The Efficacy of New Zealand Aid: An Analysis and Critique of New Zealand’s Aid Programme

by

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A thesis submitted in conformity with the requirements for the degree of Master of Laws

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2011

Abstract

New Zealand’s aid programme reflects many of the controversies surrounding foreign aid more generally. From issues relating to the influence of political considerations and the administration and evaluation of aid agencies, to the fragmentation of the global aid system and the volatility of aid, these issues compromise the efficacy of aid provided to developing countries. This paper analyses the evolution of New Zealand’s aid programme and critiques its current policy and administrative structure in the context of these current controversies, in order to highlight the ways in which New Zealand’s aid can be delivered more effectively. The paper concludes, among other things, that New Zealand’s change in focus to economic development, its close alignment of aid policy with foreign policy and the re-absorption of its semi-autonomous aid agency NZAID back into its Ministry of Foreign Affairs and Trade risks compromising the effectiveness of the aid that New Zealand provides.
For Dad
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1 Introduction

The post-war New Zealand aid programme reflects, in microcosm, many of the controversies surrounding foreign aid more generally. From issues relating to the domestic political and fiscal considerations of donor countries and the design, administration and evaluation of aid agencies, to the fragmentation of the global aid system, the proliferation of aid programmes and the volatility of aid, these issues have a detrimental effect on the efficacy of aid provided to the developing world. In this paper, I analyse the evolution of New Zealand’s aid programme, and critique its current policy and administrative structure, in the context of these contemporary controversies. In doing so, I aim to identify the deficiencies of the programme in the hope that this will help to highlight to the public, politicians and policymakers ways in which New Zealand’s aid can be delivered more effectively for the benefit of all.¹

New Zealand’s aid programme has continued to expand from the time it first began to provide foreign aid to its colonial dependencies in the Pacific in the 1920s. When the National Government came to power in 2008, New Zealand had an aid budget of nearly half a billion dollars,² which was administered by the semi-autonomous New Zealand Agency for International Development (NZAID). NZAID’s central objective was poverty elimination and much of its aid programme was focused on the Pacific region. While in opposition, the National Party had made an explicit promise that it would, when in government, review the effectiveness and efficiency of New Zealand’s aid delivery. Murray McCully, who was assigned the Foreign Affairs portfolio and thus responsibility for New Zealand’s aid programme, was particularly scathing of the programme. When announcing two (internal) reviews into NZAID in early 2009,

¹ While predominantly relying on secondary sources (such as books, articles, and government and NGO reports, documents and websites), I have also interviewed a number of former and current senior public servants, and a former Labour minister, who have all had experience working for or closely alongside New Zealand’s aid programme over the last couple of decades. In this way, I was able to gain some valuable firsthand insight into New Zealand’s foreign aid policy and programme.

he claimed that aid payments had become “a handout rather than a hand up”\(^3\) and criticised the agency’s objective of poverty alleviation as too nebulous, stating “[y]ou could ride around in a helicopter pushing hundred-dollar notes out the door and call that poverty elimination”.\(^4\)

Moreover, he argued that in the Pacific, New Zealand’s aid programmes have not succeeded:

> While we can point to individual achievements and areas of improvement, the overall picture in our Pacific neighbourhood is unacceptable. Our aid dollars have done little to build sustainable economies providing employment prospects and the promise of a brighter future. De-population has continued at an alarming rate in parts of Polynesia. Our billion-dollar export trade into the Pacific has been reciprocated by imports from Pacific nations so miserly that they should be a source of national embarrassment. Air and shipping services – the arteries for trade and tourism – are under threat and in decline. Substantial sums of aid monies are fed into unproductive bureaucracies – a classic example of mistaking activity for achievement.\(^5\)

Finally, with regard to NZAID and its semi-autonomous body (SAB) structure, McCully claimed that the structure was entirely a “creature of politics” (a coalition deal between Labour and the Alliance Party in 2002), that too much of the aid budget was swallowed by NZAID overheads, and that the agency lacked accountability to the taxpayer.\(^6\) Consequently, among other reforms, the policy mandate of New Zealand’s aid programme was changed from poverty elimination to sustainable economic development and NZAID was subsumed back into the Ministry of Foreign Affairs and Trade (MFAT), where it had previously been located until 2002.

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\(^3\) Ibid; See also Martin Johnston and Patrick Gower, “Govt wants more say on $480m foreign aid” New Zealand Herald (3 March 2009), online: New Zealand Herald <http://www.nzherald.co.nz> and “McCully out of order on foreign aid,” Editorial, New Zealand Herald (3 March 2009), online: New Zealand Herald <http://www.nzherald.co.nz> [NZH Editorial].

\(^4\) Ibid. In contrast, Australia has very recently changed its aid policy to make it explicit that poverty elimination is the overarching objective. Prior to 6 July 2011, its objective was “to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia’s national interest.” (see AusAID, AusAID Annual Report 2009/10 (Canberra: Australian Agency for International Development, 2010) at 11[AusAID, Annual Report 2009/10]). Following an independent review of its aid programme, the fundamental purpose is now “to help people overcome poverty.” (see AusAID, An Effective Aid Program for Australia: Making a real difference – Delivering real results (released 6 July 2011), online: AusAID <http://www.ausaid.gov.au/publications> at 1, 4 and 17 [AusAID, An Effective Aid Program for Australia]).

\(^5\) McCully, *ibid*.

\(^6\) Ibid.
The National Government’s discontent with New Zealand’s aid programme is illustrative of wider discontentment regarding the efficacy and administration of foreign aid that has long plagued global aid activities. Developed countries have spent $2.3 trillion on foreign aid over the last five decades. However, a number of empirical studies have shown only tenuous links between aid and development, or have produced ambiguous or contingent conclusions at a macro level. Studies have also shown that only a few programmes seem to have outlasted donor involvement at a micro level. Extreme poverty continues to exist in many developing countries and most countries are off-schedule in meeting most of the Millennium Development Goals (MDGs). As a result, many people have called into question aid’s ability to have a positive impact on development, however defined. Recently, the most vociferous (and often vitriolic) debate about the efficacy of foreign aid has been among economists Jeffery Sachs, who argues for a trebling of foreign aid over the next two decades to help developing countries escape the poverty trap he believes they are caught in, William Easterly, who argues for piecemeal or incremental initiatives that are subject to rigorous independent evaluations, thus bypassing

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11 There are many views on what development means, and therefore what ends aid should serve, and it is well beyond the scope of this paper to get into this issue in any detail. However, a good summary can be found in Michael J. Trebilcock and Mariana M. Prado, What Makes Poor Countries Poor? Institutional Determinants of Development (London: Edward Elgar) [forthcoming in 2011] and my views on the definition of development can be found in Part 4.1.

inadequate governance (which manifests itself both in poorly functioning aid agencies and corrupt recipient governments), and Dambisa Moyo, who believes that foreign aid should be eliminated completely because it fosters non-accountable, venal and incompetent governments in developing countries.

I do not intend to fully enter these debates about whether foreign aid in general achieves its goals of increasing economic growth, or reducing poverty alleviation, or has a positive impact on development. Nor will I enter the debate as to whether we should be scaling foreign aid up or down, or eliminating it altogether. Instead, this paper is predicated on the assumption that, in the absence of clear evidence that foreign aid is not helping or is hindering development, foreign aid should continue. However, it has been widely recognised that the foreign aid system itself is flawed, and has the potential to be more valuable if it was administered more effectively. I will focus on this institutional aspect of foreign aid.

Official donor country aid, officially known as “Official Development Assistance” (or “ODA”) is either aid that is delivered to recipient country governments (directly or through NGO activities), that is, bilateral aid, or aid that is delivered indirectly through the multilateral aid system. ODA plays a crucial role in the foreign aid system, accounting for approximately 85 percent of all aid (official and private combined). It is delivered through programmes administered by public agencies in donor countries, such as MFAT in New Zealand. Henceforth, when I refer to “foreign aid” or “aid” in this paper, I am referring to ODA, rather than aid from private individual donors to NGOs.

Aid agencies are peculiar in terms of government agencies, and this peculiarity influences the efficacy or otherwise of aid delivered. Usually, there is an information/accountability feedback loop: the politician, accountable to taxpaying citizens, is the principal who directs and monitors

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the agent; the government agency is the agent, which performs services for the beneficiaries; and the beneficiaries, that have first-hand information about the services, are the very same taxpaying citizens who vote in the politician. Thus, usually a government agency has incentives to deliver services to its intended beneficiaries because they are also the voters who can influence the agency’s budget and survival through their elected politicians, who set the policy for, and monitor, the agency.  

In the case of aid agencies, however, the information/accountability feedback loop is broken. On the one hand, an aid agency’s intended beneficiaries – poor people in recipient countries – have no political voice in the donor country to influence the behaviour of the agency, nor do they have any real political leverage over donor country politicians who approve the aid programmes. This results in an absence of feedback from aid beneficiaries to aid agencies and weak performance incentives for the aid agency as it is not accountable to the beneficiaries. On the other hand, the people from whom an aid agency obtains its revenue and is accountable to – the taxpaying citizens of the donor country – are not the (direct) beneficiaries of the aid agency’s services. Thus, they have no direct knowledge or experience of the programmes financed by the aid agency by which to monitor the agency, and it is very costly for them to obtain reliable information regarding the outcomes of the programmes in order to do so. Moreover, politicians approving the aid agency’s spending of taxpayer money are more accountable to, and have more of an incentive to satisfy the demands of, the taxpaying citizens rather than beneficiaries in recipient countries.

Although not solely an aid agency, MFAT is nevertheless faced with this broken information/accountability feedback loop with regard to the foreign aid programme that it administers. As such, it is likely that it suffers from problems that compromise the effectiveness of the aid that it delivers, including problems which relate to: the rationale countries have for providing aid and the resulting objectives of aid agencies; the choice of countries that are to


receive aid; the fragmentation and proliferation of aid programmes worldwide; the volatility of aid; the structure, administration and evaluation of aid agencies themselves; and the public perception of aid and development in donor countries.

In Part 2 of this paper, I describe the issues above in further detail. Then, with those issues in mind, I turn to New Zealand’s aid programme, to assess whether New Zealand has been effective at administering its aid programme and delivering aid, and whether the programme is currently living up to its potential. In Part 3, I provide a history of New Zealand’s aid programme. In Part 4, I analyse and critique New Zealand’s aid programme in the context of the issues described in Part 2. Section 4.1 of Part 4 covers the policy objectives and changing rationale of New Zealand’s aid programme over its history and critiques the current focus on “sustainable economic development.” Section 4.2 explores the extent to which foreign policy interests have shaped and should shape aid policy objectives. Section 4.3 analyses New Zealand’s choice of recipient countries over time and discusses why New Zealand has and should retain its focus on the Pacific. Section 4.4 assesses the volatility of New Zealand’s foreign aid throughout history and notes what New Zealand is and could be doing to reduce the effect of volatile aid flows. Section 4.5 looks at the extent to which New Zealand has contributed to the global problem of aid fragmentation and proliferation, and notes what New Zealand is and should be doing about the issue. Section 4.6 assesses the effectiveness of the administration of New Zealand’s aid programme. This includes a critique of the current government’s decision to disband NZAID and re-establish New Zealand’s aid programme as a functional division of MFAT. Section 4.7 discusses the New Zealand public’s attitude towards, and perception of, the New Zealand aid programme, and asks whether there are ways to improve the public’s understanding of the programme and development issues in general. Part 5 concludes.
2 Problems that thwart the effectiveness of aid

2.1 Motives, policy objectives and recipient country selection

Donor countries have a number of possible rationales for providing foreign aid, and for being selective regarding recipient countries. Although many donor countries have poverty elimination as their overarching objective, studies have found that economic, strategic and short-term political interests continue to be the most important motive for giving aid.18 This is because politicians are driven by the demands of citizens of their own countries rather than the needs of the poor in recipient countries. These policy considerations often distort aid inflows away from the neediest countries towards strategically important countries, reducing the potential developmental and humanitarian impact of the aid provided. For example, less than half the aid provided by the main donors is channelled directly to the 63 poorest countries in the world, in which the majority of the world’s poorest live.19 Also, politicians in donor countries have incentives to channel aid through aid agencies in inefficient ways (for example, aid conditionality or tying of aid) in order to further the economic interests of interest groups that support them, such as farmers, producers and consultants, raising the costs of aid projects/programmes and hurting recipient country economies.20

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18 Gibson et al., supra note 7 at 3; Allesia Isopi and George Mavrotas, “Aid Allocation and Aid Effectiveness: An Empirical Analysis” in Mavrotas and McGillivray, eds., supra note 7 citing a large number of studies; Browne, supra note 7 at 9; Roger C. Riddell, Does Foreign Aid Really Work (Oxford: Oxford University Press, 2007) at 105-106 [Riddell, Does Foreign Aid Really Work?].


20 Riddell, “Does Foreign Aid Work?” ibid. at 66; Nancy Birdsall and Homi Kharas, QuODA, Quality of Official Development Assistance Assessment (Washington D.C.: Center for Global Development, 2010), online: Center for Global Development <www.cgdev.org> at 21; Easterly, “Are aid agencies improving” ibid. at 642; Easterly and Pfutze, supra note 16 at 17; Connie Veillette, “Aid for a Purpose: Show Me the Goal, Then Show Me the Money” (Center for Global Development, March 2011), online: Center for Global Development <www.cgdev.org> at 10; Riddell, Does Foreign Aid Really Work?, ibid. at 99-101.
Although some donor countries choose recipient countries on criteria other than political or strategic interests, these choices can themselves raise problems. For example, it is broadly accepted by aid agencies that to maximise the effectiveness of aid, it should be allocated to countries on the basis of the quality of their institutions and policy environments. Diversion of aid through channels such as giving money to corrupt autocrats or to “less poor” countries should be avoided. \(^{21}\) However, there is a catch-22 in this situation: poorer countries are also more likely to be corrupt or autocratic. \(^{22}\) Therefore, allocating aid only to recipients with well-functioning institutions and good policies is not optimal if poverty alleviation is to be the dominant criteria of aid. \(^{23}\) However, concentrating aid on better performers would mean ignoring a large number of poor countries. This, too, has been recognised by aid agencies, resulting in some back-tracking from this policy of “selectivity.” \(^{24}\) Yet this backtracking itself creates problems for aid efficacy, as the broken information/accountability feedback loop leads to a moral hazard problem. Aid is needed because the recipient’s own institutions are weak, and this will affect the expected return to aid. Undertaking aid projects and programmes in these corrupt or autocratic countries is therefore a very high risk strategy for aid agencies. Thus, aid agencies may tend to choose programmes in these countries that minimise the risk of bad publicity, rather than those that would maximise expected poverty alleviation, so as not to be accused of mismanagement by politicians and the public. \(^{25}\)

### 2.2 Volatility and unpredictability

Another major issue affecting the efficacy of foreign aid globally is its voluntary nature. Foreign aid pledges are mere political promises and are not binding on donor countries. As noted above,
political, economic and strategic concerns rather than need often drive the allocation of foreign aid. As a consequence, aid flows from aid agencies to recipient countries are highly volatile and unpredictable as donor country political objectives shift and fiscal circumstances change.  

