: Institutional Settings*, NZ Government: Wellington, p. 9.

¹³³ Ibid.

¹³⁴ Ibid., p. 8.

wanted to maintain a robust government aid programme, focussed on achieving the development goals of the people who receive New Zealand ODA, there was no justification for changing the New Zealand government aid programme's structure and policy mandate.

This leaves the fifth and remaining potential reason for the changes: the desire for greater alignment of aid policy and non-aid foreign policy. The next section examines this reason.

6. Doing Well While Doing Good: The Real Reason for Change?

The final potential rationale for the 2009 changes is achieving greater alignment between aid policy and non-aid foreign policy goals. To support the exploration of this reason, first the relationship between aid and non-aid foreign policy is briefly discussed.

6.1 Aid Policy as Foreign Policy

For any country engaging in foreign affairs, their foreign policy will focus on advancing that country's goals in the wider world. So New Zealand's foreign policy is about promoting New Zealand's interests. Exactly how to define New Zealand's interests is contentious, however, particularly in regard to aid policy as part of foreign policy. What are New Zealand's interests in the wider world and do they coincide with the development interests of aid-receiving partner countries?

Conceptually, there are two generalised ways of defining New Zealand's interests overseas, and therefore New Zealand's foreign policy goals. One way is to define New Zealand's interests in predominantly self-centred terms, often related to a more opportunistic, shorter-term focus (such as the three-year political cycle or securing a business contract for an annual bottom-line). For example, New Zealand's foreign policy goals could be to improve the New Zealand economy by influencing other countries to open-up to New Zealand businesses and their products. This would help New Zealand businesses to increase their profits and grow demand for their produce, leading to more employment opportunities in New Zealand and greater domestic prosperity.

The other generalised way to define New Zealand's interests overseas is to define them in broader, strategic terms, often involving longer timeframes, aiming to act as a constructive global citizen to build a peaceful, fair and prosperous world for all, including New Zealand. For example, the past efforts for New Zealand to gain a seat on the Human Rights Council fell into this category (halted with the change of government in 2008). New Zealand could have drawn on the country's good record on human rights issues and reputation for the use of soft power internationally, to contribute to strengthening international human rights law, and promoting and protecting human rights for all people across the world. Building a fairer and safer world is also good for New Zealand, over the long-term.

In practice, most of New Zealand's interests overseas will involve aspects of both of these generalised definitions. New Zealand's efforts to build peaceful and constructive relations with other States for common goals, such as greater regionalism in the Pacific or ensuring international institutions offer appropriate support to Pacific Island Countries, form part of New Zealand foreign policy. Simultaneously, New Zealand's foreign policy is about advancing

New Zealand's economic status and influence on the world stage. Aid policy is a component of foreign policy and is therefore always aligned to some degree. But the emphasis on different components of foreign policy and how they are weighted is key. This weight will differ according to a variety of factors, not least of which is how New Zealand's interests are perceived and foreign policy goals articulated. It is this weighting that is crucial for effective ODA policy and action.

NZAID was established to ensure that aid policy was weighted towards the development goals of aid-receiving partner countries with a clear aid goal. This ensured that aid and non-aid foreign policy goals were equally weighted. NZAID's SAB status within MFAT allowed the establishment of systems to support this weighting, at the same time as maintaining close interaction with MFAT, and alignment between aid and non-aid foreign policy. As discussed earlier in Section 2.4 this alignment was assessed positively throughout NZAID's lifespan and in 2009. In an internal document considering how to reintegrate NZAID into MFAT (obtained under the OIA), the mechanisms in place to support alignment were positively described: "...there is already overall a good level of interaction and coordination between NZAID and other parts of the Ministry, using a mixture of hard- and soft-wired approaches..."¹³⁵

6.2 The National Party-Led Government Wanted Greater Alignment

The fifth reason for the 2009 changes to the NZ government aid programme was a desire for much greater alignment between aid and non-aid foreign policy, to the point where equal weighting was no longer given to aid separate from non-aid policy. Minister McCully articulated this desire in a Press Release of May 2009: "...aid is a key component of the Foreign Affairs portfolio, and thus needs to align, as much as possible, with our wider foreign policy interests."¹³⁶ Minister McCully expressed the National Party-led government's perspectives more clearly elsewhere in the media and speeches.

"The idea that we, as a small nation with a limited budget, might have separate and potentially conflicting strategies for our diplomacy and aid functions is ridiculous".¹³⁷

"Most important in this respect will be our ability to align aid policy with trade policy within our region."¹³⁸

¹³⁵ Fry, R., 2009, *NZAID/Ministry Integration: Non-Corporate Issues*, Internal MFAT document, MFAT: Wellington, p. 14. Obtained under the OIA, p. 14.

¹³⁶ McCully, M., 1 May 2009, *Aid Increases as NZAID Changes Focus*, Press Release, Accessed on 29 April 2011 at: <http://www.beehive.govt.nz/release/aid-increases-nzaid-changes-focus>

¹³⁷ McCully, M., May 5 2009, *Aid Overhaul Essential to Ensure Our Dollars Reach Those in Need*, NZ Herald: Auckland, Accessed on 16 June 2011 at: http://www.nzherald.co.nz/nz-foreign-aid/news/article.cfm?c_id=1500904&objectid=10570326

¹³⁸ McCully, M., 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

This was not the first time that Minister McCully had expressed similar notions. A New Zealand Herald Editorial of 2009 outlines Minister McCully's past frustrations with New Zealand aid policy.

