

Submission to the inquiry into New Zealand's aid to the Pacific

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I would like to speak to this submission.

Introduction

Thank you for the opportunity to present information to this inquiry. This submission is accompanied by two supplementary documents: one providing quantitative information on New Zealand aid to the Pacific, the other detailing the diverse levels of development found in the Pacific. The supplementary documents are not essential for understanding this submission; however, they provide detailed background useful for understanding the region and how New Zealand currently gives aid to the Pacific.

This submission starts with a brief overview of foreign aid, and whether aid is effective at promoting development.² The submission then details the key factors that contribute to effective aid. This leads to the main section on maximising the effectiveness of New Zealand aid in the Pacific. The final section addresses the issue of transparency and accountability.

The submission speaks to three of the areas that the inquiry is focusing on: the effectiveness of New Zealand aid in the Pacific; value for money; and accountability.

Does aid work?

Aid has a number of high-profile critics who argue aid fails to promote development (for example, Hughes 2003; Moyo 2010). However, the best available empirical evidence does not back their claims. Recent econometric work suggests that, on average, aid has a positive effect on economic growth (Galiani et al. 2017; Mekasha & Tarp 2019), governance (Jones & Tarp 2016), and human development (Arndt et al. 2015). Aid's overall impact in these areas is often quite small. However, aid flows are typically modest in comparison to the size of both donor and recipient economies (Radelet 2015). Given how little money is devoted to aid, it would be surprising if its average effect was large.

A more valid critique of aid is that aid *sometimes* fails. It is not hard to find examples of unsuccessful aid projects. For example, my analysis of World Bank and Asian Development Bank loans to the Pacific, based on the donor assessments, found these donors assessed more than 20 per cent of their loans in the Pacific as having delivered less than satisfactory outcomes. At the same time, however, it is also easy to find examples of very successful aid projects. Aid played a catalytic role in the elimination of smallpox (Levine 2007). Aid contributed to major falls in the incidence of malaria

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² In this submission I use the terms 'aid', 'foreign aid', 'government aid' and 'official development assistance', interchangeably. In all instances I am referring to aid given by governments (as opposed to NGOs). I am only referring to aid that meets the OECD's definition of Official Development Assistance (ODA). This definition excludes military aid but includes most else that is usually thought of as aid. All or almost all of New Zealand aid funded from the budget line "Vote ODA" is Official Development Assistance. Details of what counts as ODA can be found here: <https://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

in Africa (Bhatt et al. 2015). Aid has also contributed to notable falls in the incidence of malaria in the Solomon Islands (Burkot & Gilbert 2017).

Given aid has the potential both to achieve little, and to bring major gains, it is crucial to understand the circumstances under which aid is most likely to succeed.

What contributes to effective aid?

Simplifying slightly for the sake of a short submission, three key factors influence the likelihood that aid will succeed in helping people in developing countries.

Donor motives

Governments give aid for a range of reasons including helping people in recipient countries, but also advancing their own economic and geostrategic interests (Bermeo 2018). Unsurprisingly, when aid is focused foremost on helping people in recipient countries it is more likely to help (Dijkstra 2018; Dreher et al. 2016; Dunning 2004; Kersting & Kilby 2014).

Recipient context

Aid is harder to give effectively in poorly governed countries (Denizer et al. 2013). This is problematic because there is a strong correlation between poverty and poor governance, meaning countries that need aid the most are often the most difficult to give it successfully in. Although it is harder to give aid effectively in poorly governed countries, aid is not destined to fail in these contexts, but considerable attention needs to be paid to giving aid that fits well with context if it is to succeed (Levy 2014).

Donor capacity

Even with the right motives and in comparatively well-governed countries, giving aid successfully is hard. It requires experienced staff with time to design work that is well-adapted to context (Riddell 2007). In Australia, surveys of stakeholders taken before and after the integration of AusAID into DFAT suggest a fall in staff effectiveness was associated with a fall in aid effectiveness (Wood et al. 2016).