This volatility is widely recognised as bad for economic growth and development. Development problems cannot be solved in a year or two. They require long term planning and prolonged engagement to be successful. Yet volatile aid flows mean that recipient countries do not know from year to year the total amounts of aid they will receive, so are unable to plan expenditures; thus they are reluctant to make full use of the aid that is provided, especially for recurrent expenditure (e.g. salaries of teachers), for fear that current levels will not be sustained. Moreover, aid disbursements have tended to be pro-cyclical with regard to recipient country budget revenues, declining at times when countries need the external infusion the most, for example, because of a price commodity shock, and increasing pro-cyclically when a country’s own tax revenues are growing. This is also highly disruptive of long term development programmes.

The effects of aid volatility on the recipient country’s economy can be enormous. Kharas and Fengler note that aid shocks faced by low-income countries are comparable in size and frequency to major global economic shocks faced by developed countries, such as the Great Depression and the two World Wars. For example, if one year donors give a recipient country 30 percent of its GDP in aid, but the next year only 15 percent of GDP, the result can be massive layoffs, government service closures and huge budget deficits.

26 This is a particular problem in fragile countries and in those where political or security concerns play a role in donor funding decisions. For example, recently Pakistan has seen highly volatile aid flows, largely driven by swings in US grant aid. See Homi Kharas and Wolfgang Fengler, “Overview: Delivering Aid Differently” in Wolfgang Fengler and Homi Kharas, eds., Delivering Aid Differently: Lessons from the Field (Washington, DC: Brookings Institution Press, 2010) at 18.


28 Riddell, “Does Foreign Aid Work?,” supra note 19 at 68.

29 Kharas, supra note 10 at 4-5; Nancy Birdsall, “Seven Deadly Sins: Reflections on Donor Failings” in Easterly, Reinventing Foreign Aid, supra note 17 at 535.

30 Kharas, ibid. at 4; Kharas and Fengler, supra note 26 at 17-18.

31 Sachs, supra note 12 at 277.
2.3 Fragmentation and proliferation

The “fragmentation” of the aid system and proliferation of aid programmes throughout the world is highly detrimental to the efficacy of aid. Over the last five decades, the number of donor countries, donor agencies, NGOs and new aid projects has increased dramatically but the average size of each project has shrunk drastically. For example, in 2007 there were 101,628 aid projects registered with the Development Assistance Committee (DAC)\(^32\) of the Organisation for Economic Co-operation and Development (OECD), up from 23,726 in 1997. At the same time, the mean size of each activity steadily fell, from $6.02 million in 1997 to $1.89 million in 2007. The median size of a new activity is now only $67,555.\(^33\) The issue of proliferation and fragmentation relates back to the broken information/accountability feedback loop. Multiple aid agencies are trying to do many things and ‘plant their flag’ in many places, as each has the incentive to take on multiple goals to satisfy its own constituency – the politicians and the public in the donor country – rather than do what is best for the beneficiaries of aid.\(^34\)

Although fragmentation can generate innovation and experimentation in development approaches,\(^35\) it is generally recognised as highly detrimental to the efficacy of aid.\(^36\)

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32 The DAC is an international forum of many of the largest funders of aid, with 24 members. The World Bank, IMF and UNDP participate as observers. The DAC has the mandate to: “...promote development co-operation and other policies so as to contribute to sustainable development, including pro-poor economic growth, poverty reduction, improvement of living standards in developing countries, and to a future in which no country will depend on aid.” The Development Co-operation Directorate of the OECD conducts periodic peer reviews of the 24 DAC member countries, which provide in-depth examinations of development systems and policies, including lessons learned. See OECD, “Development Co-operation Directorate”, online: OECD <http://www.oecd.org>.

33 Kharas and Fengler, supra note 26 at 12.

34 Easterly, White Man’s Burden, supra note 8 at 191; Easterly, “Are aid agencies improving” supra note 7 at 640.

35 Kharas and Fengler, supra note 26 at 4, 14-15.

Fragmentation results in: coordination problems; forfeiting of gains from specialisation; high overhead costs for both donors and recipients; limited opportunities to reap scale economies; and huge administrative burdens on recipient countries, as it takes up much of the time of government ministers and public servants in aid intensive countries in meeting many donor requirements. For example, it has been noted that in Tanzania there are “thirty agencies involved in providing development funds, 1,000 projects, 2,500 aid missions a year [and] all with separate accounting, financial and reporting systems.”

Fragmentation also weakens recipient country institutions: donors often poach key government staff to manage their own projects and government structures are sometimes bypassed, which donor agencies do to ensure that their projects are implemented smoothly. Finally, fragmentation and proliferation makes aid agencies even less accountable to their beneficiaries – the poor in recipient countries – than they already are due to the broken information/accountability feedback loop. This is because “[t]he buck stops nowhere in the world of development assistance. Each party can point the fingers at the others, and bewildered observers don’t know whom to blame – making each agency less accountable.”


37 Easterly and Pfutze, ibid. at 2, 11, 12; Easterly, “Are aid agencies improving,” ibid. at 640 citing IMF and World Bank; Kharas, supra note 10 at 5; Easterly, White Man’s Burden, supra note 8 at 191; Kharas and Fengler, supra note 26 at 15, 25; Knack and Rahman, ibid. at 335; Birdsell, ibid. at 523; Birdsell and Kharas, ibid. at 60.

38 Sachs, supra note 12 at 277; Roodman has different values, and notes this is actually an urban legend (now widely cited) and that if anything, these numbers are substantial underestimates. See Roodman, ibid. at 7. Another example is cited by Kharas and Fengler, who note that in Kenya “the situation with multiple coordination meetings got so bad that the government and donors, in 2007, agreed on some principles of partnership that included a “quiet time” between May 1 and June 30 each year.” See Kharas and Fengler, ibid. at 15.

39 Easterly and Pfutze, supra note 16 at 2, 11, 12; Easterly, “Are aid agencies improving” supra note 7 at 640 citing IMF and World Bank; Kharas, supra note 10 at 5; Easterly, White Man’s Burden, supra note 8 at 191; Kharas and Fengler, ibid at 15; Knack and Rahman, supra note 36 at 335; Birdsell, supra note 29 at 523; Birdsell and Kharas, supra note 20 at 60.

2.4 Design, administration and evaluation of aid agencies

The design, administration and evaluation of the donor country aid agencies themselves influence the effectiveness of the aid that they deliver. Aid agencies can be structured within the public sector in a number of ways, such as having a ministry that is fully responsible for aid policy and implementation, having an aid agency within a ministry, having a ministry responsible for policy and a separate agency responsible for implementation, or having a completely autonomous aid agency. Although a number of donor countries have an organisational model where their operational development programmes are run from foreign ministries rather than from separate organisations, this model is increasingly being recognised as raising a number of interrelated challenges. For example, there is increased awareness that delivering effective aid with more integrated, coordinated and partner-led contexts requires the delegation of authority to suitably qualified staff in the field and a career structure which attracts and retains people with both development experience and political skills.41

Effective evaluations of aid agencies and the programmes they administer are crucial for transparency, to ensure that aid agencies have strong incentives to perform. This is because of the broken information/accountability feedback loop in the foreign aid system: the public in donor countries – to whom an aid agency is accountable to – does not directly experience the benefits of the aid agency’s services and thus has difficulty obtaining information and monitoring the actions of the agency. However, a number of features of the aid system make effective evaluation difficult, which has a detrimental effect on aid programmes. First, it is difficult to isolate the impact that aid had on development outcomes, as aid is but one of many inputs into development, making it difficult for politicians and the public to judge the performance of an aid agency. Development outcomes in recipient countries depend on many factors besides aid and the actions of aid agencies, for example, the price of oil, export price declines, political upheavals and the weather.42 Further, there is the problem of the counterfactual – it is difficult to assess what would have happened without the aid, in order to

42 Riddell, “Does Foreign Aid Work?” supra note 19 at 53; Easterly, White Man’s Burden, supra note 8 at 170.
assess the difference that aid has made.\textsuperscript{43} Second, evaluations are usually conducted by the agencies themselves, and there is some evidence that this has resulted in bias and exaggeration of rates of success.\textsuperscript{44} This is because, as recipients of public funds, aid agencies are reluctant to discuss their aid failures in public.\textsuperscript{45} Third, many development outcomes are not measurable or easily quantifiable in any reasonable timeframe. This feature has some major implications for both the efficacy of aid programmes designed and implemented by aid agencies and the way that they are evaluated. For example, aid agencies often strive to produce outputs (such as high capital investment projects) that politicians and the public can easily observe, even if such outputs provide low economic returns for recipient countries. Conversely, aid agencies are more reluctant to undertake projects and programmes that produce less visible, high return outputs.\textsuperscript{46} For example, rule of law, institution-building and good governance programmes are underfunded partly because they are much more difficult to measure or observe (particularly over the short term), even though development theory almost universally describes these as the most important factors in development.\textsuperscript{47}

While rigorous programme evaluations are crucial for transparency, having an unwavering focus on results can lead to undue emphasis on short-term deliverables at the expense of long-term sustainable development, and risk-taking and local ownership goals may be compromised. A balance is needed between the compliance side of aid programmes, and the programme side, which should aim to put good development theory into practice in order to make aid effective.\textsuperscript{48} As noted by Natsios in his paper, \textit{The Clash of the Counter-bureaucracy and Development}, “accountability should not be confused with development effectiveness. A program can be highly accountable with no fraud or abuse, yet be a development failure; conversely, a program

\begin{itemize}
\item \textsuperscript{43} Riddell, \textit{ibid.} at 53, 56.
\item \textsuperscript{44} \textit{Ibid.} at 55-56; Easterly, \textit{White Man’s Burden}, \textit{supra} note 7 at 193; Svensson, \textit{supra} note 17 at 314.
\item \textsuperscript{45} Riddell, \textit{ibid.} at 55; Jonathan Temple commenting on Easterly in Easterly, “Are aid agencies improving” \textit{supra} note 7 at 675.
\item \textsuperscript{46} Easterly, “Cartel of Good Intentions,” \textit{supra} note 40 at 3. See also Knack and Rahman, \textit{supra} note 36 at 334.
\item \textsuperscript{47} At USAID, for example, only 8 per cent of aid budget allocated to governance programmes. See Andrew Natsios, “The Clash of the Counter-bureaucracy and development” (Center for Global Development, July 2010), online: Center for Global Development <http://www.cgdev.org> at 7-8.
\item \textsuperscript{48} \textit{Ibid.} at 2.
\end{itemize}
can suffer from a leakage of funds and poor recordkeeping and yet be highly innovative and successful developmentally.”

2.5 Public awareness and support

Finally, public awareness of and support (or lack thereof) for foreign aid and development cooperation influences government aid policies. Citizens are key stakeholders in the foreign aid system: they contribute through their taxes and by electing politicians who decide on and monitor aid policies. They also stand to benefit as greater growth in developing countries increases trading opportunities and is likely to lead to greater security for citizens in donor countries (for example, because poverty can breed discontent and fuel terrorism, conflict can spill over borders, and refugees could potentially place pressure on other populations). Donor countries whose aid systems have weak public or political support must work in far more difficult domestic environments, which can include excessive levels of scrutiny and multiple external controls. Unfortunately, the broken information/accountability feedback loop suggests that it is difficult for the public in donor countries to obtain information about aid agencies’ work and the efficacy of aid. In most developed countries, studies find that public knowledge about development and development assistance is superficial and there is scepticism about the effectiveness of aid. For example, a 1998 OECD study into public attitudes of aid and development concluded that although there is no major evidence anywhere in DAC member countries of “aid fatigue”, and although the public continue to support development assistance, annoyance with government mismanagement of aid monies has led to some public disenchantment. The study also discussed how high-profile problems whose prevention is far beyond the capacity of aid – such as natural disasters, war, and economic collapse – may have

49 Ibid. at 37.
50 OECD, Managing Aid, supra note 36 at 19; OECD, Effective Aid Management: Twelve Lessons from DAC Peer Reviews (Paris: OECD Publishing, 2008) at 8 [OECD, Effective Aid Management].
contributed to an assumption that aid does not work.⁵² Other studies have shown that the public often assumes that foreign aid is mostly spent on humanitarian crises, despite the fact that the vast majority of aid has been devoted to development purposes.⁵³ There is also a misconception in donor countries about the amount that governments spend on aid. For example, a World Public Opinion poll conducted in November 2010 found that the American public believes foreign aid accounts for a quarter of the federal budget although it is actually less than 1 per cent.⁵⁴ This often means that, in austere budgetary times, “foreign aid is first on the chopping block despite its meagre contribution in reducing federal spending. In the process, benefits of foreign assistance get overlooked.”⁵⁵

⁵² Smillie, ibid.
⁵³ Riddell, “Does Foreign Aid Work?” supra note 19; OECD, Managing Aid, supra note 36 at 19.
⁵⁴ Veillette, supra note 20 at 1; see also Sachs, supra note 12 at 329.
⁵⁵ Veillette, ibid.
3  History of New Zealand’s aid programme

New Zealand first began to provide aid in the 1920s, with colonial assistance schemes to Western Samoa, and various welfare and scholarship projects in New Zealand’s colonial dependencies in the Pacific (such as Cook Islands and Niue).\(^{56}\) New Zealand’s modern aid programme largely dates from the end of World War II when, with the establishment of the United Nations, it increasingly became involved in problems of international aid. New Zealand’s aid was focused in three broad areas: aid to Pacific Island countries; bilateral aid to Asia under the Colombo Plan; and multilateral aid through the United Nations and other international organisations.\(^{57}\) Its involvement in the Colombo Plan (beginning in 1950), which promoted the economic and social development of South East Asia, was driven by both altruism and self-interest. That is, it was in line with the country’s humanitarian traditions; and was reflective of the government’s recognition that economic progress in the region (being so close geographically to New Zealand) was vital to prevent political and social strains from developing, to encourage stable, friendly governments, and to prevent the spread of communism.\(^{58}\) In the 1960s, after Britain joined the European Community and New Zealand lost its preferential trade treatment, aid was used to help the private sector find new markets and bid for international contracts in the developing world.\(^{59}\) Types of foreign aid provided by New Zealand in this period were capital aid, technical and training assistance, and the provision of tertiary scholarships. The Department of External Affairs, in cooperation with other government departments, universities and training institutions, had responsibility for the administration of the

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\(^{59}\) Hoadley, *ibid.*
aid programme during this period. This Department, later renamed the Ministry of Foreign Affairs, and later still, the Ministry for Foreign Affairs and Trade, continued to have prime responsibility for the administration of the aid programme until 2002.

In 1970, New Zealand made a commitment to the UN General Assembly to commit 0.7 percent of GNP to ODA (and has made this commitment several times since). New Zealand began increasingly to focus its attention on the Pacific in the early 1970s: in 1971, 44 percent of New Zealand’s bilateral aid went to Pacific Island countries, which had increased to 69 percent by 1979. Following the election of the Kirk Labour Government in 1972 (which had the benefit of a buoyant economy), aid volumes increased dramatically, from 0.18 percent of GNP in the early 1970s to 0.51 percent of GNP in 1975 – New Zealand’s highest ever level of aid. Reflecting its traditional internationalism, the Labour Government also increased the proportion of aid channelled multilaterally. The Government “was strongly motivated by a moral and humanitarian obligation to seek to reduce poverty, disease and insecurity throughout the underdeveloped world and, in particular, to promote the social and economic betterment of near neighbours in the Pacific and South East Asia.”