"In announcing the reviews, the minister steered clear of mentioning any ambition to link aid to foreign policy. But he made this view widely known during the National Party's years on the Opposition benches. One trigger was the 2006 decision by the Solomons, Tuvalu, Kiribati and Nauru to side with Japan and vote for the overturning of the moratorium on commercial whale hunting. Mr McCully said that was the result of a half-hearted, insufficiently focused New Zealand aid strategy in the Pacific. Then-Prime Minister Helen Clark was "naive" in refusing to link New Zealand's aid to the conduct of Pacific nations at the International Whaling Commission, he said."¹³⁹

While many would agree that New Zealand's position on whaling is the preferable one, the point here is Minister McCully's desire to use aid to get what New Zealand wants on the global stage. The thematic area could easily be about trade agreements. This quote indicates that Minister McCully sees the use of ODA to advance New Zealand's interests as pragmatic and sensible.

Having said this, in 2009 Minister McCully and the Cabinet took care to articulate that aid would not become a crude tool of non-aid foreign policy. In Minister McCully's 2009 speech to the Institute of International Affairs, where he announced the changes, he stated that the aim was to be able to make difficult decisions in a "manner that is broadly compatible with our identified national interests".¹⁴⁰ The 2009 Cabinet decisions safeguarded aspects of NZAID as a good government aid programme: decisions such as preserving the need for appropriate human resources, transparency and accountability in relation to ODA expenditure, and maintaining practices in line with the global aid effectiveness agenda. These Cabinet decisions show an attempt to ensure that ODA did not become a blunt tool of non-aid foreign policy, even as greater alignment between the two was sought.

Given the clarification that the idea was not to crudely use aid as a tool of non-aid foreign policy, but that more alignment was desired, it seems likely that a 'have your cake and eat it' approach was being sought after. This could be characterized as a 'doing well while doing good'¹⁴¹ approach: using aid to simultaneously benefit New Zealand's more self-centered interests while also assisting aid-receiving partners to achieve their development goals. In some ways, this assessment gives the National Party-led government the benefit of the doubt. A more critical perspective would be that the idea was to simply enable easy use of

¹³⁹ Editorial, 2009, *McCully Out of Order on Foreign Aid*, NZ Herald: Auckland, Accessed on 7 June 2011 at: http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10559807

¹⁴⁰ McCully, M., 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0>

¹⁴¹ This comes from a 1995 comment the then Foreign Affairs Minister, Don McKinnon, made: "New Zealand firms, suppliers, educational institutions and individual consultants are doing well out of our doing good" in MFAT, 1995, *Development Business*, MFAT: Wellington.

aid to advance New Zealand's economic success, cloaked in the rhetoric of trying to help developing countries. However, the National Party-led Government appear to want to see the Pacific thrive, indicated in the quotes above from the Cabinet papers (as well as a variety of other public speeches and media statements). Hence the conclusion of this Working Paper that what was desired was a 'doing well while doing good' approach. Minister McCully's comments above support this conclusion, as do four other factors:

- an examination of who influences the National Party and Minister McCully
- the New Zealand government aid programme's core policy focus
- a desire for more New Zealanders to be involved in NZ ODA delivery/implementation
- the current weighting of aid policy within foreign policy.

The following describes how each of these factors indicates a 'doing well while doing good' approach. This will lead into a discussion of the question: does this approach lead to effective and efficient aid

6.2.1 Who Influence the National Party and Minister McCully?

Traditionally the National Party has close ties with the business community and is often thought of as the party for business. This is reflected in the donations they receive from New Zealand businesses. For example, in the 2011 general election the National Party received eight disclosed donations above NZ\$30,000, mostly from corporates, such as the Gallagher Group who gave NZ\$86,005.¹⁴² (Gallagher began by innovating in agriculture – electric fences – and have morphed into areas such as security, working in 130 countries¹⁴³).

In the lead-up to the 2008 election, New Zealand businesses were calling for changes to the New Zealand government aid programme. A press release from the Wellington Regional Chamber of Commerce shows support for the changes. (At the time of this press release, Charles Finney was CEO.)

"The Wellington Regional Chamber of Commerce fully supports the change in aid policy announced today... Today's policy announcement is very much in line with the New Zealand Chambers of Commerce's policy manifesto prepared prior to the election," Mr Finney concluded."¹⁴⁴

The 2008 New Zealand Chambers of Commerce's policy manifesto represented 30 chambers of commerce and 24,000 New Zealand businesses.¹⁴⁵ The manifesto stated that "to achieve

¹⁴² Trevett, C., Jan 2012, *Wharf-Row Union Among Big Donors to Labour*, NZ Herald: Auckland, Accessed on 21 January 2012 at:

http://www.nzherald.co.nz/politics/news/article.cfm?c_id=280&objectid=10779910

¹⁴³ Gallagher website, Accessed on 12 January 2012 at: <http://www.gallagher.co/>

¹⁴⁴ Wellington Chamber of Commerce, May 2009, *Enabling Poverty Alleviation Through Commerce*, Press Release, Accessed on 4 January 2012 at: <http://www.allvoices.com/news/3108074/s/32163465-enabling-poverty-alleviation-through-commerce>, p. 1.

