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Evaluation of the Niue Country Programme

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Further details about author

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Executive Summary

Purpose

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International to conduct an evaluation of its country programme in Niue. The evaluation assessed the quality of New Zealand's aid delivery, the results of its programme of assistance, and suggested ways New Zealand could better meet its obligations to Niue in its capacity as a realm state of New Zealand.

The evaluation adopted a mixed method approach. Field work was conducted in Wellington and Alofi and over 40 key informants were interviewed. In accordance with the Terms of Reference the evaluation also focused on issues associated with the provision of budget support.

Evaluation Questions

The *Key Evaluation Question* is:

How, and to what extent, has New Zealand's development cooperation contributed to sustainable economic and human development in Niue and what lessons can be learnt from this to improve country programme assistance in the future?

This question investigates the appropriateness of New Zealand's development cooperation noting its constitutional obligations to Niue, and the economic and human development challenges facing the country.

Three Secondary Evaluation Questions (SEQ's) have been developed to explore the issues raised in the Key Evaluation Question further.

Secondary Evaluation Question 1 is:

To what extent is New Zealand's aid delivery in Niue of a high quality?

The investigation of aid delivery has involved looking at the relevance, coherence, and efficiency of New Zealand's aid delivery; as well as the quality of policy dialogue.

Secondary Evaluation Question 2 is:

What are the results of New Zealand's country programme in Niue and how sustainable are these results?

In the context of development evaluation, "results" are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention.



Secondary Evaluation Question 3 is:

How can New Zealand better meet its obligations to Niue?

This question focuses on identifying the key changes that are needed to ensure that New Zealand's country programme is more relevant, efficient, effective, and contributes to sustained economic and human development outcomes.

Findings

With regards to the **quality of aid delivery** (SEQ 1) the evaluation made the following principal findings:

- There are unresolved issues and differing perceptions regarding the optimal nature of the Realm state relationship and the rights and responsibilities of each country.
- New Zealand's strategic development cooperation framework is somewhat weak and doesn't sufficiently address the underlying issues that affect economic and human development in Niue, nor does it appropriately articulate how the sum of New Zealand's resources will be used to address these issues. This stems in part from the unresolved aspects of the Realm state relationship noted above.
- Niue could not meet its economic and human development responsibilities without New Zealand's economic assistance. Niue is the highest aided country in the world, with each Niuean resident receiving approximately USD8,460 per year – much of which is provided by New Zealand through budget support.
- On the face of revealed levels of fiduciary risk and perceptions of corruption, the amount of budget support as a share of total ODA provided to Niue over the last ten years (c10%) would be expected.
- Niue faces a number of significant challenges that need to be addressed to improve development effectiveness, some of the most pressing are medium term budgeting and planning and procurement. Deficits in its planning and budgeting mean that while it may have high nominal ownership of its development agenda through a strong strategic vision, its capacity to operationalise that vision is limited. Weaknesses in these systems reduce the efficiency and effectiveness of New Zealand's aid.
- Niue is ready for a move to a more predictable, coordinated, harmonised and balanced approach to budget support. However, given that fiduciary risks associated with its provision are still relatively high, with only moderate probability of delivering increasing development benefits, more reform is required before more flexible funding can be provided.

With regards to **results** (SEQ 2) the evaluation found that:

- New Zealand's support for tourism has contributed directly to the significant increases in tourist numbers over the last three years; there has been a 240% increase in tourism's contribution to GDP over that time, rising from NZD2.2 million in 2010 to NZD5.3 million in 2014.



- Business confidence is up, and the provision of new banking services, which could not have been done without New Zealand support, has helped improve the efficiency, effectiveness and security of financial services in Niue.
- There are a number of barriers to economic development that remain to be addressed, that if not tackled appropriately will undermine the impact and sustainability of New Zealand's support. Chief amongst these is the issue of access to land for commercial activities, followed by labour availability, infrastructure development and asset management.
- An Non-Communicable Disease (NCD) crisis is looming, which could have significant impact on the budgets of both Niue and New Zealand and this could precipitate a new wave of medically-related depopulation if services on Niue are not improved
- Educational achievements in Niue are high and education is delivered in a relatively cost effective fashion considering the significant constraints that exist in Niue. However, there are a number of issues that will affect the sustainability of results in education going forward, these include the impact of the language policy on literacy achievement and the problems with teacher retention.