Following the election of the Muldoon National Government in 1975, aid volumes declined steadily, dropping to 0.25 percent of GNP by 1983. This was partly due to a balance of

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61 Hoadley, *supra* note 56 at 141.


65 Hoadley, *supra* note 56 at 60.

payments crisis and recession in the late 1970s, and partly because National was much more sceptical of aid than Labour. Under this government, bilateral aid made up about 80 percent of ODA on average. There was an increasing focus on the Pacific, with the share of bilateral aid going to the region increasing from 60 percent to over 80 percent between 1977 and 1984. Over this period, the number of countries receiving New Zealand aid dropped and aid projects in Africa were phased out.

The Fourth Labour Government (1984-1990) pledged to raise aid to the internationally agreed target of 0.7 percent of GNP (and in its pre-election manifesto pledged to raise ODA to 1 percent of GNP). However, economic circumstances had changed since the early 1970s and aid levels failed to increase. Instead, aid volumes dropped to 0.22 percent of GNP in 1989-1991, meaning that New Zealand was second to bottom of the OECD countries that provided development assistance. The decline in actual assistance was even greater, as until public sector reforms of the late 1980s many services to the Pacific (such as meteorological services and airport calibration) had been provided free of charge by government departments. Yet the proportion of aid channelled multilaterally increased under Labour. For example, in 1984-85, two thirds of aid went to bilateral aid projects and the other third to multilateral agencies. Under this government, there was a move to increase budgetary, technical and defence assistance to South Pacific countries, and aid to Africa was resumed. By 1988, New Zealand aid funded about 273 projects and supported 900 students and trainees from 46 countries through direct bilateral aid. Projects were focused in the agriculture sector, but also occurred in other areas such as education, medicine, public works, geothermal power development and boat building.

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67 New Zealand dropped from 9th to 16th in OECD rankings during this time.
68 New Zealand Institute of International Affairs, New Zealand’s Overseas Development Assistance: Proceedings of a seminar held by the New Zealand Institute of International Affairs, 22 and 23 November 1985 (Wellington: New Zealand Institute of International Affairs, 1985) at 10-12 [NZIAA, NZIIA Seminar 1985]; McKinnon, Independence and Foreign Policy, supra note 64 at 268.
70 Ministerial Review Team, NZODA Review 2001, supra note 57 at 10; MFAT, ibid. at 15.
71 NZIAA, ibid. at 4-6.
72 Hoadley, supra note 56 at 63.
Throughout the late 1970s and 1980s, aid was considered an important instrument of foreign policy, so was given mainly for political, not development or humanitarian reasons. It was hoped that the aid programme would be a partial substitute for a costly defence programme, to strengthen fragile economies so that they would be better able to withstand outside pressures. For example, there were concerns that Pacific Island states, which had recently gained independence, were possibly unviable as states and prone to coups and political instability, which could be exploited by the Soviet Union.

Aid levels as a proportion of GNP dropped to 0.21 percent by the mid-1990s under the Bolger National Government, then began increasing after this to 0.27 percent of GNP by the end of National’s term in 1999. During this period, the proportion of aid provided through multilateral channels dropped to between 15 and 22 percent, before rising to 25 percent under the Labour government in 2000. By the new millennium, New Zealand had 63 bilateral partners with 19 main partner countries in the Pacific and East and South East Asia, and nearly 300 projects. The

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aid programme continued to be primarily project rather than programme based, and the average size of each project was approximately $300,000 NZD.\textsuperscript{77}

During the 1990s, the main objective of New Zealand’s aid programme was “to help promote sustainable economic and social progress and justice in developing counties”.\textsuperscript{78} The philosophy of the programme was based on developmental, humanitarian, economic and political concerns. The various rationales for providing aid included: that aid was an important part of New Zealand’s external relations and trade policy; that aid was needed to advance economic prosperity, maintain peace, security and stability, and to protect the global environment; providing aid demonstrated New Zealand’s willingness to assist with development needs of others and showed that New Zealand was a responsible international citizen; and economic growth allowed trade to expand, benefitting New Zealand as a trading nation.\textsuperscript{79}

In the Pacific, bilateral aid programmes continued to focus on human resource development, that is, tertiary scholarships and training awards, technical assistance and support for tertiary institutions. Aid also went towards budgetary support, development projects in the agriculture, forestry, transport and shipping sectors, and increasing support for private sector initiatives.\textsuperscript{80}

Reflecting the international consensus on development following the end of the Cold War, New Zealand increasingly identified poverty reduction, human rights, good governance and women’s


\textsuperscript{78} See for e.g. Ministry of External Relations and Trade, *NZODA Annual Review 1991-92*, supra note 76 at 2, which is similarly stated in all *NZODA Annual Reviews* of the 1990s.


Yet New Zealand’s aid programme had no clear goal. While the 1996 policy framework \textit{Investing in a Common Future} identified poverty alleviation and humanitarian-based development assistance as the principal purposes of New Zealand’s aid, there was considerable uncertainty amongst MFAT staff and development partners and stakeholders about the programme’s overall goal and mission. These groups tended to describe the aid programme’s role in terms of foreign policy, diplomacy, trade and commercial interests. Many MFAT staff in particular saw foreign policy, aid and trade as intrinsically linked, although they acknowledged the potential conflict between these.\footnote{Ministerial Review Team, \textit{NZODA Review 2001}, supra note 57 at 39-40.}

In 2000, New Zealand’s aid programme was reviewed by the OECD Development Co-operation Directorate. The Directorate, in its report, noted that the basic rationale for New Zealand’s development cooperation was “to maintain peace, security and stability, advance international prosperity and protect the global environment, particularly in the South Pacific.”\footnote{OECD, \textit{DAC Review 2000}, supra note 41 at 1.} It stated that while New Zealand’s commitment to poverty reduction was made explicit in its overarching policy statement, its practice of pursuing multiple objectives may have been compromising the agency’s poverty reduction goal (for example, only 9 percent of New Zealand’s bilateral aid was directed to basic social services, whereas nearly two-thirds funded infrastructure and education scholarships). The report therefore recommended sharpening the programme’s focus by making poverty reduction a clearer objective for the aid programme. It also noted that running a development programme from within a foreign ministry rather than from a separate organisation faced a number of challenges. It stated that there was increasing awareness that effective delivery of aid required, for example, a career structure which attracts and retains people with...
development experience and political skills. It therefore recommended that the New Zealand government examine the organisational and staffing structure of its aid programme.\(^\text{84}\)

New Zealand’s aid programme was reviewed again in 2001 in accordance with election promises made by Labour and the Alliance Party, who formed a coalition government in 2000.\(^\text{85}\) The Ministerial Review Report Towards Excellence in Aid Delivery stated that New Zealand had the following rationale for giving aid: that as a fortunate country, it has a moral obligation to combat deprivation and suffering; that it would benefit from a more prosperous world that aid can assist in achieving; equitable development is fundamental to achieving peace and security; and aid that leads to prosperity can ameliorate global issues that make all nations insecure (such as armed conflict, refugees, health epidemics, global environmental problems).\(^\text{86}\) It found, among other things, that: New Zealand’s aid programme lacked a clear mission of poverty reduction, management and staff were pursuing poorly defined development assistance, foreign policy and trade objectives, and there was serious confusion about purpose; it lacked focus and provided aid to too many countries without having a defined strategy; it did not undertake systematic analysis of its programmes; it was primarily project rather than sector based, which was contrary to best practice in aid design and delivery; and too much aid went to tertiary education scholarships rather than basic education. The Report also criticised the rotation staffing system of MFAT as it applied to the aid programme, the lack of expert development professionals on staff, and the lack of a defined development career path. It therefore recommended the creation of a new autonomous institution with a clear goal of poverty elimination.\(^\text{87}\)

As a result of both reviews, a new semi-autonomous aid agency, NZAID, was established. Under the semi-autonomous body (SAB) model, NZAID was legally part of MFAT, but it

\(^{84}\) Ibid. at 2-5.


\(^{87}\) Ibid. at 4-6.
exercised distinct functions separately. A top executive, the Executive Director of NZAID, was appointed by and reported to the Secretary of Foreign Affairs, and a performance agreement between them managed their relationship, including protocols and delegation arrangements and the strategic direction of ODA policy. The Executive Director provided separate ODA policy advice directly to the Minister of Foreign Affairs (and, in the period 1999-2005, the Associate Minister of Foreign Affairs, who was the Minister with delegated responsibility for ODA), and appointed all NZAID staff, rather than the Secretary of Foreign Affairs (the chief executive of MFAT). However, the Secretary of Foreign Affairs remained legally responsible and accountable to the Minister of Foreign Affairs under the State Sector Act 1988 for any activities of NZAID.  

The goal in establishing NZAID was to: ensure clarity of the agency’s role and strategic focus; remove blurred accountability between aid and foreign policy interventions and outcomes and potential conflicts of interest; enable NZAID to recruit and develop the capability of a corps of development assistance professionals; create a distinctive profile and new focus to New Zealand’s ODA programme; and seek excellence in aid delivery by creating more professionalism around the management of the ODA programme.

Also as a result of the reviews, the policy mandate of the New Zealand aid programme was modified by Cabinet to make “poverty alleviation” the central objective of the aid programme. The MDGs were also integrated into NZAID’s policy framework, and its policies were divided into three categories: mainstreaming (human rights and gender), cross-sectoral (environment, conflict prevention and peace-building, governance, growth and livelihoods) and sectoral (education, health, trade). NZAID’s long term focus for development was achieving economic growth and improved livelihoods, strengthening governance, improving education and health and reducing vulnerability (for example, in relation to conflict, disaster management and the

88 Hon Tony Ryall and Hon Murray McCully, New Zealand Agency for International Development: Institutional Arrangements (Cabinet Paper to the Chair of the External Relations and Defence Committee) (no date) at paras 18-28.
89 Ibid. at para 6; Cabinet Min (01) 28/8.
90 CAB Min (01) 28/8, Cabinet Minute of Decision.
environment). This led to a major shift in the way aid was delivered, from projects to programmes that directly targeted the poor and addressed basic needs. For example, there was a move to contribute to the overall strengthening of policies and systems in the health and education sectors of developing countries, and more of an emphasis on basic education rather than scholarships, which had previously accounted for 90 percent of the aid budget that was allocated to education and training (itself about 40 percent of the bilateral aid budget).

By 2005, New Zealand was still working with 19 core bilateral partners, but had reduced its non-core partners to 20. However, it was still effectively disbursing aid to over 100 countries given the existence of numerous funding windows, such as its scholarship scheme and emergency humanitarian and disaster relief programme. By 2008, the number of countries that NZAID was working with had been reduced to 88, consisting of 17 core bilateral partners and 18 non-core partners (together receiving 89 percent of the country level aid), and 53 countries receiving the remaining 11 percent of aid, predominantly through scholarships, humanitarian support and contestable funds (funds available to New Zealand-based NGOs).

The focus on the Pacific was retained during this period and the proportion of aid going to the region steadily increased, from 39.9 percent of ODA in 2002/03 to 53.5 percent of ODA in

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93 OECD, *ibid*.

94 This consisted of four major (country) bilateral programmes (Indonesia, Papua New Guinea, Solomon Islands and Vanuatu), ten bilateral programmes (five in the Pacific and five in Asia) and support relating to the special constitutional relationships with the Cook Islands, Niue and Tokelau. See NZAID, *Annual Review 2007/08* (Wellington: New Zealand Agency for International Development, 2008) at 2.

2008/09 (accounting for 80 percent of all bilateral funding).\textsuperscript{96} Aid levels during this period rose from 0.22 percent of GNP in 2001/02 to 0.28 percent in 2007/08, and were projected to rise to 0.35 percent by 2010/11.\textsuperscript{97}

The National Party was elected to govern New Zealand in 2008 and is currently in power, with its term ending in late 2011. The National Party believes that foreign aid, while also having specific development objectives, should be consistent with and support New Zealand’s foreign policy and external relations goals (including trade policy) and should come under the direction of the Minister of Foreign Affairs.\textsuperscript{98} In early 2009, Foreign Affairs Minister Murray McCully, who as explained in the introduction was particular scathing of New Zealand’s aid programme, its objectives and its institutional structure, announced two internal reviews of NZAID.\textsuperscript{99} As a result, on 20 April 2009, Cabinet agreed to two fundamental reforms: (a) the New Zealand aid programme’s mandate was changed from the elimination of poverty to the support of “sustainable development in developing countries in order to reduce poverty and contribute to a more secure, equitable and prosperous world,” with broad-based sustainable economic development as its central focus;\textsuperscript{100} and (b) the SAB structure of NZAID was removed and NZAID was re-absorbed back into MFAT, becoming a functional division known as the International Development Group (IDG).

With regard to the change in mandate, McCully noted in his paper to Cabinet recommending change that he saw poverty elimination as a ‘deficit model,’ that is, addressing what is missing, in contrast with the ‘opportunity model’ of economic development and growth, which addresses

\textsuperscript{96}N.Z. Ministry of Foreign Affairs and Trade, \textit{MFAT Post Election Brief, supra} note 62; NZAID/MFAT, \textit{Annex 1 to NZAID Cabinet Paper, supra} note 95 at 8.

\textsuperscript{97}MFAT, \textit{MFAT Post Election Brief, supra} note 62.


\textsuperscript{99}Johnston and Gower, \textit{supra} note 3; \textit{NZH Editorial, supra} note 3.

\textsuperscript{100}CAB Min (09) 13/3C.
“what is possible”.\footnote{NZAID/MFAT, Annex 1 to NZAID Cabinet Paper, supra note 95 at 7.} However, he kept poverty alleviation in its goals because “for New Zealand not to have it in its ODA goal in some form would be out of step with the current international consensus on international development”.\footnote{Ibid.} He argued that neither a focus on poverty alleviation nor economic growth is sufficient in itself:

> economic growth that is too narrow does not address the drag on society that poverty represents (the opportunity cost of poverty) and risks reinforcing elites at the expense of the poor. Poverty alleviation, the focus from the 1990s until now, led to agreed global goals – the Millennium Development Goals – but far from satisfactory progress.\footnote{Ibid.}

The Cabinet Paper, appearing to endorse the principle of “selectivity”, also stated that the “will, capability and policy settings of the recipient government are essential”\footnote{Ibid.} for growth to be broad-based and inclusive. Cabinet agreed to all the recommendations made in the Cabinet Paper on 20 April 2009.\footnote{CAB Min (09) 13/3C.} While moving to a core focus on sustainable economic development, the government has retained cross-cutting and thematic issues of gender, education, environment, health, human rights, youth, humanitarian and emergency response, leadership and governance, and peace building and conflict prevention.\footnote{Ibid; NZAID/MFAT, Annex 1 to NZAID Cabinet Paper, supra note 95 at 10; MFAT, SOI 2011-2014, supra note 98.} It considers these issues not as ends in themselves but as means to ensure good development outcomes and to manage risks.\footnote{CAB Min (09) 13/3C; NZAID/MFAT, ibid. at 10.}

MFAT now manages 30 programmes and roughly 800 activities. It continues to have 17 core bilateral partners.\footnote{MFAT, MFAT Annual Report 2009/10, supra note 98 at 28.} The government has retained the core geographic focus on the Pacific, a region which the government considers is “going sideways economically, and, in some cases,
backwards politically”. It has also increased the proportion of aid going to the region to support “the overarching foreign policy goal of securing the long term health and viability of countries in the region”. In 2009, 84 percent of bilateral aid went to this region. In line with the objective of sustainable economic development, MFAT has re-shaped its Pacific programme to “enhance support for sectoral activities such as agriculture, fisheries, tourism, renewable energy and other infrastructure that can drive or enable economic growth”. It has also strengthened support for private sector development, and continued support for strengthened security, improved governance, health, education and climate change. The International Development Group within MFAT has been restructured so that it has teams tasked to focus on creating new initiatives in its focus areas, that have the monetary resources to take ideas through to the design phase, rather than having officials that are constrained to just providing advice in these areas.