¹⁴⁵ New Zealand Chambers of Commerce: Business Vitality, 2008, *Election Manifesto 2008: Policies to Improve Productivity and Grow the Economy*, New Zealand Chambers of Commerce: Wellington,

sustainable growth, government policy must be actively pro- business”¹⁴⁶ and went on to describe how important it is for New Zealand as a small country that as many New Zealand companies as possible expand their international engagement. The manifesto encouraged the New Zealand government to “take steps to increase the role of the business community in trade negotiations”,¹⁴⁷ as well as ensuring that all heads of mission at New Zealand government overseas posts “have their support for New Zealand business judged as a major component of their annual performance assessments” and be replaced if they do not achieve “adequate focus in this area”.¹⁴⁸

Specifically in relation to New Zealand ODA, the Chamber asserted:

“With regard to New Zealand’s overseas development assistance programme, we believe there is scope for a formal partnership between business and NZAID... to be established... The appropriateness of the focus on poverty alleviation is also an important issue that needs review.”¹⁴⁹

The focus of the Chamber of Commerce manifesto was on how the New Zealand government can help New Zealand businesses and the New Zealand economy. The manifesto states:

“New Zealand companies can benefit by broadening their horizons and investing offshore. This also makes a positive contribution to our balance of payments and is crucial to enhancing our economic performance.
Decisions to expand offshore should obviously be business-led, but government’s role in removing barriers and smoothing the way is welcome.”¹⁵⁰

It is probable that the National Party was heavily influenced by these ideas, leading to changes in the New Zealand government aid programme that supported New Zealand businesses to do well, while also attempting to do good.

In relation to Minister McCully, he has close ties with former diplomats such as the current member of parliament John Hayes, and Charles Finney who is a lobbyist at Saunders Unsworth, Board member of NZ Trade and Enterprise and former CEO of Wellington

Accessed on 8 January 2012 at:

<http://www.commercesouth.com/sites/commercesouth.com/images/b-heard/pdf/08Maniifesto.pdf>

¹⁴⁶ Ibid., p. 1

¹⁴⁷ Ibid., p. 13

¹⁴⁸ Ibid., p. 17.

¹⁴⁹ Ibid.

¹⁵⁰ New Zealand Chambers of Commerce: Business Vitality, 2008, *Election Manifesto 2008: Policies to Improve Productivity and Grow the Economy*, New Zealand Chambers of Commerce: Wellington, Accessed on 8 January 2012 at:
<http://www.commercesouth.com/sites/commercesouth.com/images/b-heard/pdf/08Maniifesto.pdf>, p. 15.

Chamber of Commerce. (Finney was paid NZ\$27,000/month for an untendered MFAT contract under Minister McCully¹⁵¹). Both of these men specialized in international trade during their careers with MFAT and other New Zealand government entities. Currently Hayes is the Chair of the Foreign Affairs, Defence and Trade Select Committee and Assistant Minister for Foreign Affairs, responsible for Pacific Affairs and ODA.^{152,153} Hayes gives Minister McCully ongoing advice, as the NZ Herald journalist Audrey Young outlined in an article about Minister McCully's leaked emails in early 2012.¹⁵⁴ It is likely that these two men hold to the perspective that aid policy should be used to advance New Zealand's non-aid foreign policy.

6.2.2 Current New Zealand Aid Programme Policy Focus

An examination of policy provides evidence to support the conclusion that the National Party-led government are trying to do well while doing good. MFAT's International Development Policy gives detail to the Cabinet decision to place the core focus of the aid programme on economic development/growth, within a broader mandate of sustainable development. The Policy outlines New Zealand's comparative advantage¹⁵⁵ "in sectors such as fisheries, agriculture, renewable energy, tourism, education, law and justice, including policing".¹⁵⁶ These are all areas where New Zealand has considerable domestic economic interests, including industry groups in areas such as fisheries, agriculture, renewable energy, tourism and education.

An OIA request for the analysis of why these areas were found to be New Zealand's comparative advantage in the arena of international aid has not yet been answered, after 110 working days at the time this Working Paper was written. One could reasonably assume that if such a document existed it could easily be released within the legally required 20 working days. Also, one wonders why New Zealand's strengths in areas such as community development, provision of social and health services (particularly at the community level

¹⁵¹ Vance, A., 2011, *Contract with Consultant Revealed as Job Cuts Loom*, Dominion Post: Wellington, Accessed on 24 June 2011 at: <http://www.stuff.co.nz/dominion-post/news/politics/5185903/Contract-with-consultant-revealed-as-job-cuts-loom>

¹⁵² Hayes, J., National Party MP Profile, Accessed on 5 January 2012 at: <http://www.national.org.nz/MP.aspx?Id=61>

¹⁵³ Charles Finney biography for Saunders Unsworth website, Accessed on 11 December at: <http://www.sul.co.nz/page/charles-finny.aspx>; Harvey, S., Dec 2010, *I'm No Spy Says Kiwi Named as Top US Contact*, Dominion Post: Wellington, Accessed on 14 January 2011 at: <http://www.stuff.co.nz/dominion-post/news/4450581/I-m-no-spy-says-Kiwi-named-as-top-US-contact>

¹⁵⁴ Young, A., 22 Feb 2012, *MP Gives Insider Tips on Diplomatic Cuts*, NZ Herald: Auckland, Accessed on Friday 2 March at: http://www.nzherald.co.nz/audrey-young/news/article.cfm?a_id=164&objectid=10787167

¹⁵⁵ Comparative advantage is an economic term encapsulates the idea that a country should specialize in producing and exporting those goods and services that it can produce most efficiently compared to other goods and services. The use of the term here is not quite appropriate and denotes New Zealand's strengths more than comparative advantage, in a strict economic sense.

¹⁵⁶ MFAT, 2011, *International Development Policy Statement: Supporting Sustainable Development*, MFAT: Wellington, p. 12.

with the involvement of communities), women's rights, good governance and indigenous development weren't also considered New Zealand's 'comparative advantage'.