With regards to **future obligations** (SEQ 3) the evaluation found that:

- Niue might be above the ODA eligibility¹ threshold, which may make it due for consideration of a UN resolution on graduation from Official Development Assistance.
- An ODA-based relationship is not the type of relationship Niue wishes to have with New Zealand – i.e. one that is not aid-based but built on the foundations of the statutory obligations enshrined in its Constitution. This is a reasonable position to take and could form the basis of a more coherent and practical relationship between the two countries.
- Without New Zealand's support Niue would certainly not be able to provide adequate services and employment to Niuean's, and this would most likely result in further depopulation and migration to New Zealand. As such financial assistance levels should be maintained.
- New Zealand should consider moving to direct financial assistance in the form of budget support or special purpose payments as opposed to donor or government-executed MFAT-financed projects.
- The predicted rise in NCD-related health costs should be of significant concern to the New Zealand government given the Realm state relationship and the fluidity of

1 Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). Countries are removed from the DAC List of ODA Recipients, if the country is considered too rich – i.e. have a sustained GNI per capita over USD12,745 in 2013 dollars for three years in succession. See OECD Glossary and ODA eligibility fact sheet.



movement by Niuean's from Niue to New Zealand, directly addressing this issue in a more systematic fashion should be a main priority of both governments into the future.

- New Zealand should do more to systematically support the Niue education sector through linkages between Niue and New Zealand education bodies.
- Private sector development and tourism are affected by a suite of underlying issues to do with land, labour and planning that continue affect economic development opportunities. New Zealand should support Niue to more systematically address these issues.

Conclusion

With an ODA/GDP ratio of 80%, Niue is one of the most highly-aided countries in the world, with the majority coming from New Zealand. Without this assistance the Government of Niue would not be able to provide important economic and social services to its people and GDP per capita would plummet. New Zealand's ongoing economic assistance is vital for the continuing prosperity of Niue and is enshrined in its constitutional obligations. However, the capacity of the Government of Niue (GoN) to convert New Zealand's economic assistance to sustainable economic and human development outcomes is limited due to its weak capacity in key areas, particularly Public Financial Management. Development and fiduciary risks in Niue are moderately high. In order to better fulfil its Realm state obligations New Zealand needs to assist Niue by systematically addressing the key constraints to economic development and better governance. A change in the nature of the financial relationship, coupled with a long term performance-based approach to capacity building could be the catalyst for a shift that would improve development effectiveness measurably.

Recommendations

1. New Zealand should embark on a trajectory of modifying its financial relationship with Niue, moving to a direct (non-ODA) transfer as part of its Realm state obligations. In order to assist the dialogue and decision-making required for such a transition, New Zealand should undertake the following analytical work; the aim of this work is to better define and articulate New Zealand's obligation to provide necessary economic and technical assistance to Niue:
 - Assess the ramifications of Niue's potential ineligibility from ODA status;
 - Conduct public expenditure reviews in health and education to determine the most appropriate funding levels noting current and future service delivery thresholds;
 - Assess the realistic contribution of tourism to GDP in Niue over the next 10 years; and
 - Review infrastructure and asset management needs, particularly those that underpin tourism.
2. In the area of human development, New Zealand should prioritise Non-Communicable Diseases in a systematic way, as this is the single most pressing development challenge to Niue, which aside from its impacts on human health could



have significant impacts on the health budget, and ultimately on economic development in Niue.

3. In the area of economic development New Zealand should continue to support tourism, but it should also seek to directly address the constraints to economic and private sector development in Niue through its whole of government resources. The first phase of this should involve undertaking analytical work that identifies the most pressing constraints to private sector development in Niue, and these should be prioritised; the results of this work (i.e. the identification of the most salient issues) should then form the basis of ongoing evidence-based policy dialogue and strategic and systematic whole of government support and capability supplementation from New Zealand.
4. New Zealand should move to a contextually relevant team-based performance management approach to budget support that focuses on addressing the key Public Financial Management (PFM) issues, using its whole-of-government capability.
5. New Zealand should instigate an institutional linkage programme between the New Zealand Ministry of Education (MoE) and the Department of Education (DoE) in Niue that systematically works on key issues such as language policy support, teacher retention and teaching quality.