Although the current government has also adopted the 0.7 percent of GNP target, it has explicitly stated that it has no timetable for reaching it. Absolute aid expenditure levels as a proportion of GNP have dropped from 0.3 percent when the government came to power in 2008 to 0.28 percent in 2009 and 0.26 percent in 2010.

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109 Hon Murray McCully and Hon Tim Groser, Pacific Island Forum Countries: NZ Policy on Aid, Trade and Economic Development: Overview Paper (Cabinet Paper to the Chair of the External Relations and Defence Committee) (no date).

110 NZAID/MFAT, Annex 1 to NZAID Cabinet Paper, supra note 95 at 8.


113 MFAT, SOI 2011-2014, ibid. at 27. See also NZAID/MFAT, Annex 1 to NZAID Cabinet Paper, supra note 95 at 8.

114 Interview with senior public servant (19 July 2011).


4 Analysis and critique of New Zealand’s aid programme

4.1 Policy objectives and sustainable economic development

The objectives of New Zealand’s aid programme have tended to reflect the international political economy of the era. That is, during the Cold War period, New Zealand’s aid programme was focused on South East Asia to prevent the spread of Communism and on the Pacific to help prevent the newly independent (and possibly unviable and unstable) states from being exploited by the Soviet Union; in the post-Cold War period, the aid programme increasingly focused on governance, human rights and poverty alleviation, and also supported economic and trade liberalisation, public sector reform and structural adjustment policies advocated by international organisations such as the International Monetary Fund and the World Bank; and post-9/11, security and defence issues have been increasingly integrated into development policies. Domestic politics and the philosophies of the two major political parties in New Zealand have also played a role in shaping the objectives of the programme. As a general rule, aid levels as a percentage of New Zealand’s GNP, and the proportion of aid distributed multilaterally, have increased during times when the Labour party is in power. This reflects Labour’s traditions internationalism and more communitarian philosophy. In contrast, under National, aid levels have tended to drop, the proportion distributed bilaterally has increased, and there has often been a greater focus on private enterprise and the alignment of aid objectives more closely with other foreign policy objectives – all reflective of National’s underlying philosophy of individual liberty and freedom of personal enterprise.

What should be the objective of New Zealand’s aid programme? First, it is necessary to outline what I believe to be a defensible conception of “development”. For this, I adhere to the “capabilities” approach to development, an approach developed by the Nobel Prize-winning
economist Amartya Sen in his landmark work *Development as Freedom*.\textsuperscript{117} Sen argues that “economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy”.\textsuperscript{118} He explains how this focus on human freedoms contrasts with narrower views of development, such as GNP growth, a rise in personal incomes, industrialisation, technological advances or social modernisation. Although these are all important *means* of expanding the freedoms that people enjoy, freedoms also depend on other aspects such as social and economic arrangements (for example, education and healthcare facilities) and political and civil rights.\textsuperscript{119} For Sen, “freedom in all these various dimensions constitute both the means and ends of development in that they reflect a complementary and mutually reinforcing set of freedoms that promote more robust forms of individual agency and expand human capabilities, opportunities, and functioning”.\textsuperscript{120} He argues that poverty must be seen as the deprivation of capabilities rather than merely having a low income, and that although low income is one of the major causes of poverty, it is instrumentally rather than intrinsically important. Thus, development policies should enhance people’s “capabilities,” as it is the ability to function that really matters.\textsuperscript{121} For example, a person may possess a book, but this is of little use if he or she is illiterate. Effectively, Sen argues that poverty or underdevelopment cannot be measured by income or even utility; what matters is not the things a person has or the feeling these provide but what a person is, or can be, and does or can do.\textsuperscript{122}

The ultimate aim of development, therefore, should be to alleviate poverty in order to enhance people’s capabilities and freedoms. From a practical perspective (that is, transforming such a goal into policy), if Sen’s conception of poverty is employed a poverty reduction goal is appropriate as it is broad. For example, a wide range of economic, social, and political development projects or programmes, from those that focus on trade and private sector


\textsuperscript{118} Ibid. at 14.

\textsuperscript{119} Ibid. at 3-4 and Chapter 1 generally.

\textsuperscript{120} Trebilcock and Prado, supra note 11 at 13.

\textsuperscript{121} Sen, supra note 117 at 40, 87.

development, to those that focus on social services such as health and education, to those that address peace building, conflict prevention and governance, can potentially be adopted, as long as they are shaped around poverty-reducing development outcomes. This means that projects and programmes can be designed to suit the particular developmental problems that exist in each individual developing country. In apparent recognition of this, international attention has shifted to focusing on poverty since the end of the Cold War. The goal of poverty reduction or elimination, in some form, has been incorporated into the high level policy objective statements of most, if not all, donor country aid agencies. Most recently, Australia has changed its aid policy to make it explicit that helping people overcome poverty is its aid programme’s fundamental purpose.

How do the goals of New Zealand’s aid programme accord with this approach to aid? How do these aims shape the programmes being designed and delivered, and how effectively will these programmes then achieve development goals? Currently, the mandate of the New Zealand government’s aid programme is identical to that of the Canadian aid agency, that is, to “support sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world.” Within this, there is a central focus on encouraging sustainable economic development. This mandate includes the recognition that human development, good governance and the protection of the environment and natural resources are necessary for sustainable economic development. New Zealand’s development assistance also aims to help countries achieve and maintain the internationally agreed poverty

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123 For example, the “fundamental purpose of Australian aid is to help people overcome poverty”, the Canadian International Development Agency’s (CIDA) mandate is “to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world,” and the United Kingdom’s International Development Act 2002, which its aid agency the Department for International Development (DFID) must work within, clearly stipulates poverty reduction to be the purpose of development assistance. See AusAID, *An Effective Aid Program for Australia*, supra note 4 at 1, 4 and 17; Canadian International Development Agency, “CIDA’s Policy on Poverty Reduction”, online: CIDA <http://www.aicd-cida.gc.ca>; *International Development Act 2002* (U.K.), 2002, c. 1, s. 1; OECD, *DAC Review 2010*, supra note 111

124 AusAID, ibid.

reduction objectives set out in the MDGs. These objectives include goals relating to education, women’s equality and empowerment, health and environmental sustainability. The NZAID Poverty Analysis Guideline defines three different types of poverty: extreme poverty (the inability to meet basic needs); poverty of opportunity (where opportunities to participate in economic, social, civil and political life are seriously limited) and vulnerability to poverty (where individuals, communities and countries are particularly vulnerable to circumstances likely to damage their livelihoods, ability to meet basic needs, and ability to participate in economic, social, civil and political life). Although the government’s most recent policy statement on international development does not define ‘poverty’, it can be deduced from its commitment to the MDGs and from its Poverty Analysis Guideline that it supports a wide (capabilities), rather than narrow (income) conception of poverty.

Thus, despite the 2009 shift in mandate from “poverty elimination” to “sustainable development”, the primary end goal of New Zealand’s ODA continues to be poverty reduction (with the programme’s contribution “to a more secure, equitable and prosperous world” flowing from this primary goal). This goal is apt, as it accords with the “capabilities” approach to development, does not unnecessarily restrict the scope of aid programmes or projects, and aligns with current global thinking about aid and development.

Recognising that the programme also focuses on other thematic issues such as growth and livelihoods, education, health and governance, the most contentious issue with regard to the

126 Ibid.
128 This is still available on the government’s “New Zealand Aid Tools” website, so presumably still current.
policy objectives of New Zealand’s aid programme is therefore whether “sustainable economic development” is a suitable central means for achieving its goal.

With regard to New Zealand’s bilateral aid programmes, the change in central focus to sustainable economic development has resulted in an increase in support for sectoral activities such as agriculture, fisheries, tourism, renewable energy and other infrastructure, and private sector development. Economic development is no doubt a constituent component of, and an essential means to achieve, human development broadly defined as enhancing people’s freedoms and capabilities. Economic facilities, such as the opportunity to participate in trade and production, help generate both personal wealth and public resources for social services such as public education and healthcare (which in turn contribute to increased economic participation and growth, in a “virtuous circle” of development). Arguably, therefore, having our aid invested in programmes that are intended to increase economic growth and development, such as those outlined above, could potentially help to enhance the freedoms and capabilities of people in recipient countries.

However, there are risks to narrowing the New Zealand aid programme’s focus in this way. First, there is a risk that a focus on economic development may lead to more money for the elites and increased inequality if the benefits of growth do not trickle down to the poor. In the Pacific, traditional elites have often captured development opportunities to their own advantage, as traditional land tenure systems sometimes concentrate resources in the hands of the land-rich, accentuating poverty for those with no access to tenure. For example, in the 1970s, New Zealand decided to use its aid to resurrect the banana industry in Tonga. New Zealand provided subsidies with the idea of slowly weaning the farmers off these subsidies until they had developed a completely self-sustaining industry. However, in the context of Tonga, it was the

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132 MFAT, SOI 2011-2014 at 27, supra note 98.
133 Sen, supra note 117 at 10-11, 40-41.
nobles who owned large plots of land on which to grow the bananas; large numbers of Tongans could not access land. Thus, it was the elites who grew large banana plots and received the subsidies, employing the lower classes as wage labour. Ultimately, these subsidies were not able to be reduced for political economy reasons and the development project was a failure, as Tonga was not able to compete against Ecuador in the banana export industry. It is likely that this has happened throughout New Zealand’s aid programme in the Pacific.136 Barry Coates, the Executive Director of Oxfam NZ, has noted that “funds spent on promoting economic growth are all too easily captured by powerful elites in developing countries. For example, instead of supporting a road to get the produce from impoverished farmers to market, aid money is spent on a road to the Prime Minister’s house”.137

Second, concentrating on economic indicators as a measure of development could lead to the challenges faced by poorer sections of society being downplayed or overlooked.138 In Melanesia, for instance, women suffer from low status in the community, which has resulted in women being in poorer health, being victims of violence, having fewer economic opportunities, and having reduced access to education and limited access to justice.139 Development measurements that focus on GDP growth, on levels of trade or on whether the business environment in a country has improved,140 may indicate that the country is developing, obscuring the ongoing limitations in the freedoms and opportunities of such disadvantaged groups.

Finally, the issues facing the Pacific are varied and, as such, it may not be worthwhile or realistic to focus on issues such as trade in some countries. Although some countries in the Pacific have genuine productive potential, some smaller states have real resource, ecological and capacity constraints, so may not find it easy to grow their trade-able/economic sectors beyond the basic

136 Interview with senior public servant (16 May 2011).
137 Oxfam NZ, supra note 134.
138 Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).
140 See e.g. MFAT, SOI 2011-2014 at 26, supra note 98, which explains how MFAT intends to measure development outcomes.
level of self-sufficiency. For example, while Fiji has the ability to capitalise on tourism and Papua New Guinea has an abundance of natural resources (such as extractive minerals), Tuvalu and Niue are atoll and reef island states, with their economic capacity essentially limited to the leasing out of their Exclusive Economic Zone, selling their vote at the United Nations or other international bodies, and sending members of their populations overseas to work for remittances. Developmental problems relating to environmental issues are more significant at this point in time for these countries as they are highly vulnerable to natural disasters, sea pollution and rising sea levels as a result of climate change.

Economic development and other constituent components of development (for example, political and civil freedoms, social opportunities, transparency guarantees and protective security) are not mutually exclusive; in fact, they are mutually reinforcing. Ultimately, it is important to ensure that economic development is approached in a broad manner by retaining attention on areas “whose direct contribution to sustainable economic growth may be less tangible” in order to address the particular developmental problems individual recipient countries face. Programmes that address other aspects of development directly can indirectly enhance economic development, such as: basic education, which creates a more able, better qualified workforce progressively over time; women’s empowerment, which enhances the position of women in society and increases their ability to contribute to their economy; improved governance, which reduces practices that are detrimental to economic growth such as corruption; and environmental projects, such as climate change adaptation and mitigation, which help to ensure the survival of productive economic sectors.

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141 Interview with former senior public servant (23 May 2011); Interview with senior public servant (22 May 2011).
142 For example, in 2006, the Solomon Islands, Tuvalu, Kiribati and Nauru decided to side with Japan and vote for the overturning of the moratorium on commercial whaling at the International Whaling Commission. Allegations have been made that these countries “sold” their votes to Japan for aid money. See NZH Editorial, supra note 3 and Greenpeace, “Japan’s vote buying” Greenpeace (8 January 2009), online: Greenpeace <http://www.greenpeace.org>.
143 Interview with senior public servant (16 May 2011).
145 Sen, supra note 117 at 38; Interview with former senior public servant (23 May 2011).
146 OECD, DAC Review 2010, supra note 111 at 11.
McCully, who has associated having a goal of poverty alleviation as akin to throwing money from helicopters, \(^{147}\) considers that goals relating to the MDGs are “lofty rhetoric”,\(^{148}\) and clearly believes economic growth to be the panacea to developing countries’ problems. Yet despite McCully’s own rhetoric, New Zealand’s aid programme has retained an end goal of poverty reduction. Furthermore, it appears that MFAT (with its promotion of human development (health and education), investment in activities relating to natural disaster preparation and climate change adaption/mitigation, promotion of good governance, peace and security, and the incorporation of cross-cutting themes of environment, gender and human rights throughout programme design and evaluation)\(^{149}\) has recognised that all aspects of development are interdependent and important for poverty alleviation. One hopes that, despite the change and McCully’s rhetoric, the aid programme continues with this philosophy.

### 4.2 Policy objectives and foreign policy

Donor countries have a number of possible rationales for providing foreign aid. For example, it is sometimes used in their self-interest to achieve political and strategic security goals: politically, bilateral aid works to facilitate alliances and create international political influence; strategically, it is used to promote stable, peaceful and prosperous states, therefore providing a security dividend to the donor country. Alternatively, aid can be provided for altruistic or moral reasons, to reduce poverty and assist those in need in developing countries.\(^{150}\)

As discussed in Section A, the objective of New Zealand’s aid programme is to promote sustainable development (through various means, but focusing on economic development) in order to reduce poverty and to contribute to a more secure, equitable and prosperous world. Thus, it appears that New Zealand’s rationale for providing foreign aid fits into both the “moral”

\(^{147}\) McCully, supra note 2; Johnston and Gower, supra note 3; NZH Editorial, supra note 3.