The inability of the current New Zealand government aid programme to provide evidence as to any systematic analysis underpinning the identification of areas of comparative advantage is made all the more odd by the fact that similar analysis *had* been undertaken in the past. The 'Organisational Development Framework', finalised at the end of 2008 (obtained under the OIA), was the culmination of many months of analysis and consultation. This Framework outlined New Zealand's existing "areas of excellence" in aid work, at the same time as recognising that it was important not to loose focus on partner priorities for where aid should be directed. Included in the list of NZAID's areas of excellence were areas such as agriculture, fisheries and education, but also experience in working cross-culturally, building robust relationships, working with Pacific people, promoting and protecting women's rights, good governance, health, environmental and resource management, land issues, conservation and biosecurity.¹⁵⁷ All of which had vanished from NZAID's comparative advantage by 2010.

Given the lack of any evidence of analysis surrounding the 2009 changes and to New Zealand's 'comparative advantage' in international aid, it seems probable that the decision about what were New Zealand's strengths in aid was purely political. Given the dominance of thematic areas where New Zealand has industry interests and strengths, it is likely that the decision of what was to be the New Zealand government aid programme's comparative advantage in aid was made on the basis that New Zealand could do well while doing good.

6.2.3 Greater Involvement by New Zealanders

The conclusion that the National Party-led government is aiming to do well while doing good is also supported by the desire to promote New Zealander's involvement in the aid programme. As Minister McCully explained in a 2011 speech:

"[a]nd for some time we have been trying to develop a model that will make it easy for business and professional people to volunteer their services for a finite period of time to provide leadership in aid projects in the region... I want to create more opportunities for New Zealanders to be part of our development work and to make it relatively easy for them to do so".¹⁵⁸

Minister McCully also spoke about this in another speech prior to the Pacific Island Forum Leaders' meeting in 2011. He said the involvement of New Zealanders would also be

¹⁵⁷ NZAID, Dec 2008, *Organisational Development Framework: Strengthening New Zealand's Contribution to International Development*, NZAID: Wellington, pp. 31-32. Obtained under the OIA.

¹⁵⁸ McCully, M., 2011, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-1>

promoted “through increasing use of our state sector partnership programme under which we fund New Zealand Government agencies to help build capacity in the region”.¹⁵⁹

If done well, with development goals in mind, aid in the form of volunteer sending programmes and that delivered through domestic New Zealand government departments can bring development benefits for New Zealand ODA-receiving partners. But greater involvement by New Zealanders in development activities can also enable relationships to be forged that will assist in advancing New Zealand’s business interests. Further to this, the approach of making it ‘quick and easy’ to volunteer in other countries speaks more to the needs of New Zealanders, rather than that of aid-receiving partners. This is indicative of a ‘doing well while doing good’ approach.

6.2.4 Current Weighting of Aid and Non-Aid Foreign Policy

An examination of what is currently said and practiced within MFAT also supports a conclusion that aid policy is now about ‘doing well while doing good’: that the weight of goals is tipped towards New Zealand’s self-centred non-aid foreign policy goals. The MFAT 2010 Statement of Intent states that the core business of the Ministry of Foreign Affairs and Trade, “whether in trade, multilateral diplomacy or development, has a clear objective – the economic growth and success of our country”.¹⁶⁰ The MFAT Secretary, John Allen, reinforced this in April 2011 during question time following his briefing of MFAT staff on the new MFAT vision and values.

Q[uestion]: What about tensions between ODA and diplomacy? For example, giving New Zealand an edge internationally in our trade position but hindering developing countries’ ability to manage their own resources.

A[nswer]: I agree that there are trade-offs in much of what we are doing. In making those trade-offs, our primary focus needs to be New Zealand and New Zealand’s interests.”¹⁶¹

The response to the question shows that at the end of the day, what matters most is New Zealand’s interests, even if it is potentially at the expense of developing countries’ development goals.

The 2011 -2014 Statement of Intent highlights the emphasis MFAT gives to New Zealand’s economic growth. In his Foreword for the MFAT Statement of Intent 2011 to 2014, Minister McCully starts by stating:

¹⁵⁹ McCully, M., Sept. 2011, *Lowy Institute: Keynote Address*, (a one-day forum hosted before the Pacific Island Leaders’ Meeting), Accessed on 2 January 2012 at: <http://www.beehive.govt.nz/speech/lowy-institute-keynote-address>

¹⁶⁰ Ministry of Foreign Affairs and Trade (MFAT), 2010, *Statement of Intent 2010-2013*, MFAT: Wellington, p. 4.

¹⁶¹ Allen, J., 2011, *Speech Notes of Briefing to MFAT Staff on new MFAT Vision, Mission and Values*, MFAT: Wellington.

“[t]he Government is focused on lifting New Zealand’s economic performance. As a small and relatively remote trading nation, this will require creative and flexible engagement with other countries to ensure ongoing influence in a global environment that continues to change at a fast pace.”¹⁶²

Similarly, the Secretary, John Allen opens his introduction to the Statement of Intent with:

“The Ministry of Foreign Affairs and Trade is focused on creating an edge for New Zealand internationally. This means establishing the conditions for New Zealand to thrive and make its mark by being in the right places at the right time to actively drive growth opportunities for New Zealand.”¹⁶³

Of course New Zealand aid policy goals are discussed in the document. The “management” of New Zealand ODA is part of the purpose of MFAT¹⁶⁴ and there is a clear commitment to achieving sustainable economic development and “maintaining the highest standards of professional excellence in international development”.¹⁶⁵ There is an articulation of the understanding that assisting other countries with their development goals will contribute to New Zealand’s security and opportunities:

“Our ability to turn international connections into increased exports and economic growth, relies on the existence of a stable and secure international environment. Contributing to global security efforts, and to the development of the world’s poorer nations, is therefore an indispensable support to our more direct work in improving the competitiveness of New Zealand exporters. Our willingness to carry our share of the burden in the international arena also supports the relationships we have with others.”¹⁶⁶

But the emphasis on New Zealand’s economy and success overwhelm these references to development goals. What this Working Paper argues is that there is not equal weight on the development needs of those people that receive New Zealand ODA, that they are in fact subsidiary to New Zealand’s self-centred, predominantly economic interests. The clearest articulation of this unequal weighting is provided in the diagramme below, from the Statement of Intent 2011 to 2014.¹⁶⁷

¹⁶² MFAT, 2011, *Statement of Intent 2011-2014*, MFAT: Wellington, p. 5.