1. Background

1.1 The Activity

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International to conduct an evaluation of its country programmes in the Cook Islands, Niue, Tokelau and Samoa. This is the first in a series of strategic programme-level evaluations that MFAT plans to undertake. The evaluation will look at New Zealand's contribution to economic and human development in each of the four countries separately before producing a synthesis report that examines key cross-cutting issues. The aim of these evaluations is to assist in improving the delivery of development cooperation in the four countries, while identifying salient issues that affect programme strategy and implementation more broadly.

Section One of this report explains the purpose of the evaluation and presents the evaluation questions; it also briefly outlines the development context in Niue. Section Two presents the empirical findings that pertain to Secondary Evaluation Question 1, which focuses on the quality of aid delivery; Section Three presents the empirical findings that pertain to Secondary Evaluation Question 2, which focuses on the results of New Zealand's aid to Niue; and Section Four addresses Secondary Evaluation Question 3, which focuses on how New Zealand's can better meet its development cooperation obligations to Niue. Section Five answers the Key Evaluation Question with reference to the previous sections, and a series of practical recommendations for the improvement of development cooperation between Niue and New Zealand are presented in Section Six.

1.2 Evaluation Purpose and Design

1.2.1 PURPOSE

The purpose of this evaluation is to assess New Zealand's aggregate contribution to economic and human development in Niue. The evaluation seeks to strike a balance between assessing the quality of New Zealand's aid delivery and determining the impact of its country programme on economic and human development; this includes assessing the extent to which New Zealand is fulfilling its obligations to Niue as a Realm state.

In accordance with the Evaluation Plan, the evaluation focuses on four key issues:

1. Determining the impact of New Zealand's full spectrum of support to Niue and the strategic coherence of that support.
2. Determining whether the intended results have been achieved in Niue and the likely sustainability of these results.
3. Assessing the quality of aid delivery, including the relevance and coherence of the country programme, the cost effectiveness of program delivery (efficiency), the quality of policy dialogue, and the general management of the development cooperation program, including the management of relationships with counterparts and other stakeholders.



4. Learning lessons to improve the future design and direction of the country programme, including identifying forms of support that can lead to better development outcomes.

1.2.2 SCOPE

This evaluation considers total country aid flows, which includes all finance from New Zealand through its bilateral country programme allocation, including the Pacific Transformational Fund, the Partnerships Fund and regional allocations. It considers all aid modalities including budget support, project finance, delegated cooperation, tripartite cooperation and government-to-government partnerships. Budget support is included as a focal point as requested specifically in the Terms of Reference. The evaluation focuses primarily on the period of the current Joint Commitment (2011-2015) but extends beyond this when examining the economic impact of New Zealand's development cooperation over time.

1.2.3 QUESTIONS

The Key Evaluation Question is:

How, and to what extent, has New Zealand's development cooperation contributed to sustainable economic and human development in Niue and what lessons can be learnt from this to improve country programme assistance in the future?

This question investigates the appropriateness of New Zealand's development cooperation noting its constitutional obligations to Niue, and the economic and human development challenges facing the country. The question adopts a forward looking orientation, seeking to draw on lessons from the recent past and present to improve future programming.

Three Secondary Evaluation Questions (SEQ's) have been developed to explore the issues raised in the Key Evaluation Question further.

Secondary Evaluation Question 1 is:

To what extent is New Zealand's aid delivery in Niue of a high quality?

The investigation of aid delivery has involved looking at the relevance, coherence, and cost effectiveness (efficiency) of New Zealand's aid delivery; as well as the quality of policy dialogue and engagement with development partners. The evaluation has also applied other development effectiveness criteria such as those articulated under the Paris Declaration, these evaluation criteria are explained in full in Appendix 1 of this report.