\(^{148}\) McCully, ibid.

\(^{149}\) MFAT, International Development Policy Statement, supra note 130.

\(^{150}\) Trebilcock and Prado, supra note 11 at 421.
and “strategic” categories. Providing aid to promote a more secure, equitable and prosperous world (through poverty reduction), that is, to provide a security dividend, is one way in which New Zealand is providing aid out of self-interest. Yet it is evident that throughout its history, New Zealand’s motives for providing aid have, and continue to be, influenced by other self-interested foreign policy interests, such as facilitating political alliances or promoting trade interests. For example, in the 1950s, New Zealand’s involvement in the Colombo Plan was partly to prevent the spread of communism; in the 1960s, aid was used to help private businesses in New Zealand find new markets in the developing world after Britain joined the European Community; and in the 1970s and 1980s, aid was provided in an attempt to prevent states in the Pacific being influenced by the Soviet Union. Specific examples of political criteria being used to stop project aid include Vietnam in 1979 and Fiji in 1987. Post-2001, New Zealand’s aid expenditure appears to have been influenced somewhat by “changes taking place in the United States’ approach to aid giving as a result of the ‘global war on terror’ ” with aid levels having increased in both Iraq and Afghanistan, in order to “win the hearts and minds” of the local populations. Furthermore, throughout New Zealand’s aid-giving history, higher education scholarships have been made available to people in a wide range of developing countries. This has been a major tool in New Zealand’s foreign policy portfolio, used to foster political relationships with developing countries since the very beginning of New Zealand’s modern aid programme.

The current government has made the alignment of its foreign aid programme and its foreign policy goals explicit. When announcing the changes to the aid programme in 2009, McCully emphasised that he saw the stewardship of the aid budget as a key part of the Foreign Affairs portfolio, to be aligned as far as possible with New Zealand’s wider foreign policy interests. MFAT’s recently released International Development Policy Statement notes: “Development

151 Hoadley, supra note 56 at 60.
152 Riddell, Does Foreign Aid Really Work?, supra note 18 at 97.
153 Interview with former Labour minister (11 July 2011).
154 Ibid.; Interview with senior public servant (16 May 2011).
155 McCully, supra note 2.
cooperation is a core pillar of New Zealand’s wider foreign and trade policy... New Zealand’s international development assistance outcomes should be consistent with, and support, New Zealand’s foreign policy and external relations outcomes.” It intends to do this by ensuring the coherence of trade, migration, investment, environment and international development policies, and pursuing a whole-of-government approach with regard to political, security, climate change and development objectives, particularly in fragile states. This has been described within the organisation as a “new security/governance/development paradigm”, which the whole of MFAT, across all its activities, has to find ways to address. The scope, duration and scale of New Zealand engagements with Timor-Leste, the Solomon Islands and Afghanistan are good examples of this strategy. For instance, in Timor-Leste, which gained full independence in 2002 after a violent transition from 24 years of Indonesian rule, New Zealand aid programme activities include assisting with modernisation of customs policies (provided by the New Zealand Customs Service, funded by the New Zealand Aid Programme), working with a local NGO to provide savings and loans services to poor rural women for small business activities, contributing to the deployment of ten New Zealand Police officers, supporting the Timor-Leste’s national human rights institution and providing support to its education and health ministries.

Should New Zealand’s aid programme be shaped by New Zealand’s wider foreign policy interests? To some extent, this is inevitable. Foreign aid is one way in which the New Zealand Government interacts with foreign governments:

Providing governmental assistance and support to another country is an act of state-to-state relations, and of foreign policy. The providing government has to decide to do so, and the recipient government has to decide its terms for the specifics of that support, and consent to the engagement. If it succeeds it can improve relations; if it fails it can damage; and often the view of its

158 Interview with former senior public servant (23 May 2011).
desirability/acceptability can change if there is political change in either the donor or recipient state.\(^{161}\)

Although a 2007 survey of public perception and opinion of foreign aid in New Zealand found that a majority of respondents thought that the government should give aid entirely on humanitarian grounds, with less than a third believing that international political considerations should play some part, it appears that the New Zealand public is aware that, realistically, there can be strategic benefits to the provision of aid.\(^{162}\) For example, providing aid to the Pacific was seen to have strategic benefits for New Zealand, including trade advantages; many thought that providing aid plays a big part in building New Zealand’s strong reputation overseas; and providing aid was seen as important to retain influence, as there was a concern that large powers such as the United States or China may seek influence in the region.\(^{163}\) Thus, aid can be, and is, an issue of influence. In fact, over half of the DAC member countries explicitly recognise that development cooperation is a fundamental part of their foreign relations.\(^{164}\) In this sense, New Zealand is not an outlier.

However, there is a risk that having development cooperation too closely tied to wider foreign policy interests, such as promoting trade or pursuing military goals, will reduce the potential development and humanitarian impact of the aid provided.\(^{165}\) Andrew Natsios, former head of USAID, notes that “[p]olitical aid programs frequently do not produce good development results because they ignore both good development practice and theory; they have other objectives that make diplomatic and military sense, but not much else”.\(^{166}\) For example, the United States has

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\(^{161}\) Interview with former senior public servant (23 May 2011).


\(^{163}\) Ibid. at 9, 40, 76. In relation to China, this concern may be well-founded: China is beginning to increase its aid involvement in the Pacific, particularly in ways that further its own commercial interests or support elites in developing countries. Interview with senior public servant (16 May 2011). See also Thomas Lum and Bruce Vaughn, U.S. Congressional Research Service “CRS Report for Congress: The Southwest Pacific: U.S. Interests and China’s Growing Influence” (Report Prepared for Members and Committees of Congress, 6 July 2007).

\(^{164}\) OECD, *Managing Aid*, supra note 36.


\(^{166}\) Natsios, *supra* note 47 at 43.
aid programmes in war zones or where U.S. foreign policy interests are of central importance, such as Iraq, Pakistan, Yemen, the West Bank, Gaza and Afghanistan. These are political, rather than developmental, aid programmes, designed, implemented and managed by the Department of Defense or the State Department (rather than development professionals), that are intended to “win hearts and minds, attract the support of particular warlords to political factions, prop up fragile allies, or send diplomatic messages”. In 2010, Afghanistan, Israel, Pakistan and Egypt were the top recipients of U.S. aid, “reflecting long-standing aid commitments to Israel and Egypt and the strategic significance of Afghanistan and Pakistan.”

Foreign policy interests or self-interest can affect aid in other ways as well. For example, some donor countries channel aid through aid agencies in ineffective ways in order to further the economic interests of domestic interest groups, such as farmers, producers and consultants. These ineffective channels include the tying of aid, technical assistance and the provision of food aid. Aid tying is a requirement that a certain percentage of aid provided to a recipient must be spent on goods from the donor country. Tied aid is detrimental to aid efficacy as it raises the costs of a project or programme by between 10 and 30 per cent. This is because it limits the choices of the recipient government and the recipient is likely to be overcharged since it increases the market power of the donor country’s firms. Aid tying can also occur in other forms. For example, technical assistance, that is, “activities whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of developing countries”, is often tied to hiring consultants from donor countries. Some commentators have suggested that these activities often reflect donor rather than recipient priorities, and have argued that these consultants often lack local knowledge and inadequately

167 Ibid.
169 Riddell, “Does Foreign Aid Work?” supra note 19 at 66; Birdsall and Kharas, supra note 20 at 21.
170 Easterly, “Are aid agencies improving,” supra note 7 at 643; Easterly and Pfutze, supra note 16 at 17.
171 OECD definition, cited in Easterly and Pfutze, ibid.
transfer what they do know to local actors\textsuperscript{172} to the detriment of good development practice such as local ownership and sustainability of projects. Tied food aid is in-kind provision of foods by the donor country, which can almost always be purchased cheaper locally. This drives down domestic food prices, hurting local producers.\textsuperscript{173} Veillette notes that U.S. food aid programmes have been designed to help U.S. farmers and shippers as much as to respond to emergencies, increasing the cost of these programmes by as much as 30 percent.\textsuperscript{174} Although from 1999 to 2007, the proportion of untied bilateral aid from OECD countries rose progressively from 57 percent to 83 percent (for aid to Least Developed Countries) and from 51 percent to 73 percent (for aid to all developing countries), these figures do not include technical assistance or food aid, with at least 30 percent and 50 percent respectively still reported as tied, and the tying status of significant proportions not being reported by some donors.\textsuperscript{175} The United States is the worst culprit for aid tying, with nearly 60 percent of all bilateral aid tied, and Japan is the worst culprit for not reporting whether its aid is tied.\textsuperscript{176}

New Zealand has a mixed record of success in this area. Although New Zealand does not provide tied food aid, 13 percent of New Zealand’s aid was still tied in some way in 2007, and 2 percent partially tied (in contrast, 100 percent of aid from the United Kingdom, Norway and Luxembourg, and 96 percent of Australia’s aid, was untied).\textsuperscript{177} New Zealand also awarded six out of seven aid contracts within New Zealand in 2007, a practice which has been criticised as \textit{de facto} tying, whether intentional or not.\textsuperscript{178}

Furthermore, although New Zealand does not provide aid to further strategic military objectives in such an overt way as the United States, it has adopted some of the anti-terrorist rhetoric of the

\textsuperscript{172} Easterly, “Are aid agencies improving,” \textit{supra} note 7 at 643; Easterly and Pfuente, \textit{ibid.} at 17.
\textsuperscript{173} Easterly, \textit{ibid.}
\textsuperscript{174} Veillette, \textit{supra} note 20 at 10.
\textsuperscript{175} Edward J. Clay, Matthew Geddes and Luisa Natali, \textit{Aid untying: is it working?: Evaluation of the Paris Declaration} (Copenhagen: Overseas Development Institute, 2009) at viii, 8.
\textsuperscript{176} \textit{Ibid.} at 9.
\textsuperscript{177} \textit{Ibid.} at 10.
\textsuperscript{178} \textit{Ibid.} at 17.
United States’ “War on Terror” declared in 2001.\textsuperscript{179} Also, although New Zealand did not support the invasion of Iraq, and its development assistance in the Pacific has not been driven primarily by security concerns, it has increased aid expenditure quite substantially in Afghanistan post-2001, where the Army has been managing aid projects in the Bamiyan province.\textsuperscript{180}

Such policies have the potential to be detrimental to the efficacy of the aid provided by New Zealand. The government should avoid letting trade and security interests jeopardise the long-term interest in effective development.\textsuperscript{181} I acknowledge that development policy does not operate in a vacuum – all donor countries have legitimate political interests and it is rarely politically feasible or desirable for a country to ignore them. However, it is likely that if development policy and programmes are pursued first and foremost for foreign policy or national interest reasons, they will court failure or result in ineffective aid because of unclear or multiple objectives. On the other hand, if they are pursued first and foremost to achieve effective development outcomes then they are likely to have positive foreign policy spin-offs in most cases.\textsuperscript{182} Development assistance should be seen as a tool to support New Zealand’s national interest, \textit{in addition to}, not in substitution for, its core poverty alleviation mission.\textsuperscript{183}

Thus, it is important that with regard to the provision of aid, the pursuit of effective development outcomes comes first in order to ensure the efficacy of the aid provided. If monetary or other assistance is being provided primarily for other (no doubt legitimate) foreign policy reasons – for example, to forge a political alliance, or for defence purposes, or to increase trade opportunities for New Zealand – this should not be called “foreign aid”, nor should any activities relating to these purposes be funded out of the ODA budget. The government must be transparent about its


\textsuperscript{180} Interview with former Labour minister (11 July 2011).

\textsuperscript{181} DAC Lesson 2 in OECD, \textit{Effective Aid Management}, supra note 50 at 5-6; OECD, \textit{Managing Aid}, supra note 36 at 17.

\textsuperscript{182} Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011); Interview with senior public servant (19 July 2011); OECD, \textit{Managing Aid}, \textit{ibid}.

\textsuperscript{183} Interview with senior public servant (22 May 2011).
motives for providing aid. Unfortunately, the re-absorption of New Zealand’s aid programme into MFAT means that there is no longer direct advice to the Minister on development issues, and it is harder for the programme to have a clear development focus. Thus, it is likely that development officials’ advice has less influence at the Cabinet level and development concerns may be subjugated to foreign policy interests.

4.3 New Zealand's focus on the Pacific

New Zealand has been increasingly concentrating its aid efforts in the Pacific region. In 1971, 44 percent of New Zealand’s bilateral aid went to the Pacific; forty years later this has increased to approximately 84 percent. The top ten recipients of New Zealand’s aid receive 46 percent of gross bilateral ODA. Of the ten, seven are in the Pacific (Solomon Islands, Papua New Guinea, Tokelau, Vanuatu, Niue, Samoa and Tonga), two are in South East Asia (Indonesia and Vietnam) and one in central Asia (Afghanistan). Pacific Island countries rank roughly in the medium range in terms of the Human Development Index (the lowest ranking positions are dominated by countries in Africa) and on GDP per capita measurements of development. Thus, it could be argued that New Zealand, if poverty alleviation is to be its core goal, should be focusing its efforts on helping the poorest developing countries. However, New Zealand is the smallest aid donor in dollar terms, and cannot, therefore, be everywhere at once. There are a number of reasons why it is rational and reasonable for New Zealand to focus its limited aid dollars on the Pacific.

First, relatively high human development indicators and GDP per capita (compared to other developing countries) in parts of the Pacific mask major developmental issues that afflict these island states. In most Pacific countries, economic growth is slow and not sufficient to address poverty. In 2010, only Papua New Guinea and Vanuatu had economic growth of more than 2

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184 Interview with senior public servant (19 July 2011).

percent projected.\textsuperscript{186} For many countries, growth potential is hindered by small internal markets, a narrow range of products, a small resource base, geographic dispersion, long distances from markets and suppliers, and high transportation costs. There are insufficient income-generating opportunities to meet the development needs of growing populations; youth unemployment is rising. These growing populations lead to urbanisation in countries that often do not have the capacity to manage the required housing, infrastructure and employment opportunities. Many governments also do not have the capacity (resources, skills, policies) to meet basic development needs, and modern governance practices are not followed. Growing populations are also putting pressure on the subsistence economies of these countries, such as fishing and agricultural, resulting in environmental degradation through the unsustainable use of land and sea resources. Other environmental issues include vulnerability to natural disasters, susceptibility to pollution and increasing vulnerability to climate change, where sea level rises will lead to the loss of coastal land and salinisation of low-lying land for every country in the region. Some countries, particularly those in Melanesia, have seen violent conflict and political instability in recent years.\textsuperscript{187} Therefore, most Pacific Island countries need external assistance, including foreign aid.