¹⁶³ Ibid., p. 8.

¹⁶⁴ Ibid., p. 11.

¹⁶⁵ Ibid.

¹⁶⁶ MFAT, 2011, *Statement of Intent 2011-2014*, MFAT: Wellington, p. 13.

¹⁶⁷ Ibid., p. 14.

HOW THE MINISTRY'S OUTCOMES RELATE TO EACH OTHER AND TO GOVERNMENT PRIORITIES



This diagramme graphically depicts sustainable development as a contribution to New Zealand's economic growth, and to safeguarding New Zealand's security and economic interests. If New Zealand aid policy was equally weighted towards *both* aid and non-aid foreign policy, then such a diagramme would place the aid policy development goals at the top, alongside non-aid foreign policy goals. This diagramme indicates that New Zealand aid policy is a means to achieving New Zealand's self-centered goals, rather than achieving developing country development goals.

MFAT corporate documents and statements by its leaders show that the weighting of aid and non-aid foreign policy are tipped towards New Zealand's economic growth and security. This is filtering down to the level of aid programme implementation. A long-standing example is the on-going use of NZ ODA to subsidize Air New Zealand flights to certain Pacific Island Countries, in the particular without an open tender process that would be able to

ensure value for money in ODA expenditure.¹⁶⁸ Another example is the aim of the aid programme's Young Business Leaders Initiative in Asia "to support the establishment of lasting and progressive trade and business relationships with New Zealand that advance the future of ASEAN-New Zealand relations".¹⁶⁹ This is to be done over three years by bringing 50 young business leaders to New Zealand for ten days each, at a total cost of \$1.3 million. The development outcomes of this are questionable but the activity will grow future Asian business leaders with New Zealand business ties, and build New Zealand businesses' relationships in Asia.

Apart from examples like this, it remains clear that there is a National Party-led government desire to achieve sustainable economic development/growth goals of those who receive New Zealand ODA. This is fitting with an attempt to do well while doing good. Yet, the weighting towards New Zealand's self-interested goals does not bode well for New Zealand ODA achieving the development goals of New Zealand aid-receiving partners, particularly if examples like the above are becoming the norm. This raises the question: is it possible to do well while doing good?

6.3 Does Doing Well While Doing Good Lead to Effective Aid?

Both New Zealand history and evidence from elsewhere show that New Zealand is unlikely to successfully implement a 'do well while doing good' approach to aid policy. New Zealand will likely do well but the good New Zealand ODA does will be less than what could have been achieved with the ability to give equal priority to development goals as to non-aid foreign policy goals. New Zealand may even do harm.

6.3.1 A Review of Recent New Zealand Aid History

Doing well while doing good approaches are difficult to put into practice. A review of history shows how this approach tends to weight towards the 'doing well' at the expense of the 'doing good'. In the pre-NZAID era, DEV (the division of MFAT responsible for managing ODA) had a policy framework, 'Investing in a Common Future', which outlined development goals for New Zealand ODA. Yet this did not mean aid was always given with the majority of weight on the development goals of developing countries. The 2001 Towards Excellence Review described the perspectives of staff within DEV and MFAT.

"During discussions, senior staff and management within both MFAT and DEV did not generally identify development principles or poverty reduction/elimination as the principal purpose of ODA. Instead, they tended to describe the role or purpose of ODA in terms of foreign policy, diplomacy, trade and commercial interests. Views expressed of the role of ODA included: to build political capital; a means to

¹⁶⁸ Radio New Zealand International, 28 Feb 2012, *Millions of NZ Aid Dollars to the Pacific Being Spent on Air NZ Flights*, RNZI: Wellington, Accessed on 1 March 2012 at: <http://www.rnzi.com/pages/news.php?op=read&id=66492>

¹⁶⁹ New Zealand Aid Programme, *Where We Work, Asia*, Accessed on 22 January 2012 at: <http://www.aid.govt.nz/where-we-work/asia/asean-regional/young-business-leaders-initiative>

achievement of New Zealand's national/self interests; for constituency building purposes; to promote commercial and trade opportunities.”¹⁷⁰

As one senior manager said, “the role of ODA is to serve foreign policy purposes... The central issue is self-interest. It's not about altruism... It's about New Zealand's interests...”¹⁷¹

These approaches to aid policy saw NZ\$500,000 of ODA allocated to assist the Samoan Department of Lands, Surveys and Environment to relocate in order to enable a new New Zealand High Commission to be built. This was listed as spending on good governance and public sector strengthening.¹⁷² In terms of spending in social services, only nine per cent of the two thirds of bilateral ODA towards social infrastructure and services was spent on basic social services. The remainder was spent on secondary and tertiary education, particularly in New Zealand.¹⁷³ Further, the high expenditure on scholarships was politicised by decisions based on how best to promote New Zealand's relationships for trade or political reasons in recipient countries. This approach was not appreciated by aid-receiving partner countries, as highlighted in the 2001 Towards Excellence Review: “[d]uring roundtable discussions with Pacific Island country agency partners, a call by one for ‘very specific criteria to minimise political interference, to maximise equity issues and to keep personalities out of it’ drew strong support”.¹⁷⁴

An excerpt from the 2005 Waring Ministerial Report describes the tensions between aid and non-aid foreign policy. These tensions were heightened during NZAID's lifespan because NZAID was given the authority and mandate to act as an internal advocate for the development needs of partner countries. This no longer exists. This long excerpt is included here because, although written when NZAID existed, it shows the difficulty current aid staff may have to preserve equal weight on development goals within a Ministry focussed also on New Zealand's more self-centred goals.