Secondary Evaluation Question 2 is:

What are the results of New Zealand's country programme in Niue and how sustainable are these results?

In the context of development evaluation, "results" are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. Sustainable results are those that are likely to persist into the future and are resilient to



economic, environmental and social perturbations². The assessment of sustainability also takes into consideration the adoption of supportive policies, regulations, and financing; the building of appropriate human capital; and the building of organisational capacity in Niue.

Secondary Evaluation Question 3 is:

How can New Zealand better meet its obligations to Niue?

This question focuses on identifying the key changes that are needed to ensure that New Zealand’s country programme is more relevant, efficient, effective, and contributes to sustained economic and human development outcomes. It investigates opportunities for strengthening New Zealand’s whole-of country approach to development cooperation, and positioning the programme to ensure it meets the future needs of Niue.

1.2.4 DESIGN

Empirical information has been collected and analysed using a combination of qualitative and quantitative methods in a mixed method approach. The purpose of such an approach is to “strengthen the reliability of data, validity of the findings and recommendations, and to broaden and deepen our understanding of the processes through which programme outcomes and impacts are achieved, and how these are affected by the context within which the programme is implemented”.³ These methods were used in a complementary way to interrogate different types of evidence about the context and outcomes of New Zealand’s support for Niue.

Semi-structured interviews and focus group discussions were conducted with 48 key informants in Niue and New Zealand. Key informants were drawn from the New Zealand and Niue governments, donor organisations, beneficiaries, and the private sector. This evaluation team also reviewed over 100 documents to better understand the context of New Zealand’s support and to assess aid quality and impact. Categories of documents available to the evaluation team included:

- Project and country programme-related documentation from the New Zealand Government (including: concept notes, activity design documents, activity monitoring assessments, grant funding agreements, activity completion assessments, annual programme reports, programme results frameworks, Joint Commitments for Development);
- Independent and joint evaluations at project, programme and thematic level
- Policy and planning documents from New Zealand and partner governments (e.g. aid priorities, national development plans, development partnership agreements – and the various technical and analytical documents associated with these documents);
- Grey literature from development cooperation partners and others on topics germane to the evaluation; and

2 Berkes, F. and C. Folke (1998) *Linking Social and Ecological Systems: Management Practices and Social Mechanisms for Building Resilience*, Cambridge University Press

3 Bamberger, M (2012) “Introduction to Mixed Methods in Impact Evaluation”, *Impact Evaluation Notes No3*. August 2013.



- Academic literature on issues such as: economic development, drivers of poverty reduction, aid effectiveness, and the constitutional relationship with Realm states etc.

The qualitative research outlined above was complemented by various types of quantitative analysis. The methods included: determining the impact of New Zealand’s aid on economic growth, remittances, trade and migration in Niue; assessing the quality and impact of budget support and the strength of Niue’s PFM system, including absorptive capacity constraints; and reviewing New Zealand aid flows over time and assessing the coherence, proliferation and fragmentation of the programme.

1.3 Introduction to the Development Context

New Zealand has strong cultural, historical, economic and political ties to many countries in the Pacific and to Niue in particular. Niue is a self-governing state in free-association with New Zealand, a status that has existed since the inception of the Niue Constitution in 1974. Niue has full power to make its own laws, but its citizens have remained New Zealand citizens who hold New Zealand passports and use New Zealand currency. The economic links between the two countries are very strong and Niue is heavily reliant on financial flows from New Zealand. The provision for ongoing assistance to Niue is a constitutional responsibility of New Zealand, as noted in Section 7 of the Niue Constitution “It shall be the continuing responsibility of the government of New Zealand to provide necessary economic and administrative assistance to Niue⁴”. The term ‘necessary’ isn’t defined in the constitution or in any subsequent document.