Second, recognising that the provision of aid can legitimately be motivated by moral imperatives and self-interest concurrently (provided that these motives are coherent, and that development policies and programmes are pursued first and foremost to promote effective development outcomes), development in the Pacific is in New Zealand’s interest. The Pacific’s problems have the potential to affect New Zealand. For example, an increase in the rate of migrants (who could be “political refugees” escaping conflict and instability, “economic refugees” escaping poverty in their own islands and potentially “environmental refugees” if environmental degradation continues or sea levels rise as a result of climate change)\textsuperscript{188} could put pressure on New Zealand’s population or increase social tensions relating to immigration and immigration policy. Also, New Zealand exports to the Pacific (excluding Australia) were valued at $820.3 million in

\begin{itemize}
\item \textsuperscript{186} MFAT, MFAT Annual Report 2009/10, supra note 98 at 30.
\item \textsuperscript{187} Ibid.; Waring, supra note 91 at 20; OECD, DAC Review 2005, supra note 92; Ministerial Review Team, NZODA Review 2001, supra note 57 at 18-20; Winston Peters, “Paddling the canoe on both sides: Winston Peters outlines New Zealand’s new approach to the provision of aid to Pacific Island states” (2008) 33(6) New Zealand International Review.
\item \textsuperscript{188} Ministerial Review Team, ibid. at 20.
\end{itemize}
2009,\textsuperscript{189} and a more prosperous region is better for trade. Further, New Zealand’s high Polynesian population means that many people in New Zealand have a direct, personal interest in the development of the region.

Finally, New Zealand has a long relationship with the Pacific, resulting from Maori migration, colonial links with Polynesian countries and war time links with Melanesia and Micronesia. The Pacific population in New Zealand makes up 6.9 percent of New Zealand’s total population, and Auckland is the world’s largest Polynesian city.\textsuperscript{190} Also, many global donors have historically overlooked Pacific Island countries, partly because they have not met the traditional GDP measure of absolute poverty and partly because it is difficult for larger donors to scale down their aid programmes to meet the requirements of operating with small states.\textsuperscript{191} On the other hand, New Zealand, with its small aid programme coming from a small country nearby, has the ability to think “small” with regards to the constraints of other small island development issues.\textsuperscript{192} Thus, due to its size, location, long relationship and Pacific Island community, New Zealand has a comparative advantage when it comes to the Pacific. There is an international expectation that New Zealand is knowledgeable about the Pacific, is a source of expertise in dealing with development concerns there, and will adequately deal with poverty issues within its own region.\textsuperscript{193}


\textsuperscript{190} Ministerial Review Team, \textit{NZODA Review 2001}, supra note 57 at 19; Statistics New Zealand and N.Z. Ministry of Pacific Island Affairs, \textit{Demographics of New Zealand’s Pacific population} (Wellington: Statistics New Zealand and the Ministry of Pacific Island Affairs, 2010) at 8; Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).

\textsuperscript{191} Interview with former senior public servant (23 May 2011).


\textsuperscript{193} \textit{Ibid.} at 20. A senior public servant interviewed noted that the refugees now settling in New Zealand from the Middle East and Africa may give an interesting twist to this point in future decades, as the number people in New Zealand have links with these regions increases (Interview with senior public servant (22 May 2011)).
4.4 Aid volumes and volatility

Foreign aid is a voluntary transaction between donor and recipient countries (sometimes through an intermediary such as an NGO or a multilateral institution). Because aid pledges are not binding on donor countries, as their political, economic and strategic concerns shift, so too can the amount of aid flowing from the donor country to a particular recipient country, or to a particular programme or project within a country. As noted in the Introduction, this volatility is widely recognised as bad for long-term, sustainable development. For example, it means that recipient countries are unable to fully plan future expenditures, and sudden drops in aid levels can have major detrimental effects on a recipient country’s economy, potentially comparable in size to major global economic shocks faced by developed countries.

Have changing political objectives in New Zealand caused aid flows to be volatile? Although in absolute terms aid flows from New Zealand have steadily increased over time, the amount of aid as a proportion of GNP has fluctuated as political parties have placed varying emphasis on foreign aid depending on their philosophies and the state of the New Zealand economy. Following the election of the Kirk Labour Government in 1972, aid increased dramatically from 0.18 percent of GNP in the early 1970s to 0.51 percent of GNP in 1975. This increase reflected the Labour Party’s political philosophy, which was motivated by a moral and humanitarian obligation to reduce poverty and promote social and economic development in Asia and the Pacific. The Labour Government also had the benefit of a buoyant New Zealand economy, so domestic pressures to “look after its own back yard” first would not have been strong. In contrast, aid volumes declined steadily following the election of the Muldoon National Government in 1975, dropping to 0.25 percent of GNP in 1984, due partly to National’s

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194 Sachs, supra note 12 at 276-7; Fielding and Mavrotas, “On the Volatility and Unpredictability of Aid" in Mavrotas and McGillivray, eds., supra note 7; Kharas and Fengler, supra note 26 at 18; Birdsall, supra note 29 at 535; Browne, supra note 7 at 7.

195 Riddell, “Does Foreign Aid Work?” supra note 19 at 68; Kharas, supra note 10 at 4-5; Birdsall, ibid. at 535; Kharas and Fengler, ibid. at 17-18; Sachs, ibid. at 277.

196 N.Z. Treasury, Treasury Working Paper, supra note 60 at 5; Ministerial Review Team, NZODA Review 2001, supra note 57 at 9; McKinnon, Independence and Foreign Policy, supra note 64 at 267.
scepticism of foreign aid and partly due to a faltering New Zealand economy.\footnote{N.Z. Treasury, \textit{ibid.}; McKinnon, \textit{ibid.} at 267-268; Hoadley, \textit{supra} note 56 at 60.} Following the election of the Labour Government in 1984, one would have expected aid levels to rise, especially as the government pledged to raise aid to 0.7 percent. However, domestic political pressures concerning the state of the New Zealand economy meant that aid levels in fact decreased to 0.22 percent of GNP in 1991. Aid levels as a proportion of GNP dropped even lower under the National Government of the 1990s, to 0.21 percent in 1996, although levels increased after this to 0.27 percent of GNP by the end of its term in 1999.\footnote{MFAT, \textit{NZODA Annual Review 1997, supra} note 75 at 14; MFAT, \textit{NZODA Annual Review 1998, supra} note 75 at 12; MFAT, \textit{NZODA Annual Review 1999, supra} note 75 at 9; MFAT, \textit{NZODA Annual Review 2000, supra} note 69 at 12 and 16.} Aid levels increased again under the Clark Labour Government, rising to 0.3 percent of GNP by 2008,\footnote{Ministry of Foreign Affairs and Trade, \textit{MFAT Post Election Brief, supra} note 62; Adams, “NZ aid programme fails,” \textit{supra} note 116; OECD, \textit{DAC Review 2010, supra} note 111 at 4.} as the government restructured New Zealand’s aid programme and placed a greater emphasis on foreign aid. Again, the government had the benefit of a buoyant domestic economy, implying that New Zealand taxpayers were more willing to agree to tax dollars being sent overseas in the form of aid. In 2007, a survey found that 76 percent approved of the New Zealand government providing aid, and 63 percent agreed with the government meeting the internationally agreed 0.7 percent of GNP target.\footnote{UMR Research, \textit{supra} note 162 at 9, 10, 49, 91-92.} Aid levels have since dropped under the current National Government to 0.26 percent of GNP. One can speculate that this is due both to National’s greater scepticism of foreign aid compared to Labour and to its perception of current public opinion: the worldwide economic downturn and consequent recession in New Zealand, and the economic effect of the Christchurch earthquakes, could mean that the public is less inclined to support the government money going to overseas aid when it has problems at home. However, there has been no official survey or study undertaken to determine whether this is actually the case.

One of the main reasons for this volatility in aid volumes is the conflict between donor governments’ short term political objectives, and the long term nature of development. However, although New Zealand should avoid allowing these interests to jeopardise the efficacy of aid provided, realistically domestic political pressures will always influence aid policy. New
Zealand’s short three-year terms of government means that aid policy objectives can potentially shift very frequently. New Zealand could reduce the potential of such see-sawing and resulting volatility by enshrining the country’s aid objectives in statute, like the United Kingdom has done,\textsuperscript{201} or by reaching a multiparty consensus on aid objectives and volumes, as Australia has recently done.\textsuperscript{202}

New Zealand has developed other ways to mitigate volatility. For example, ministers of donor countries and heads of aid agencies have agreed under the \textit{Accra Agenda on Action} to provide developing countries with regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans, with at least indicative resource allocations that developing countries can integrate in their medium-term planning and macroeconomic frameworks, which New Zealand has done.\textsuperscript{203} Also, the New Zealand Parliament sanctions annual budgets with inbuilt flexibility to rollover over-spends of up to 10 percent and under-spends of up to 20 percent. The 2010 DAC Peer Review noted that “[t]his level of flexibility is much higher than for most other donors, and provides for a good balance between predictability and flexibility”.\textsuperscript{204}

In practice, although aid levels in New Zealand have fluctuated depending on the political party in power and the state of the New Zealand economy, the effect of these fluctuations on the sustainability of many development programmes appears to be relatively minor. Public servants interviewed noted that despite shifting objectives, New Zealand does not cut off aid programmes or projects “unceremoniously” mid-cycle. They say that those administering the programme

\textsuperscript{201} The United Kingdom passed the \textit{International Development Act} in 2002. This Act establishes poverty reduction as the over-arching purpose of British development assistance, either by furthering sustainable development or promoting the welfare of people, as long as DFID is satisfied that the assistance will be likely to contribute to the reduction of poverty. The term ”sustainable development” is clarified to prevent interpretations that have just an environmental or economic meaning. \textit{See International Development Act 2002}, s. 1 and U.K. Department for International Development, “International Development Act 2002”, online: DFID <www.dfid.gov.uk>.

\textsuperscript{202} Interview with senior public servant (19 July 2011).


\textsuperscript{204} OECD, \textit{ibid.}; see also MFAT, \textit{MFAT Post Election Brief}, supra note 62.
understand that it is necessary to bring programmes/projects to a proper close in order to ensure their sustainability and to honour partnerships.\textsuperscript{205}

4.5 Fragmentation and proliferation

Over the last five decades, the number of donor countries, donor agencies, NGOs and new aid projects has increased dramatically, and the average size of each project has shrunk drastically, leading to the “fragmentation” of aid. Although fragmentation can generate innovation and experimentation in development approaches,\textsuperscript{206} as noted in the Introduction, it is generally recognised as highly detrimental to the efficacy of aid.\textsuperscript{207} Among other things, fragmentation results in coordination problems, the forfeiting of gains from specialisation, huge administrative burdens on recipient countries and the weakening of recipient country institutions, and it increases accountability issues.\textsuperscript{208} To what extent has New Zealand’s aid programme contributed to this fragmentation?

Despite its traditional focus on the Pacific (and to a lesser extent, South East Asia), and although New Zealand only has a relatively small amount of aid money to give away due to its size, New Zealand has typically disbursed aid to a large number of developing countries. Furthermore, its aid has primarily been project rather than programme based. Today, MFAT has bilateral relationships with 12 countries in the Pacific and six in South East Asia. It is also a modest

\textsuperscript{205} Interview with senior public servant (16 May 2011); Interview with senior public servant (19 July 2011).

\textsuperscript{206} Kharas and Fengler, \textit{supra} note 26 at 4, 14-15.

\textsuperscript{207} See, for example, Riddell, “Does Foreign Aid Work?” \textit{supra} note 19 at 67-68; Easterly and Pfutze, \textit{supra} note 16 at 2, 5, 11; Jonathan Temple commenting on Easterly, “Are aid agencies improving” \textit{supra} note 7 at 673; Beuselinck, \textit{supra} note 36 at 3; Arkedis, \textit{supra} note 36 at 1; Roodman, \textit{supra} note 36 at 83-84; Knack and Rahman, \textit{supra} note 36; Birdsall, \textit{supra} note 29 at 523; OECD, \textit{Managing Aid}, \textit{supra} note 36 at 79; Birdsall and Kharas, \textit{supra} note 20.

donor in South America and Southern Africa, and has an emergency/humanitarian programme in Afghanistan. It manages 30 programmes and roughly 800 activities.  

DAC has consistently recommended that New Zealand focus on fewer countries. Although New Zealand has gradually reduced the number of countries that it provides aid to, it appears to have partly finessed the issue by categorising countries as either “core” or “non-core” partners. The government’s reluctance to dramatically reduce the number of partner countries is likely due to the political reality that, as discussed in Section B, aid is a very useful shaper and facilitator of external relationships. When the Foreign Minister or the Prime Minister is visiting a developing country in South America, for instance, it helps them politically to have an aid project in place that they can point to. Donor countries have political incentives not to reduce their number of partner countries, because the political incentives to do everything and plant their flag everywhere are too strong. Politicians also like short-term projects for publicity purposes, that is, to demonstrate success to the voting public. Former Executive Director of NZAID Dr Peter Adams, who believes that New Zealand is not yet able to effectively manage the number of aid programmes that it administers, supports this argument:

> We have been striving to achieve fewer, bigger, and longer-lasting programmes and reduce the number of discrete projects. It is not easy because of historical attachments to projects, politicians’ (and even some staff) preference for short, sharp visible interventions, and insufficiently rigorous management to drive the number of activities down.

Thus, New Zealand can still be criticised for disbursing its aid too widely, contributing to the problems that result from aid fragmentation and proliferation. It should therefore continue to reduce the number of countries that it deals with – particularly in relation to countries/regions

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211 Interview with senior public servant (16 May 2011).

212 *Ibid*.

213 Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).
that it has only very small involvement in and where other countries have taken more of a lead role (such as in Africa and South America). If managed effectively, this should have no detrimental effect on New Zealand’s political or strategic relationships. In the past, for example, New Zealand disengaged from providing aid to China without damaging the relationship, ended development relationships with several South American countries as trade was growing as a “relationship facilitator” in its place, and transformed its project-based relationship into more of a partnership in development (sharing experience and knowledge) in South Africa. However, the Pacific region, where New Zealand predominantly works in – and should continue to work in for the reasons outlined in Section C – has a large number of small countries, so it is unrealistic and undesirable for New Zealand to decrease substantially the number of Pacific countries it provides its aid to.

Recognising this, what is New Zealand doing, and what should it be doing, to mitigate the problems caused by this fragmentation and proliferation? Internationally, donors have made some attempts at increased harmonisation and coordination as a solution to the problems caused by the fragmentation of aid. For example, under the 2005 Paris Declaration on Aid Effectiveness over one hundred ministers, heads of aid agencies and other senior officials agreed to increase efforts to coordinate, simplify procedures and share information to avoid duplication. Under the Accra Agenda for Action, drawn up in 2008 to build on the commitments agreed upon in the Paris Declaration, countries and aid agencies agreed that they would coordinate to use partner country systems to deliver aid.