Aid effectiveness and value for money in the Pacific

For those concerned with the well-being of people in Pacific Island countries, value for money in New Zealand's aid work means delivering aid that is effective in assisting these countries. Unfortunately, preliminary findings from my work analysing World Bank and Asian Development Bank evaluations of their aid projects, as well as the work of Feeny and Vuong (2017), suggests that the Pacific is a particularly challenging part of the world to give aid too. Although aid projects can definitely achieve positive outcomes in the Pacific, they are less likely to succeed in the Pacific than they are elsewhere. This does not mean New Zealand should cease giving aid to the Pacific. Rather, it means that if we want our aid to succeed in helping the region, we need to ensure our aid is given as well as possible.

Continuing to give aid to the Pacific with the right motives

Throughout much of the first decade of this millennium, New Zealand aid was for the most part given foremost for the sake of helping people in developing countries (Development Assistance Committee 2005; Waring 2005). In the wake of the 2008 election, and the integration of the New Zealand government aid programme into MFAT, New Zealand began to explicitly give aid with a greater view to bringing economic gains to New Zealand (McCully 2009; Ministry of Foreign Affairs and Trade 2012; Spratt & Wood 2018). However, these changes occurred predominantly outside of

the Pacific. Within the Pacific, aid continued to mostly be given with the intent of promoting development.³

The position of both the Clark and Key governments that aid should focus on advancing development in the Pacific looks at risk of changing owing to the perceived threat posed by China. Although the challenges posed by China are not as heavily emphasised in New Zealand as they are in Australia, China has had some impact on how New Zealand's Foreign Minister and foreign ministry are now thinking about aid in the region. (Those wanting evidence of New Zealand's concern with China's role in the Pacific are pointed to the redacted Cabinet National Security Committee paper on 'New Zealand in the Pacific' from 2018, released in response to an OIA request, including the section at the top of page 6.)

I will not speculate here on whether China poses a genuine threat to New Zealand through its activities in the Pacific.^{4,5} However, a crucial determinant of the effectiveness of New Zealand aid in the Pacific in coming years will be our response to China. An overly reactive response in which aid is given primarily with a view to keeping countries out of China's sphere of influence risks repeating the worst mistakes of the Cold War, in which poorly considered aid was often given by western donors, simply for the sake of procuring influence. Worryingly, there is already evidence that some of New Zealand's aid decisions are being made to counter Chinese influence. For example, New Zealand has joined a coalition of aid donors promising to provide electricity to 70 per cent of the population of Papua New Guinea by 2020. This is an unrealistic promise; electrification rates in Papua New Guinea are in the vicinity of 20 per cent and not increasing rapidly (Dornan 2014). New Zealand is undertaking this endeavour with the United States and US media has reported the undertaking as being a direct response to China's rising presence in the region.⁶ New Zealand's investments in electricity have a very mixed track record in Papua New Guinea.⁷ Committing to unrealistic promises for work in a difficult sector, in a challenging country-context, in direct response to China, is not an example of sound aid planning.

An alternative approach would be to build on New Zealand's key comparative advantage in the region: soft power. China's aid investments, which are usually in infrastructure, which tend to decay rapidly owing to poor construction, and which are usually built with Chinese labour, are not earning the country much gratitude from the people of the Pacific. On the other hand, New Zealand, by virtue of its seasonal migration schemes, its (usually) considered approach to diplomacy, and its long track record of providing aid to the region, tends to be viewed more favourably.

New Zealand could build upon this advantage by strengthening its aid programme and building its reputation as a good-faith donor. At the same time New Zealand could seek constructive engagement with China. Opportunities for such engagement are not guaranteed, but China is

³ Earlier this year New Zealand was ranked 19th out of 28 OECD donors in the well-publicised 'Principled Development Index' produced by the UK think tank the Overseas Development Institute. This is a concerning score, and does reflect some real issues. However, aid donor indices of this nature are crude measures at best. In the case of this index, New Zealand is punished unduly for reasonable actions such as a focus on the Pacific. See the index here: <https://www.odi.org/opinion/10502-principled-aid-index>

⁴ It is worth noting, though, that even hawkish Australian commentators are sceptical of the idea that China poses any direct threat to Australia. For example, <https://www.aspistrategist.org.au/hugh-white-calls-for-australia-to-scrap-ships-and-build-more-submarines/>.