“The most significant difference in policy is around how firmly to pursue New Zealand's immediate commercial and trade interests in the WTO accession negotiations with developing countries. NZAID has at times (e.g. over Vietnam's accession) tried to restrain MFAT divisions from advancing and defending New Zealand's commercial interests in these negotiations.

¹⁷⁰ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ's Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, p. 39.

¹⁷¹ Ibid., p. 40.

¹⁷² Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ's Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington.

¹⁷³ OECD DAC, 2000, *New Zealand Peer Review*, OECD: Paris, p. 13.

¹⁷⁴ Grossman and Lees, 2001, *Towards Excellence in Aid Delivery: A review of NZ's Official Development Assistance Programme*, Report of the Ministerial Review Team, NZ Government: Wellington, pp. 49-50.

Turning to **FTA negotiations**, NZ policies which would provide balanced outcomes, but which require contributions from NZODA, are difficult to achieve. A classic option would be the provision of technical assistance to a developing country's dairy industry, in the context of seeking an FTA with improved access for New Zealand dairy products to the developing country concerned. As MFAT has no development funds under its own control, such assistance is only available if NZAID gives it priority, which so far it has not. With MFAT embarked on a long series of FTA negotiations, these tensions are likely to become more visible.

NZAID involves the New Zealand **private sector** in NZODA activities, e.g. through consultancies. MFAT considers, nevertheless, that the extent and quality of such engagement needs further development and resolution. Specifically, MFAT has suggested that NZAID should engage in regular and ongoing consultations with the NZ private sector, and the recipient country, to see where NZODA funds could be spent in such a way as to encourage enhanced NZ investment/business interest, with ultimate benefit both to the recipient country and to NZ business. NZAID, however, sees this as inappropriate and often unhelpful. It can distort private sector decisions, leading to unprofitable and hence unsustainable businesses, and the benefits can be captured by a small number of private interests. The issue is unresolved."¹⁷⁵

More recently, the 2010 OECD DAC Peer Review reinforced these potential challenges for New Zealand aid policy with its new economic development/growth focus and moves to increase the alignment of aid policy with broader foreign policy goals.

"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... 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 require efficient consultation and co-ordination mechanisms within government."¹⁷⁶

The seemingly pragmatic approach to achieving both sets of goals is actually quite difficult.

6.3.2 International Evidence

The most recent, comprehensive study on aid, Riddell's 'Does Foreign Aid Really Work' (2007) has brought together the research findings in a broad range of areas (the book is 500 pages long) and includes a section on the giving of aid to non-development goals (ie: a 'do well' approaches). Research finds that a doing well while doing good approach to ODA "ha[s] reduced and continue[s] to reduce aid's potential development and welfare effects".¹⁷⁷ One

¹⁷⁵ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 62-63.

¹⁷⁶ OECD DAC, 2010, *New Zealand DAC Peer Review 2010*, OECD: Paris, p. 24

¹⁷⁷ Riddell, R., 2007, *Does Foreign Aid Really Work?*, Oxford University Press: Oxford, p. 106.

study explored the geographical allocation of aid based on non-developmental aims. It found that if aid was given on an assessment of development need, the number of people lifted out of poverty would be increased from 30 million to 80 million people a year (Collier and Dollar, 2002).¹⁷⁸

As discussed earlier, Minister McCully wishes to involve New Zealanders more in development work, by making it easy for New Zealanders to volunteer their time for short periods, and provide leadership to development activities.¹⁷⁹ There is no doubt that New Zealanders have technical skills and knowledge that could assist people in poorer countries to expand their individual competencies and collective capabilities - what gets called 'capacity development' or 'capacity building'. But this approach to capacity building has limited sustainable development impacts.

Global evidence in this area shows there is much more to capacity building than sending people with technical skills for short periods of time. This approach is known as 'technical assistance' or 'technical cooperation' and it is still common today. What donors have learned throughout years of this approach is that capacity building efforts are more likely to work when those offering their knowledge and skills, in this case New Zealanders, engage for longer periods of time, and are committed to understanding country contexts and working to achieve the goals of partners.¹⁸⁰

For development outcomes, there may also be more appropriate people to be doing the work, such as people from other Pacific Island Countries or even people from the country in question. As an international partner said of NZAID during a review in 2005:

"With the new agency there is no New Zealand practice of positions of technical competence requiring contracting New Zealanders. Most programme staff are from the Pacific. This is noticed by everyone, NZAID walks the talk, unlike other donors. (International partner)"¹⁸¹

The implicit goals within Minister McCully's desire to involve New Zealanders more allude to approaches that are tailored to the needs of New Zealand volunteers: short term and easy. This speaks more to the potential to build relationships overseas and the personal experience of New Zealanders, than to achieving the development aspirations of New Zealand ODA-receiving partners.

¹⁷⁸ Ibid., p. 105.

¹⁷⁹ McCully, M., 2011, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-1>

¹⁸⁰ Riddell, R., 2007, *Does Foreign Aid Really Work?*, Oxford University Press: Oxford, p. 206.

¹⁸¹ Waring, M., 2005, *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations Establishing NZAID*, Wellington, p. 21.

6.4 Intentions = Means = Ends

Most human endeavours have mixed intentions. But the weighting of these intentions is crucial in shaping the means through which they are enacted, and therefore the ends achieved. The intentions of the National Party-led government appear to be to advance New Zealand's economy and success, at the same time as helping developing countries achieve economic development/growth. One could assess the weight of these intentions by examining the means employed.