New Zealand has committed to the principles in these agreements. As a result, it has made efforts towards better harmonisation and coordination. For example, it is initiating and supporting regional workshops to raise the profile of the Paris Declaration within the Pacific

\[\text{214} \quad \text{Ibid.}\]
\[\text{215} \quad \text{Ibid.; Interview with former Labour minister (11 July 2011).}\]
\[\text{216} \quad \text{Interview with senior public servant (19 July 2011).}\]
\[\text{217} \quad \text{The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action 2005/2008, supra note 203.}\]
It regularly takes part in discussions and meetings with other key donors in the Pacific, particularly Australia, but also the European Union, the Asian Development Bank and the World Bank. New Zealand is working particularly closely with Australia in the Pacific. There has been a move from small, shorter-term projects (through which New Zealand’s aid has traditionally been delivered, with limited impact) to programme-based and sector-wide approaches (SWAps) and delegated cooperation, which increase opportunities for aid agencies to jointly analyse needs and pool funds. A SWAp is an arrangement where donors collaborate to align their support to an agreed sectoral strategy, and delegated cooperation is where one donor manages another donor’s aid programme on its behalf. New Zealand and Australia have education SWAps in the Solomon Islands and Tonga, and have established a delegated cooperation programme in the Cook Islands. New Zealand and Australia also coordinate representation at high-level meetings.

However, although this aid effectiveness agenda is helping to reduce the impacts of fragmentation and proliferation, progress is slow and some donors (such as China and Japan) are reluctant or refuse to participate. Dr Peter Adams believes that the administrative burden with regard to aid programmes/projects is still too high for the recipient countries that New Zealand deals with. He notes that there are too many demands for reporting to different donors, too many uncoordinated donor missions, and too much individual donor project funding rather than pooled programme funding.

Specialisation is another possible solution to fragmentation that has been mooted by a number of scholars. It is argued that each aid agency should specialise in the sectors and countries that they

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218 OECD, DAC Review 2010, supra note 111 at 17.
220 OECD, Managing Aid, supra note 36 at 78-79; MFAT/NZAID, Annex 1 to NZAID Cabinet Paper, supra note 95 at 11.
221 MFAT, “Making aid effective”, supra note 219.
222 Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).
223 Ibid.
are best at helping, with a general objective to produce as much benefit for people in recipient
countries as possible given each agency’s budget, sector and comparative advantage.224
However, specialisation can run up against issues relating to political incentives and
accountability to the taxpaying citizen. As Knack and Rahman state:

Strong political forces and other interests work against further increases in
donor specialization by country or by sector... Leaving certain problems or
countries for other donors to deal with exposes an aid agency to charges by
NGOs or the media that it is irresponsibly underfunding critically important
development problems. Arcane justifications based on efficiency benefits of
donor harmonization and comparative advantage are unlikely to be an effective
public relations response... Competition at the global level among aid agencies
also tends to inhibit specialization. 225

The New Zealand government, however, does not face these political risks to the extent that
other countries might. New Zealand’s comparative advantage when it comes to the Pacific (as
discussed in Section C) is an effective public relations response when justifying its focus on the
Pacific. In fact, a 2007 survey of the New Zealand public’s perception and opinion of aid and
development issues found that nearly two thirds of people thought the Pacific should receive the
majority of New Zealand’s aid.226

4.6 Aid agency organisational structure

New Zealand’s aid programme was fully integrated with MFAT (and its various predecessors)
until 2002. This organisational structure was altered when NZAID was established as a semi-
autonomous aid agency, legally part of but functionally separate from MFAT. However, NZAID
was disestablished, and the aid programme re-absorbed into MFAT, under the National
Government in 2009, following McCully’s recommendations to Cabinet. This section discusses
whether the government was justified in disestablishing NZAID and investigates what

224 Easterly and Pfutze, supra note 16 at 6; Sachs, supra note 12 at 277; Easterly, White Man’s Burden, supra note 8
at 187 and 370.
225 Knack and Rahman, supra note 36 at 345.
226 UMR Research, supra note 162 at 76.
institutional features should be adopted in the organisational structure of the New Zealand aid programme to maximise the effectiveness of the aid delivered.

The government’s reasons for disestablishing NZAID fall into three main categories: its concerns regarding NZAID’s accountability; the existence of risks and transaction costs inherent in the SAB model; and its desire to align New Zealand’s foreign aid objectives more closely with its foreign policy and trade objectives.

First, the government had concerns about NZAID’s accountability following a critical 2007 Auditor General’s report that identified a series of concerns regarding inadequate financial management and contracting systems and confused accountability. At the time of the announcement of the changes, McCully stated in a speech to the New Zealand Institute of International Affairs (NZIIA) that the decision to re-absorb NZAID back into MFAT was “driven directly by the need to establish proper accountability mechanisms... This is public money. Taxpayers are entitled to hold someone to account for efficient, effective expenditure of the budget. Under our system of government that person is me. And I in turn should hold the chief executive of the ministry to account”.

The Auditor General’s Report highlighted issues that were worth taking seriously and needed to be resolved. Yet it must be recognised that with the establishment of NZAID, there was a high degree of organisational change occurring within a short time frame, NZAID was on a rapid growth trajectory that had not been immediately apparent at the outset of its establishment, and aid volumes were increasing rapidly. While the agency had fallen short in meeting the delivery/spend rates it had planned (that is, there were big under-spends), and some of its accountability requirements, a major remedial programme was undertaken to address the concerns raised in the Auditor General Report. As a result, the agency was beginning to resolve these issues by the time of its disestablishment. For example, the Auditor General’s follow up

227 McCully and Groser, supra note 109; Ryall and McCully, supra note 88 at para 7.
228 McCully, supra note 2.
229 Interview with former senior public servant (23 May 2011); Ryall and McCully, supra note 88 at para 7; Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).
report from 2008 noted that NZAID had responded positively and comprehensively to its recommendations, had focused its work to improve its processes and controls for funding arrangements, and had implemented other internal improvement projects and programmes.\textsuperscript{230}

Significantly, the original Report never found any evidence of corrupt action within the agency.\textsuperscript{231} At a select committee hearing held in 2007 to address the issues raised in the report, Simon Murdoch (then Secretary of Foreign Affairs and Trade) and Dr Peter Adams (then Executive Director of NZAID) assured MPs that aid was not being misused or wasted, noting that NZAID was widely recognised as doing good work and aid was being well spent. The real issue was that back office functions had not kept up with the rapid growth of NZAID over the five years since it had been established, and paper trails relating to contracts and so on were poor.\textsuperscript{232} The agency had the full support of its Minister at the time, Winston Peters, who, while concerned by the Report, was satisfied that there had been no misuse of public money and in fact had some sympathy for the conditions aid officials had to work under: “When you are out there in Malaita in the Solomon Islands, you don’t get a tender going too fast... The process you expect in downtown Queen St is not the same as downtown Malaita.”\textsuperscript{233} This demonstrates a good understanding by Peters of the realities of development work, including the risks of undertaking work in poor countries with weak institutions. To repeat the quote from Natsios above, “accountability should not be confused with development effectiveness. A program can be highly accountable with no fraud or abuse, yet be a development failure; conversely, a program can suffer from a leakage of funds and poor recordkeeping and yet be highly innovative and successful developmentally”.\textsuperscript{234} Although New Zealand’s aid programme does not yet have the same overbearing levels of oversight that Natsios demonstrated that USAID has to deal with (the

\begin{thebibliography}{99}
\bibitem{232} Cheng, \textit{ibid.}
\bibitem{233} \textit{Ibid.}
\bibitem{234} Natsios, \textit{supra} note 47 at 37.
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“counter-bureaucracy”), as a small organisation there is a risk of being overwhelmed by accountability measures. Too much of a focus on risk reduction, improving efficiency, and proper record-keeping and documentation for every transaction, if this is what McCully desires, can compromise good development practices such as local ownership, a focus on institution-building, decentralised decision-making and long-term planning, detrimentally affecting the sustainability of aid programmes and projects.

The second reason for the disestablishment of NZAID was that McCully and the Minister of State Services Tony Ryall considered certain risks and transaction costs to be inherent in the SAB model. For example, they believed that:

the legal requirements of the Public Service accountability framework can be undermined if Ministers, the chief executive of the host department or the head of the SAB operate in ways that are inconsistent with, or potentially contrary to, those parameters. Instances could include expectations on the part of Ministers or the head of the SAB that the head can and should act ‘independently’ of the host department, or that the head is accountable directly or only to the Minister responsible for the relevant Vote for the delivery of services or provision of advice.

McCully and Ryall also believed that the institutional arrangements between NZAID and MFAT at overseas posts led to blurred lines of responsibility and accountability. Moreover, they considered the arrangements and agreements between NZAID and MFAT to be personality-dependent, resulting in a risk that such arrangements and agreements may not have endured a change in personnel. These ambiguities around the degree of organisational and administrative “separateness,” and the relatively high transaction costs in terms of aligning NZAID’s “worldview” of development policy and priorities with MFAT’s wider priorities, are considered by one former senior public servant to be the biggest disadvantage of having an SAB

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235 Interview with senior public servant (19 July 2011).
236 Natsios, supra note 47 at 3.
237 Ryall and McCully, supra note 88 at para 23.
238 Ibid. at paras 29-32.
model for New Zealand’s aid programme.\footnote{Interview with former senior public servant (23 May 2011).} However, it is questionable whether these risks and ambiguities, which could have been mitigated and clarified over time if NZAID had been given more of a chance, outweighed the benefits of the SAB (or similar) model.

Finally, NZAID’s disestablishment was driven by the government’s desire to better align New Zealand’s foreign aid objectives with its overall foreign policy goals, in particular by giving MFAT the ability to align aid policy with trade policy in the Pacific region.\footnote{McCully, supra note 2.} However, it would have been possible to better align these objectives without re-absorbing NZAID back into MFAT. For example, it was the Executive Director of NZAID’s view that the government’s requirement of a closer alignment between ODA and foreign policy goal could be, and was being, met under Ministerial direction.\footnote{Ryall and McCully, supra note 88 at 41.} He noted in an interview that:

> There was no need to re-absorb [NZAID] since aid policy and foreign policy were not strategically divergent, as was alleged. The fact that both represented aspects of New Zealand’s external engagement and that the annual planning process for NZAID was well integrated with MFAT’s and both were directed by the same minister meant that such divergence could only exist if the government wanted it to. As a public sector agency, NZAID was ready and willing to respond to any new policy directions from the incoming government but was not really given the chance.\footnote{Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).}

Interestingly, in its advice to Cabinet prior to the 2009 changes, Treasury did not think that greater foreign policy alignment should be a motivation for removing the SAB status of the aid programme because, in its view, changing NZAID’s objective and strategies could be more effective and have lower risks; in fact, it did not see a strong case for the removal of the SAB at all.\footnote{Ryall and McCully, supra note 88 at 48-49.}
As discussed above in Section B, while it is inevitable that development policy to some extent will be influenced by foreign policy, it is questionable whether it is desirable for the objectives of an aid programme to be too closely aligned with foreign policy objectives. This is because this may compromise the developmental and humanitarian potential of the aid provided. One of the benefits of the SAB model was that the head of the agency had the right to advise the minister responsible for Foreign Affairs on development policy directly, rather than being subsumed in foreign policy advice where there were different points of view. This gave development policy a greater standing than it had previously in policy formation, and meant that where aid funds were being used mainly for foreign policy purposes, or in some other way that conflicted with development objectives, this could be exposed for debate. There was a “perfectly healthy contestability process” within MFAT and NZAID when a Head of Mission’s foreign policy approach did not fit easily with NZAID thinking, or when NZAID sought to change a line of MFAT thinking or advice to better reflect the primacy of development principles, and these debates were occasionally taken up to the Ministers to make a choice on direction. This feature, in my view, is an important and necessary feature of the organisational structure of an aid agency. In contrast, the government’s removal of the programme’s SAB status has consequently removed the right of the head of the aid programme to advise the Minister of Foreign Affairs directly on development policy. Instead, the programme is just one of many functional divisions within MFAT. It is likely that this has increased the possibility that foreign policy objectives will dominate over development objectives, to the detriment of the effectiveness of the aid New Zealand provides.

Thus, I do not believe that the government’s reasons for disestablishing NZAID and re-absorbing it back into MFAT were justified. Moreover, by the time of its disestablishment, NZAID was widely considered a success: the recruitment programme had been very successful in recruiting staff with more development knowledge and more diverse experience; it had become known for its people-oriented, policy-transparent, principles-based approach; it had gained the respect of

244 Adams, “Why does New Zealand have an aid programme?” supra note 85 at 1; Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).

245 Interview with former senior public servant (23 May 2011).

246 Ibid.
development partners; it was the lead agency on natural disaster response in the region; and it had taken significant steps away from individual projects, with limited impacts in time and effect, to longer-term, deeper and wider programmes designed to help improve a whole sector, such as education or health.\(^\text{247}\)

However, these achievements do not necessarily mean that the SAB model was the best organisational structure for New Zealand’s aid programme. Although development cooperation comes under ministries of foreign affairs to some degree in all DAC member countries, they vary to the extent to which these ministries have control over aid policy and implementation. The DAC outlines four main models:

a) the ministry of foreign affairs takes the lead and is responsible for policy and implementation (Denmark, Norway, New Zealand);

b) a development cooperation directorate or agency within the ministry of foreign affairs leads and is responsible for policy and implementation (Finland, Greece, Ireland, Italy, Netherlands, Switzerland (the NZAID model fits in here));

c) a ministry has overall responsibility for policy and a separate executing agency is responsible for implementation (Austria, Belgium, France, Germany, Japan, Luxembourg, Portugal, Spain, Sweden, United States); and

d) a ministry or agency, other than the ministry of foreign affairs, is responsible for both policy and implementation (Australia, Canada, United Kingdom).\(^\text{248}\)

Thus, New Zealand is one of only three DAC member countries that do not have an agency that has some element of separation from the foreign affairs ministry. The United Kingdom’s Department for International Development (DFID) is generally considered to be the one of the best development agencies in the world, and a model for other developed countries, particularly because it has been able to successfully balance long-term strategic and development objectives

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\(^\text{247}\) Adams, “Why does New Zealand have an aid programme?” *supra* note 85 at 2; Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).

\(^\text{248}\) OECD, *Managing Aid*, *supra* note 36 at 30-34.
against short term political pressures.\textsuperscript{249} Key features include the appointment of a high profile Cabinet Minister to be in charge of the department, consistently strong political leadership, strong human resource and financial capacity, and the implementation of legislation that clearly stipulates poverty reduction to be the purpose of development assistance (forbidding the use of ODA for other purposes), which allows DFID’s downstream operations to be more efficiently managed and evaluated.\textsuperscript{250} AusAID, another highly regarded aid agency, is an administratively autonomous agency within the Foreign Affairs and Trade portfolio. Final responsibility for the operation and performance of AusAID rests with the Director General who reports directly to the Australian Government’s Minister for Foreign Affairs on aid policy and operations.\textsuperscript{251} The Australian Government has recently changed its aid policy so that the fundamental purpose of its aid “is to help people overcome poverty”\textsuperscript{252} and has developed “a rolling four-year whole-of-aid budget strategy, covering for the first time, the aid efforts of all relevant Australian Government agencies under one coherent plan that outlines the results [it] aim[s] to achieve.”\textsuperscript{253}

I do not presume to have the ability or the mandate to describe in detail the best organisational structure for New Zealand’s aid programme. This would require an extensive review of the aid programme’s structure taking into account the particularities and uniqueness of the New Zealand public sector context (for example, the small size of New Zealand, its bureaucratic capacity, and the types of institutional structures possible under the State Sector Act 1988). However, I believe that there are a number of broad features that should be reflected in the structure of the agency that administers New Zealand’s aid programme that are necessary to maximise the effectiveness of the aid provided.