⁵ If you are interested in the threat of indebtedness posed to Pacific countries by Chinese aid, I recommend this short piece of analysis of the sources of debt in the Pacific. <https://www.devpolicy.org/is-china-engaged-in-debt-trap-diplomacy-20181108/>

⁶ See, for example, <https://www.seattletimes.com/business/us-allies-to-bring-electricity-to-most-of-papua-new-guinea/>

⁷ For example, read the review here: <https://www.mfat.govt.nz/assets/Aid-Prog-docs/Evaluations/2018/PNG-CPE-P4-Final.pdf>

evolving as an aid donor, and as it develops, it may become a more feasible partner. Seeking to work with China, at least when the work is likely to bring genuine benefits to the Pacific, rather than compete with it, is also a sound economic strategy given the importance of China as an export market.

The alternative approach—a geo-strategic spend-off—is likely to reduce the effectiveness of New Zealand aid in the Pacific.

Tied aid

One additional aspect of New Zealand's aid giving to the Pacific raises questions about our motives, and concerns with regards to effectiveness and value for money. This is the issue of tied aid. The data associated with this issue can be found in my supplementary submission covering New Zealand aid flows. You can also download this submission here: <https://tinyurl.com/y3by5ndy>. The data sources I draw on in the following paragraph are explained fully in the supplementary submission.

Tied aid is aid that donors give conditional on it being spent on goods and services from the donor country. Although tied aid may bring economic benefits to the donor country, tied aid is inefficient. Aid will be at its most efficient if it is used to procure goods and services either in recipient countries, where purchases will help with economic development, or in the global market, where the best value for money can be sought.

According to New Zealand's reporting to the OECD, globally, 7 per cent of New Zealand's aid is tied. This is considerably higher than the median donor, which claims to tie about 3 per cent of its aid. In all likelihood, other donors are concealing tied aid, and New Zealand is only above the global median because it is reporting more honestly. However, my analysis of tied aid to the Pacific, suggests that in 2017, between 16 and 24 per cent of our aid to the region was fully or partially tied. This is a concerningly high amount. There may be a good explanation for this fact, stemming from issues with the underlying OECD data, although I could find no such issue in my analysis. The issue of tied aid to the Pacific needs to be investigated further. Tied aid may well be reducing the effectiveness and value for money of our aid to the region.

Learning and adapting when giving aid to the Pacific

Even with the right intentions, giving aid well is hard. Giving aid in the Pacific is particularly challenging, and giving aid effectively in the poor and poorly governed parts of the Western Pacific (particularly Papua New Guinea and Solomon Islands) is more challenging still. The New Zealand government aid programme, and the politicians it reports to, can ensure its work is as effective as possible by focusing on the following:

1. Not falling into the trap of thinking the Pacific is homogenous, and that because we have a long history of interaction with one part of the region (Polynesia) we understand the challenges and needs of the rest of the Pacific well. In a supplementary submission I provide a paper on the diversity of the Pacific. You can also download this paper here: <https://tinyurl.com/y65mvgbu>. While the MFAT staff who deliver our aid are aware of the diversity of the Pacific, the need to carefully tailor aid work to different country contexts and to learn about country contexts, still tends to be underappreciated. Carefully, adapting New Zealand aid work to context in different countries will maximise effectiveness.
2. Ensuring aid expertise is prioritised within the aid programme. One benefit of the full integration of New Zealand's Pacific aid programme into MFAT is that often senior ministry staff and high commissioners have at least some aid experience. On the other hand, because there are few aid specialist roles in the Ministry and because it is hard for junior staff in the

Ministry to build a career focusing on aid, there is little incentive for individual staff to gain aid expertise. Similarly, the fact staff rotate in and out of aid roles as their careers progress also reduces the development of aid-related skills. Also, at times, staff at our high commissions managing aid will have had little or no previous aid experience. All of these issues are likely to reduce aid effectiveness. Cultivating aid expertise and knowledge, and viewing aid work as a specialist area within the ministry, will serve to make New Zealand's aid to the Pacific more effective.