The dependence of Niue on financial flows from New Zealand and on Official Development Assistance (ODA) more generally is evidenced by the following figures. Between 2002 and 2013 Niue received USD164 million in ODA, USD135.2 million of which was provided by New Zealand. Annual ODA flows from New Zealand have ranged between USD10 million⁵ in 1972 to USD26 million in 2004-5 (after Cyclone Heta)⁶. New Zealand’s forecast ODA allocation for the 2014-15 financial year is NZD12.75 million⁷. Niue is one of most aid dependent countries in the world with ODA/GDP ratios ranging from 60% in 1996 to 160% in 2005; this ratio presently sits at around 80%. Each citizen in Niue receives approximately USD8,640 in ODA each year, the vast majority of which comes from New Zealand. Budget support is a particularly important component of New Zealand’s aid and makes up about half of its annual assistance. Budget support has averaged about 50% of GDP over the last decade. Under the current Joint Commitment (JC), New Zealand provides NZD7.2 million per year in direct budget support; other significant investments include support for administrative assistance, asset management, tourism, and private sector development. New Zealand also provides sector budget support for education and health.

4 Section 7, Niue Constitution Act (1974) , 29th August 1974

5 All figures in constant prices

6 All data from OECD-DAC QWIDS database

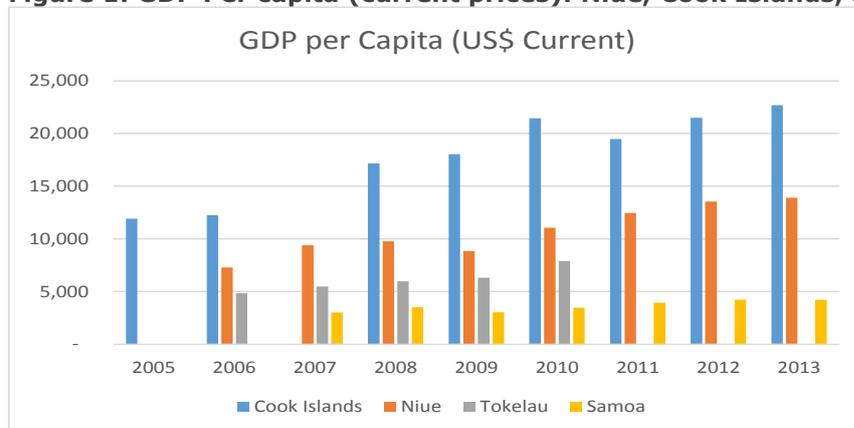
7 Niue Forward Assistance Plan, Ministry and Foreign Affairs and Trade



Niue remains a highly fragile economy that faces many constraints including a small population, labour constraints, expensive and limited transport options, poor land quality, and exposure to natural disasters (i.e. cyclones and droughts). Tourism is growing in importance and is a priority for the governments of Niue and New Zealand. Tourism receipts have grown significantly over time (56% between 2010 and 2013), as a result of new flights, marketing activities and infrastructure redevelopment. Niue has suffered from very high outward migration and its population has declined from 5,194 in 1966 to a resident population of 1,460 in 2011⁸. Migration data obtained for this evaluation suggests that the actual current resident population is around 1000. In the last 40 years' Niue has experienced a population decline greater than any other independent country in the world⁹; 23,892 people of Niuean heritage now live in New Zealand¹⁰. Depopulation is a major focus of the government of Niue, as is attracting back Niuean families who live in New Zealand.

Despite these challenges Niue has one of the highest GDP/per capita rates in the Pacific; GDP per capita grew from USD7,277 (in current terms) in 2006 to USD13,892 in 2014 (See Figure 1). The primary reason for this high GDP per capita is New Zealand's ongoing financial assistance. On the human development side Niue has amongst the lowest infant and maternal mortality rates in the Pacific and education enrolment is 100% throughout the island. The primary ongoing health issue is the rise in NCDs¹¹. With regards to gender issues, parity in educational attainment has been reached between girls and boys, and women are very strongly represented in decision-making bodies and comprise a significant proportion of senior public service jobs¹², but only a small number of women are represented in Parliament (2 from 20).