The way the New Zealand government aid programme's 'comparative advantage' has been defined and the drive to involve New Zealanders more in delivering aid, indicate that the weight falls towards the intentions of assisting New Zealand first. Contributing further to this is information in the MFAT Statement of Intent, highlighting aid policy as a means to achieve New Zealand's economic growth, and the statement by the Chief Executive of MFAT that when trade-offs are considered, it will be New Zealand's economic growth and success that will be put first.

As the evidence indicates, when aid is given for non-development reasons, aid is less effective. At best, this means that New Zealand ODA does not help those who need it most – the poorest people in poor countries – but perhaps helps the elite or the middle class. At worst, it means that taxpayer's money is wasted or that New Zealand actually does harm to the very people it is trying to help.

7. No Review, No Reason: So What Now?

This Working Paper has shown that the 2009 changes to the New Zealand aid programme were not necessary. The reasons provided for the changes were based on out-of-date information, incorrect information or ignorance of international aid and development thinking. A review would have provided the analysis required for these significant government agency changes, and indicated if there was a need for such change. But no review occurred.

In reality the National Party-led government made structural and policy changes to the New Zealand government aid programme to align aid policy with broader foreign policy goals in a way that attempts to advance New Zealand's non-aid foreign policy goals at the same time as achieving aid policy goals (ie: the development aspirations of New Zealand aid-receiving partners) – a 'doing well while doing good' approach to aid policy. Attempting to implement this approach leaves New Zealand with an inefficient and less effective aid programme. When goals are blurred and resources scarce, inevitably decisions have to be made that mean that one set of goals is prioritised over the other. Statements and actions made thus far indicate that the balance will usually fall to benefit New Zealand's self-centred goals over the development goals of aid-receiving partners.

What is necessary now is what didn't happen in 2009, and perhaps to some extent in 2001: inclusive dialogue and discussion about how New Zealand defines its interests overseas, how aid and non-aid foreign policy sit together, and how New Zealand can build the most

effective and efficient government aid programme. The New Zealand government aid programme is part of a wider community of New Zealand individuals and organisations who engage in international aid and development issues: volunteers, professionals, academics, non-government organisations and their members/supporters, businesses, philanthropies and the media. It is as much this community's collective responsibility to stimulate and engage in this dialogue, as it is for the individuals within government (in the broader sense of the word).

As a country New Zealand needs to find a way forward that avoids pendulous swings every time a new government comes to power. Other countries have been able to achieve some basic cross-party agreement regarding aid policy, such as Australia. Or perhaps New Zealand could consider passing an Act of Parliament, such as the United Kingdom. Given the ability of other countries to come to some solution that is palatable across the political spectrum, surely New Zealand can forge some cross-party foundations upon which to build a sustainable aid programme. This will not only save wasting resources on government flip-flops, but it will also bode well for the impact of New Zealand aid policy in contributing to a peaceful, prosperous and fairer world for all of humanity.

Appendix One: Defining Key Concepts

International aid and development deals with what has been described as “...perhaps the most complex and ill defined questions facing human kind”.¹⁸² A multitude of diverse ideas, actors and institutions are involved in this complexity, and there is much debate about what development means and what works to promote it. To assist the reader the key concepts as they are referred to in this Working Paper are described below.

Aid and Official Development Assistance (ODA)

Aid is the term that is generally used when referring to money, and sometimes donations in-kind, that is directed towards helping people who are poor or who have experienced a disaster or conflict. This aid can be given in a variety of ways, including: by a government to a government; by a member of the public to a Non-Government Organisation (NGO); by a government to an NGO; by a business to an NGO; by an NGO to a community; by a philanthropy to an NGO; or by a government to a multilateral institution, such as the United Nations Development Programme.

The term Official Development Assistance (ODA) is used for official government aid flows. The Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) defines ODA as: “those flows to developing countries provided by official agencies, including local and regional governments, which: are provided with the promotion of economic development and welfare as the main objective, and are at concessional financial terms, with loans having a grant element of at least 25%”.¹⁸³

When discussing New Zealand ODA and the entity that manages these funds this Working Paper generally uses the phrase ‘the New Zealand government aid programme’. Sometimes ‘New Zealand ODA’ is also used. When the term ‘aid’ is used it refers to the broad set of actors that are engaged in the delivery of funds, or donations in-kind, that aim to improve the lives of poor people and expand their opportunities, or assist those experiencing disaster or conflict.

Development and Aid

This Working Paper defines development as: a long-term process of societal change, with the aim of improving the quality of life and expanding opportunities for all people, particularly the poorest. The basic unit within which development occurs remains the sovereign nation-state, despite growing forces that erode and transcend state boundaries. While all states continue to develop (because all states engage in an on-going process of societal change), in the area of global international relations states are often labelled as ‘developed’ and ‘developing’. A state that is ‘developed’ has reached a certain level of

¹⁸² Ellerman, cited in Roper and Pettit, 2002, cited in Ramalingam, B. et al., 2008 (2nd Ed), *Exploring the Science of Complexity: Ideas and Implications for Development and Humanitarian Efforts*, Working Paper 285, Overseas Development Institute: London, p. 12.

¹⁸³ Chang, H., Fell, A., et al., 1999, *A Comparison of Management Systems for Development Cooperation in OECD-DAC Members*, OECD: France, p. 10.

income, opportunities and quality of life for its people. States that are ‘developing’ are striving to achieve an improved level of national income, opportunities and quality of life for their people.

Development is influenced by many factors. These include: the movement of people within and between countries, inter-connections with globalised businesses and markets, international relations between States, national and international action on challenges such as climate change, the ability of State governments and institutions to act to improve the lives of their citizens, a country’s geography, disasters and conflict, and institutions such as cultural norms. States have varying degrees of power to control these factors, depending on their resources and capabilities.