\textsuperscript{251} AusAID, \textit{Annual Report 2009/10}, supra note 4 at 11.

\textsuperscript{252} AusAID, \textit{An Effective Aid Program for Australia}, supra note 4 at 1.

\textsuperscript{253} \textit{Ibid.} at 2.
First, the New Zealand aid programme should have a sufficiently senior Cabinet-level Minister to ensure that development objectives have greater standing when the government is developing its external relations policies. The aid agency should have the right to provide independent advice to this minister, to ensure that development objectives are not subsumed in adverse foreign policy, short term, or political interests. Second, a multiparty accord on the objectives and the structure of the agency should be reached, to ensure that the agency does not become a “political football” by having its institutional structure changed every time a new government comes to power (which results in loss of productivity and growth during the period of transition and uncertainty). This will give the agency time to develop into an efficient, successful and respected organisation. Third, the agency should have a clear mandate that is enshrined in legislation so that any changes to it must go through a transparent, consultative, select committee process. This would also mean that any development programmes that did not meet the objectives outlined in the legislation could not be implemented purely for political purposes (unless this was explicitly allowed under the legislation). Finally, the agency should continue to have a core staff of development professionals with diverse development experience, with few rotational staff, and increased devolution of powers and responsibilities to field staff.

### 4.7 Public perception of aid in New Zealand

Public awareness of and support for foreign aid and development cooperation is essential to the effectiveness of New Zealand’s aid programme. Citizens are key stakeholders in the foreign aid system: they contribute through their taxes and by electing politicians who decide on and monitor aid policies; they also stand to benefit as greater growth in developing countries is likely to lead to greater security for New Zealand citizens.\(^\text{254}\) However, the 2007 UMR survey of New Zealanders’ attitudes towards, and knowledge of, overseas aid, found that a majority of respondents knew either “not that much” or “hardly anything” about overseas aid, with 5 percent declaring they knew “a lot” and 29 percent “a fair amount.”\(^\text{255}\) Generally, people mistakenly believed that the government gives aid for “large headline grabbing events” (such as natural

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\(^\text{255}\) UMR Research, *supra* note 162 at 8.
disasters) whereas NGOs fund more ongoing, developmental causes (and therefore must be spending more than the government). Nearly two-thirds of people also believed that the New Zealand government provided more aid per head than other governments (whereas in fact, New Zealand ranks 16\textsuperscript{th} out of the 23 DAC member countries),\footnote{OCED, Development Co-operation Directorate, “Online dynamic graphics: Net ODA - ODA/GNI in 2009”, online: OECD <http://webnet.oecd.org/oda2009/>.} with many expressing strong convictions that New Zealanders were extremely generous givers.\footnote{UMR Research, supra note 162 at 8, 31-34.} Only 29 percent of respondents expressed confidence that aid from the New Zealand government actually helps people in developing countries.\footnote{Ibid. at 10.}

Why is the public’s understanding of aid and development issues so superficial? As a consequence of the broken information/accountability feedback loop, in contrast to regular services provided by government agencies, the public generally must rely more on the government (including aid agencies themselves), politicians and media for information about development issues and aid agencies’ performance. However, the OECD study found that spending on public information about development and aid is “scandalously low.”\footnote{Ibid. at 32.} It reports that “[s]ome, such as Sweden, Netherlands and Norway, invest heavily in it, and have well-targeted strategic plans. Others invest so little that one might be forgiven for actually suspecting a plot to undermine public awareness on such a critical government budget item.”\footnote{Smillie, supra note 51 at 22.}

Since the re-absorption of NZAID into MFAT, the management of the aid programme’s communications have been integrated into the wider communications arm of MFAT, meaning the officials focused on the aid programme have less control.\footnote{Ibid. at 10.} There is, therefore, much potential for New Zealand to invest more in delivering, measuring and communicating information to the public about aid and development issues and the results of aid-financed

\footnote{Interview with senior public servant (19 July 2011).}
programmes in order to build a constituency for maintaining and increasing the aid Vote.\textsuperscript{262} This message should not just try to convince the public that some aid does work, or that steps are being taken to enhance the impact of aid, but “[t]ry to nurture, extend and deepen support for aid, acknowledging that a significant part of it is clearly ineffective, and sharing knowledge about aid’s failures as well as its evident successes”.\textsuperscript{263}

One possible way that New Zealand could improve public understanding is through incorporating current development issues into education strategies, as a number of other countries have done. The United Kingdom’s Department for International Development, for example, undertook a low key but effective public awareness campaign, including working with the Department for Education to include “global citizenship” in the new national curriculum, and providing materials and support for teacher training colleges to enable teachers to incorporate development into their teaching.\textsuperscript{264} Currently, 12 donor countries have education strategies, which include working with education ministries to include global development issues in the school curriculum, and the co-financing of civil society organisations to educate young people on development issues and post educational resources on the internet.\textsuperscript{265} Unfortunately, the Development Resource Centre (also known as Global Focus), which undertook work in this area and was funded largely by the government through NZAID, wound down its services in late 2010 after funding was cut following the election of the National government.\textsuperscript{266}

\textsuperscript{262} A number of those interviewed for this paper believed that there was a place for development, aid and global citizenship issues in New Zealand’s education system – not necessarily in a prescriptive, formal manner, but integrated into other parts of the curriculum, and that MFAT needs to do more work around public outreach. Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011); Interview with former Labour minister (11 July 2011); Interview with senior public servant (19 July 2011); Interview with former senior public servant (23 May 2011).

\textsuperscript{263} Riddell, \textit{Does Foreign Aid Really Work}, supra note 18 at 115.

\textsuperscript{264} Barder, supra note 249 at 27. It also teamed up with the Rough Guide travel books publisher to produce a Rough Guide to a Fairer World, which explained to members of the public what they could do if they wanted to become more involved in supporting developing countries.

\textsuperscript{265} OECD, \textit{Managing Aid}, supra note 36 at 21. Other examples of initiatives that other donor countries have undertaken include: campaigns about the MDGs; public consultation during the preparation of white papers on foreign aid; and encouraging popular television series to integrate development issues into programmes.

\textsuperscript{266} Global Focus Aotearoa was a specialist resource centre on global issues and international development. It provided information on key global issues through its various publications and its online and physical libraries. Seminars, workshops and film screenings were also held regularly. See DevNet, “Resources”, online: DevNet <http://www.devnet.org.nz>; Global Focus Aotearoa, “Welcome to Global Focus Aotearoa”, online: Global Focus
However, there is a risk that any increase in the proportion of the aid budget going toward public education will be perceived negatively by New Zealanders, who may second-guess the motivations for this increase.\(^{267}\) Furthermore, as explained by a senior public servant, for the democratic process to be effective education arguably needs to work both ways. That is, those who are responsible for the policy (the politicians) and those who disburse the funds (public servants) must be “educated” to understand what the public expects of them. While many activities of an aid agency should rightly be kept at a distance from the political domain (for example, as discussed above, an agency should attempt to avoid letting short term political pressures detrimentally affect the long term effectiveness of development programmes), an aid agency must not consider itself immune from political accountability.\(^{268}\)

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Aotearoa <http://www.globalfocus.org.nz>; Interview with Dr Peter Adams, former Executive Director of NZAID (5 June 2011).

\(^{267}\) Interview with senior public servant (16 May 2011).

\(^{268}\) Interview with senior public servant (22 May 2011).
5 Conclusion

Roger C. Riddell, in his seminal book *Does Foreign Aid Really Work?*, writes:

The central question in aid discourse should not be ‘Does aid work?’, but rather ‘How can aid to poor countries be made more effective?’ Ironically, the more donors are dominated by the felt need to reassure their supporters that the aid they provide works, the less able they will be to explain that the real challenge they face lies in making aid work better, notably in countries and contexts where it is desperately needed but most of it (currently) may not be working. If enhancing the effectiveness of aid were to become the central question in aid discourse, then a good aid agency would not be judged in relation to its ability to show that all its aid works. Rather, it would be judged by showing that, in circumstances where the prospects for success are exceptionally poor, and, at the extreme, where aid has predominantly failed, the agency has worked with other donors and with poor people to make some tangible differences to the lives of those who really need external assistance.269

This paper hopes to add to the growing body of literature that is refocusing aid discourse in this way. Rather than asking if New Zealand aid has worked, or even can work, it has instead analysed and critiqued New Zealand’s aid programme in order to highlight ways in which New Zealand’s aid could be made more effective.

Aid agencies are peculiar in terms of government agencies, as they suffer from a broken information/accountability feedback loop. An absence of feedback from aid beneficiaries to aid agencies, the difficulties faced by taxpaying citizens of donor countries in obtaining reliable information by which to monitor aid agencies, and the fact that politicians in donor countries have a greater incentive to satisfy the interests of their own citizens over people in developing countries, compromise the efficacy of aid delivered.

269 Riddell, *Does Foreign Aid Really Work?*, supra note 18 at 257.
In New Zealand, the latter feature in particular has had a clear effect on the country’s aid programme and policy. Throughout its aid-giving history, the objectives of the aid programme, the rationale for providing aid and the levels of aid provided have been influenced by New Zealand’s foreign policy goals, domestic political pressures faced by politicians and governing party philosophy – to the likely detriment of the effectiveness of the aid provided. Recently, the government has modified the policy mandate of the New Zealand aid programme: from having a central objective of poverty reduction, to supporting sustainable development, with a focus on sustainable economic development. This will result in an increase in support for sectoral activities such as agriculture, fisheries, tourism, and private sector development. The government has also made the alignment of its foreign aid programme and its foreign policy goals explicit. These changes align with the National party’s view that foreign aid is an important foreign and trade policy tool, and with its more market-oriented political philosophy.

Whilst the end goal of the programme continues to be poverty reduction, there are risks to the government’s current approach to aid: a focus on economic development – if approached narrowly – may lead to increased inequality or may not be appropriate in the contexts of some developing countries; concentrating on economic indicators as a measure of development could lead to the challenges faced by poorer sections of society being downplayed or overlooked; and if aid policy and programmes are pursued first and foremost for foreign policy, trade or national interest reasons, there is a risk that this will result in ineffective aid because of unclear or multiple objectives. The long term nature of sustainable development can conflict with politicians’ short term incentives, such as the desire for a quickly executed development project they can point to, or the desire to use aid to further strategic or economic goals.

These issues are not insurmountable if New Zealand’s aid programme continues on its apparent path of supporting an expansive conception of poverty, incorporating goals such as governance, human development and protection of natural resources and addressing aid effectiveness issues. However, the recent changes to the structure and administration of the aid agency and programme – that is, the re-absorption of the briefly semi-autonomous NZAID back into MFAT – make it more difficult for the public servants administering the programme to overcome political pressures. It is harder for the programme to have a clear development focus, and the Minister of Foreign Affairs no longer receives direct advice from development officials.
Development policy has lost the standing it previously had when NZAID existed. Thus, it is likely that development officials’ advice has less influence at the Cabinet level and development concerns may get subjugated to other interests.

Ideally, the New Zealand government would reform the aid programme to give it greater autonomy and separation from MFAT. However, this would involve restructuring the programme for the third time within a very short timeframe – itself highly disruptive to the efficacy of the programme. Another beneficial and less disruptive move would be for the major political parties to reach a multiparty consensus on the objectives of the aid programme and enshrine these in legislation. This would mean that any changes to the objectives would have to go through a transparent, consultative select committee process any time a governing party wanted to modify the objectives. It would also mean that any development programmes that did not meet the objectives outlined in the legislation could not be implemented purely for political or other purposes. Preferably, the fundamental purpose of aid would be poverty elimination, as it is in Australia.

The fragmentation of the global aid system, and the proliferation of aid programmes worldwide, is highly detrimental to the efficacy of aid. Among other things, this phenomenon can result in huge administrative burdens on recipient countries (which are understandably ill-equipped to deal with it), coordination problems, the weakening of recipient country institutions and an increase in accountability issues. The problem can be related back to the broken information/accountability feedback loop. Politicians and aid agencies all try to ‘plant their flag’ in many places, as each has the incentive to take on multiple goals to satisfy economic, foreign policy, or military objectives, rather than do what is best for the beneficiaries of the aid. Politicians also like short-term projects for publicity purposes, to demonstrate development success to the voting public – which is not usually the most effective policy for long term sustainable development.

New Zealand has some culpability in this respect. Throughout its aid giving history, it has typically disbursed aid to a large number of countries, and its aid has primarily been project rather than programme based. However, to its credit, New Zealand has been consistently reducing its number of partner countries and its number of discrete projects. Furthermore, it
should be recognised that New Zealand now provides the bulk of its aid to the Pacific region, which contains a large number of small island nations. There is good reason for this: New Zealand is a source of expertise in development concerns in the Pacific; it has a comparative advantage, due to its location, long relationship with the region, and large Pacific Island community. Thus, it would be unreasonable to expect New Zealand to reduce the number of countries to which it provides aid substantially (except, of course, to graduate countries off the list in the event they no longer require aid, which is the ultimate aim). New Zealand is also improving its policies in the harmonisation and coordination sphere. For example, it has committed to the principles in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action and has established sector-wide approaches and delegated cooperation programmes with Australia. However, there is always room for further improvements in this area – something clearly recognised by the International Development Group, which administers New Zealand’s aid programme within MFAT, as it has an aid effectiveness unit within the wider team.

The New Zealand public’s awareness of and support for foreign aid and development cooperation is critical to the effectiveness of New Zealand’s aid programme. Citizens are key stakeholders in the system: they contribute through their taxes and by electing politicians who choose and monitor aid policy; they also stand to benefit from third world development. However, the New Zealand public’s understanding of aid and development issues often appears to be superficial and misinformed. As a consequence of the broken information/accountability feedback loop, the public must generally rely on the government, politicians and the media for information about development issues and the performance of its aid programme, as New Zealanders do not directly experience the benefits of aid. Unfortunately, the current government has chosen to cut funding to the main organisation providing information on these issues to the public. Furthermore, with the re-absorption of NZAID, the management of the aid programme’s communications have been integrated into the wider communications arm of MFAT, meaning that the public servants administering the programme have less control. There is, therefore, much potential for New Zealand to invest more in improving public understanding of aid, development issues and realities (such as the long term nature of sustainable development and the complexities faced in undertaking development projects in difficult external environments), and the results (positive or negative) of aid-financed programmes. The aim should be to build a
greater constituency for maintaining and increasing the aid budget, for the benefit of the poor in developing countries.

The global aid system is wrought with controversy, and New Zealand’s aid programme is not immune from this. Often, it appears to the New Zealand public that aid does not work – and sometimes it is right. However, the failure of some aid does not justify stopping aid completely. Instead, it is a call to investigate ways to improve the efficacy of New Zealand aid, so that it makes a more tangible difference to the lives of those in the developing world.
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