Figure 1: GDP Per capita (current prices): Niue, Cook Islands, Samoa and Tokelau



8 Government of Niue (2012) Population and Housing Census

9 Connell, J (2008) "Niue: Embracing a Culture of Migration", Journal of Ethnic and Migration Studies, Vol 34, Iss 6, 2008

10 Government of New Zealand (2013) Population and Housing Census

11 Personal communication with Director of Niue Hospital, 5th March, 2015.

12 MFAT Niue Gender Profile and results of key informant interviews in Niue in 2015



Source: GDP and population estimates – for Cook Islands, Niue and Samoa: the authorities. For Tokelau, GDP estimates sourced from Laing, 2012 (PER), and population estimates from the authorities.

Niue faces high exposure to the risk of natural disasters, which can have a drastic impact on the economy and on infrastructure. On January 5th 2004, Niue was hit by Cyclone Heta, which generated winds of up to 296 kilometres per hour and generated waves 50 metres high. As a result, much of main town of Alofi was severely damaged, government buildings were lost and government records destroyed. Forty-three houses were destroyed and two people were killed. Losses totalled NZD4.1 million¹³. New Zealand provided significant funds for the reconstruction through a grant of NZD9 million; this included the construction of a new hospital. New Zealand then entered into a new partnership agreement to provide Niue with an additional NZD20 million to help in the recovery effort between 2004 and 2009.

13 See Barnett, J and H. Ellemor (2007) "Niue after Cyclone Heta" The Australian Journal of Emergency Management, Vol. 22, No.1 February 2007



2. Findings – Aid Quality

This section presents the empirical findings that pertain to SEQ 1 “To what extent is New Zealand’s aid delivery in Niue of a high quality?” This section focuses specifically on the delivery of New Zealand’s development cooperation programme in Niue. In doing so it takes into account the local context for aid delivery, the institutional and policy context within the New Zealand Ministry of Foreign Affairs and Trade, and the nature of the relationship between Niue and New Zealand. The quality of aid delivery is discussed with reference to the following criteria: relevance, alignment, coherence, harmonisation, relationship management (including policy dialogue, ownership and mutual accountability) and efficiency (cost effectiveness)¹⁴.

2.1 Relevance and Alignment

Relevance is the extent to which development interventions are suited to the priorities and policies of the target group, partner and donor¹⁵. As noted in the Programme Evaluation Framework (PEF)¹⁶, New Zealand is interested in two issues with regards to relevance: the presence of a clear strategic framework to guide the country programme, and an assessment of how well this strategy aligns to the priorities of the New Zealand aid programme and the strategies and needs of the partner government.

Closely related to relevance is the principle of alignment, and this aspect of aid effectiveness will be explored here in three different ways. First is strategic alignment (also called “relevance” in MFAT’s PEF), which is the alignment of donor’s programmes to the strategies and needs of partners and to their own policies and strategic priorities. The second is policy alignment, which is a measure of the extent to which a donor modifies its own policies and planning requirements to better align to those of the recipient government (including instituting processes that improve the predictability of aid). The third aspect of alignment is systems alignment, which is a measure of the extent to which a donor has worked with and through partner government systems and sought to strengthen those systems. This is a critically important aspect of alignment, particularly noting the focus on budget support in this evaluation.

2.1.1 Relevance - The Strategic Framework for Assistance

New Zealand’s strategic framework for assistance is based on a suite of high level strategic and planning documents that inform the implementation of its country programmes – see Figure 2. Of particular importance is the International Development Group’s Strategic Plan, which for the period covering this evaluation is “Development that Delivers”. This overarching strategic document guides the development of the Joint Commitment for Development (JCfD), which is the partnership agreement between New Zealand and each partner country. This document outlines the agreed priorities and mutual responsibilities of

14 See Appendix 1 for definitions of these evaluation criteria

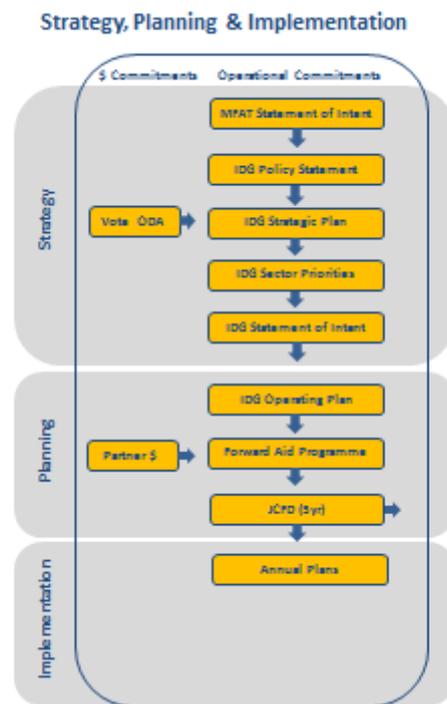
15 MFAT (2014) Evaluation Policy for the New Zealand Aid Programme, 30th June 2014