International aid is one component of this complex world within which States strive for development. Aid can be used to assist and support governments and people to improve the living conditions of the poorest people in their country. This is why aid is sometimes referred to as ‘development assistance’ – funds to help a country achieve development.

Aid is not a panacea. It cannot fix all things. Aid policy is one area of policy that developed country governments can take action in to build a secure, fair and prosperous world for all people. There are other developed country policy areas that impact on development in other countries. These include migration, environment, climate change, debt relief, trade and security (in its wider sense, including customs, biosecurity etc.).

Policy Coherence

A government aid agency can act to ensure that all government policies promote development in developing countries. This means ensuring that the other areas of government policy outlined above (such as migration or border security) are shaped to at least be consistent with a government’s aid policies, assisting development in developing countries. In the world of ODA, this area of work is called ‘policy coherence’. Policy coherence is an important component of the New Zealand government aid programme’s work, one that raises significant challenges to a ‘whole of government’ approach to aid. Policy coherence emerges in this Working Paper once or twice, but the subject area is too large to address in a meaningful way in this Working Paper. Policy coherence is different from aid and non-aid foreign policy alignment, which is discussed in this Working Paper.

Aid Policy and Non-Aid Foreign Policy: Alignment

Foreign policy can be defined as “the sum of official external relations conducted by an independent actor (usually a state) in international relations”.¹⁸⁴ Foreign affairs involve the peaceful conduct of relations between States and other entities, predominantly other States. These relations can involve issues as broad as trade, human rights, global institutions and aid.

Aid policy is a sub-set of foreign policy. In order to be clear about this, this Working Paper uses the terms ‘aid policy’ and ‘non-aid foreign policy.’ Some of the quotes used in this

¹⁸⁴ Hill, C., 2002, *The Changing Politics of Foreign Policy*, Palgrave Macmillan: New York, p. 3.

Working Paper use the generic term ‘foreign policy’. In general, it is clear from the quote as to whether the author is referring to non-aid foreign policy or foreign policy that includes aid policy.

For the purposes of this Working Paper policy alignment is defined as achieving coordination between New Zealand aid policy and non-aid foreign policy. This coordination exists along a continuum from one end where aid and non-aid foreign policy are totally coordinated to achieve the same goal, to the other end where aid and non-aid foreign policy are connected but not necessarily coordinated to achieve the same goal. The degree of alignment achieved is political, related to how New Zealand articulates its aid policy goals and its non-aid foreign policy goals, and its general interests overseas. Where the most desirable place is to be situated on the continuum is contingent on how these goals and interests are articulated.

Economic Development and Economic Growth

Economic development and economic growth are often treated as one and the same. This is because economic development can be measured by economic growth, which is the change in Gross Domestic Product (GDP) over time. When asked in parliament what a change in focus to ‘sustainable economic development’ would mean, Minister McCully stated that “[s]ustainable economic development will require NZAID to focus its programmes more on economic growth...”¹⁸⁵ He made similar statements elsewhere, such as:

“That mandate [for the New Zealand government aid programme] will now require a clear focus on sustainable economic growth...”¹⁸⁶

This statement is slightly different to the actual Cabinet decision of May 2009, which agreed that the NZ government aid programme mandate would be: “to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world”.¹⁸⁷ But within this overarching mandate the core focus was agreed as “sustainable economic development”.¹⁸⁸ MFAT’s 2011

¹⁸⁵ New Zealand Parliament, 25 February 2009, *Written Parliamentary Questions: Response from Minister McCully to Question 651 from MP, Phil Twyford*, Accessed on 6 January 2012 at: <http://www.parliament.nz/CmsSystem/Templates/Documents/DetailedListing.aspx?NRNODEGUID=%7b93D84A6A-18BB-479A-B7D2-177B413E667A%7d&ps=0&search=-1826267166>

¹⁸⁶ McCully, M., 2009, *Speech to the New Zealand Institute of International Affairs*, Accessed on 7 June 2011 at: <http://www.beehive.govt.nz/speech/speech-new-zealand-institute-international-affairs-0> Also in: Ventner, N., 2009, *Why McCully is Reining in NZAID, Opinion*, Dominion Post: Wellington, Accessed on 16 June 2011 at: <http://www.stuff.co.nz/dominion-post/archive/columns-commentary/2395317/Why-McCully-is-reining-in-NZAid>; McCully, M., June 2009, *Speech to the Pacific Wave Conference*, Accessed 29 May 2011 at: <http://www.beehive.govt.nz/speech/speech-pacific-wave-conference>; McCully, M., May 5 2009, *Aid Overhaul Essential to Ensure Our Dollars Reach Those in Need*, NZ Herald: Auckland, Accessed on 16 June 2011 at: http://www.nzherald.co.nz/nz-foreign-aid/news/article.cfm?c_id=1500904&objectid=10570326

¹⁸⁷ MFAT, 2011, *International Development Policy Statement: Supporting Sustainable Development*, MFAT: Wellington, p. 2.

¹⁸⁸ *Ibid.*, p. 3.

International Development Policy Statement emphasizes this: from education to health to security, non-economic aspects of human existence are justified in terms of their contribution to productivity and economic development or growth.¹⁸⁹ At least in terms of its stated mandate and policy documents, the NZ government aid programme is now predominantly about promoting economic development/growth in aid-receiving, partner countries. Because of this, this Working Paper refers to economic development/growth as the New Zealand government aid programme's dominant focus, rather than the higher-level statement regarding sustainable development.

¹⁸⁹ Ibid., p. 7.