3. Investing in evaluations. Evaluations are conducted either during the lifetime of an aid project, or after it has been completed. They are an opportunity to learn whether aid projects are working and the causes of any issues. I think it fair to say the quality of evaluations has probably improved in the aid programme in recent years. However, evaluations could be improved even further if they were better resourced, and planned in advance of aid projects so that high-quality data could be used in making assessments.
4. Investing in country knowledge. One of DFAT's strengths is that it funds the Department of Pacific Affairs (DPA) in the Australian National University. (I work in a different part of the same University.) The DPA's research and training help provide Australian aid programme staff with useful country knowledge, particularly on Melanesian countries. MFAT's short-lived experiment with funding a Pacific Research Institute at Auckland University appears to have ended. However, further work in developing research and knowledge gathering facilities would likely be beneficial. My understanding is that MFAT has some plans to continue engaging with academia. While it is not guaranteed to succeed, such engagement is worthwhile and should be encouraged, as the Australian case shows.

Transparency and accountability

Aid differs from domestic government spending in a key way: the people impacted by aid, those living in aid recipient countries, do not vote in the donor countries where decisions are made about aid (Martens et al. 2002). As a result, the feedback loop present in domestic policy — the opportunity for people to protest ineffective policy by voting for the opposition — does not exist in aid. Moreover, it is hard for people in donor countries to monitor the actions of aid donors. For this reason, transparency is crucial in aid work.

New Zealand's track record with transparency as a donor is mixed. One strength is that some evaluations are published online. (It is unclear if all evaluations are published online; this would be worth checking with MFAT.)⁸ The New Zealand Government Aid Programme also had an excellent track record in reporting to the International Aid Transparency Initiative.⁹ However, IATI data have not been updated since early 2017. Such data are a key part of a transparent aid programme, and IATI data are a globally acknowledged gold standard. New Zealand needs to start publishing these data again.

New Zealand provides limited information on planned aid spending on a country by country basis, on the MFAT website (although it is not kept up-to-date).¹⁰ New Zealand also reports to the OECD on aid spending (although this comes with a lag). The information New Zealand provides is a start, but more could be made available. Australia, for example, provides excellent historical aid spending data

⁸ Evaluations can be read here: <https://www.mfat.govt.nz/en/aid-and-development/our-approach-to-aid/evaluation-and-research/evaluation-reports-2019/>

⁹ See: <https://www.mfat.govt.nz/en/aid-and-development/our-approach-to-aid/where-our-funding-goes/aid-activity-reporting/#latest> .

¹⁰ <https://www.mfat.govt.nz/en/aid-and-development/our-approach-to-aid/where-our-funding-goes/our-planned-aid-expenditure/>

on DFAT's website.¹¹ Australia also provides detailed information on projected country-level spending on budget night.¹² New Zealand needn't produce the same information on budget night if that is beyond MFAT's capacity. But detailed annual updates of a similar nature would improve transparency considerably if they were produced shortly after budget night.

With more information on New Zealand aid spending placed in the public domain it would be much easier for interested members of the New Zealand public (and politicians, for that matter) to work with the aid programme to promote accountability.

Recommendations

The following recommendations stem from the previous discussion.

1. If New Zealand wants its aid to be effective in assisting the people of the Pacific it should ensure that the primary motivation of our aid is helping recipients, not advancing our own interests. Our aid should not become a tool of geopolitical struggle with China. Assuming figures provided to the OECD on tied aid to the Pacific are accurate, the government should investigate pathways for reducing tied aid to the Pacific.
2. New Zealand aid should be focused carefully on what the individual countries of the Pacific need, and what is likely to work in those countries, rather than any pre-set preference for a particular type of aid.
3. The aid programme should become a hub of aid and development expertise within MFAT. The existing staff skillset should be enhanced by increasing the number of aid experts employed, and it should be possible for junior MFAT staff to build careers based on aid work.
4. The money and time invested in evaluations should be increased. Engagement with academia should be increased if it proves practical and possible.
5. Aid transparency in New Zealand should be increased to at least the level attained by the Australian Government Aid Program.

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¹¹ <https://dfat.gov.au/about-us/publications/aid/statistical-summary-time-series-data/Pages/australias-official-development-assistance-standard-time-series.aspx>

¹² <https://dfat.gov.au/about-us/corporate/portfolio-budget-statements/Documents/2019-20-australian-aid-budget-summary.pdf>

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