16 See Page 7 of the Terms of Reference for this evaluation



New Zealand and the recipient country and is typically based on the strategic plan of the partner country. These commitments are then operationalised into programming through annual plans and Forward Aid Plans (FAPs), which provide a three-year funding horizon for each of the priorities and associated activities outlined in the JCfD.

Figure 2: MFAT Strategic, Planning and Implementation schematic



As outlined in Figure 2, strategic direction at the country level is guided by the IDG strategic plan "Development that Delivers". This document provides high level guidance on the strategic priorities of the aid programme for the period 2012-2015 – essentially the same period as the current Niue Joint Commitment. It outlines the strategic focus of the aid programme, discusses important operational and organisation priorities, and determines the geographical focus of New Zealand’s aid programme. The document flags two very important strategic directions for the aid programme over the 2012-2015 period, they are greater strategic prioritisation and focus through "fewer, larger, deeper and more strategic contributions" and a "whole-of-New Zealand approach to development" led and enabled by MFAT.

Strategy within MFAT is also guided by the sectoral priorities articulated in the New Zealand Aid Programme Sector Priorities 2012 – 2015 document. This document outlines the key drivers of growth (Agriculture, Fisheries and Tourism) and the key enablers of growth (renewable energy, transport and communications, private sector development, education and training, health, water supply and sanitation, and safe and secure communities). These drivers and enablers of growth are not all prioritised in each and every country but they inform the negotiations around the JCfD’s. Aside from these two documents, the strategic framework for assistance is also guided by 'Pacific Focus Areas', which provides further detail



of New Zealand's focus in the Pacific noting the development challenges facing small island states.

At the partnership level the JCfD outlines the mutual commitments of each party, the agreed aid priority sectors, and New Zealand's ongoing financial commitments in each sector. It also outlines the various policies that will inform New Zealand's aid delivery and presents a results framework.

New Zealand's support for Niue is guided by the Joint Commitment ("JC") (2011-2014). The JC acknowledges the special relationship that exists between New Zealand and Niue through shared citizenship and through New Zealand's constitutional obligations to provide ongoing support for Niue; as noted in the document "citizenship creates both obligations for the Government of New Zealand and responsibilities for the people of Niue"¹⁷. Some articulation of New Zealand's constitutional obligations to Niue, such as those under Article 69(3) of the Niue Constitution, which relates to the provision of "reasonable opportunities for employment", are included in this document but nowhere are New Zealand's full suite of obligations defined, rather "Niue and New Zealand recognise the relationship is an evolving one"¹⁸.

Key priorities under the JC include the provision of adequate employment and social service delivery, and opportunities for youth, the aim being to address the high levels of depopulation that have occurred over the last 40 years. Economic development, driven by tourism, is a key priority, as is private sector development. Financial stability and good governance are acknowledged priorities, as "Niue requires financial resources and good governance in order to fulfil its obligations to its people and to meet its development aspirations"¹⁹. The JC seeks to align to Niue's vision for development as articulated in *Niue ke Monuina – A Prosperous Niue*. This document provides a high level strategic vision for development in Niue, which prioritises: sustainable tourism development, the maintenance of Niue's unique environment, the provision of quality education, food security and adequate infrastructure. However, *Niue ke Monuina* provides little guidance on how these outcomes will be achieved, and how human and financial resources will be allocated over the medium term to achieve these outcomes. *Niue ke Monuina* is not an implementation plan.

The JC also outlines a number of 'partnership outcomes' in areas such as economic development, finance, governance, environment and infrastructure and social and 'Taoga' - the latter pertains to cultural matters. Under 'economic development', New Zealand and Niue agree to support Niue's Economic and Tourism Development Plan, create an enabling environment for private sector development and support private sector growth. Two tourism-related indicators are included to measure achievement against these goals. Under 'finance', there is an emphasis on strengthening financial management information systems and public financial management, to lead to an increase in government revenues by 15% by 2014. In the area of 'governance', Niue and New Zealand commit to work in partnership to "create

17 Joint Commitment Between New Zealand and Niue (2011-2014) p.2

18 JC, p.3

19 JC, p.4



more effective government to enable an increase in its [Niue's] productivity and improve performance in the delivery of services²⁰". One of the performance indicators for 'governance' is 'an improvement in the efficiency and effectiveness of the public service'. The activities under environment and infrastructure are somewhat more defined and include a variety of activities ranging from asbestos removal, to the development of asset management plans and the resealing of the airport runway. The partnership under 'Social and Taoga' focuses on training, youth employment strategies, and the development of a health sector strategic plan and the ongoing support of the Education Support Programme. The joint review process includes bi-annual talks to review achievements, constraints, priority settings and reporting requirements.

While there is relatively clear strategic framework for assistance at a high level (as noted above), the operationalisation of strategy at the country level through the JC is somewhat weak. A strategic framework for development assistance at the country level typically includes an analysis of the development context, a discussion of agreed priorities, an outline of mutual accountability, an overview of all programme resources and how they will be deployed, a discussion of risks and constraints and a reporting framework of some kind. While the JC provides a clear and directed course of action at the strategic vision-level, its usefulness as a strategic framework is somewhat limited. It doesn't identify specific mutual commitments in any great detail, and key performance indicators are very high level and in some cases subject to circular reasoning. For example, under the governance priority, the goal is to 'create more effective government to enable an increase in its [Niue's] productivity and improve performance in the delivery of services', and the indicator to measure this against is 'an improvement in the efficiency and effectiveness of the public service', these are essentially the same thing. Importantly, the JC doesn't articulate how the different programme funds available to New Zealand (e.g. Bilateral funds, Pacific economic development funds, Partnership and Funds etc.) will be used to support the various priorities in a complementary or synergistic fashion.

There is a strong commitment to align to Niue's stated development priorities but a lack of analysis of the broader implementation context and the challenges this context presents. The JC may not be the place for this analysis, as it is a partnership agreement between the two states, but one would expect to see a comprehensive country strategy overview somewhere in New Zealand's supportive documentation. There are a large number of fundamental issues associated with land, labour, capital and governance that have a significant bearing on economic and human development achievement in Niue that aren't articulated to any great extent in documentation supporting the JC. Annual programme plans and reports also only very lightly address this context. While discussions with MFAT staff have made it clear that these issues are very well understood by programme managers, there is no overarching strategy that outlines how the sum of New Zealand's financial and human resources will be deployed to address these challenges in a consistent fashion.

One of the issues that affect New Zealand's ability to articulate a 'clear strategic framework' is the lack of a medium term planning framework on the Niue side. This causes difficulties for

20 JC, p8



New Zealand with regards to strategic planning, particularly noting the partnership focus and the need to strongly align to Niuean government priorities, which are not articulated well. This lack of government-led prioritisation, medium-term planning and budgeting is something that has been consistently raised by New Zealand in bilateral talks and annual program reports as a constraint to strategic planning. While the lack of a good medium term plan is sub-optimal, it is not atypical in development assistance and New Zealand should still possess a clearer strategic framework that encompasses the totality of its assistance.

With regards to 'aligning to New Zealand's strategic priorities', despite the absence of clear written strategic guidance in the JC or supporting documentation at the country level, significant efforts have been made to operationalise the 'fewer, larger, deeper' priority. Programme staff interviewed for this evaluation, were very aware of these priorities, and annual reports mention the need to identify 'how to reduce the number of activities through strategic planning and strengthened activity design²¹', for example. Activity counts are provided in each annual report and there is evidence from these reports and from the records of bilateral talks that the need for 'fewer, larger, deeper' activities is front of mind for programme staff. There have been very concrete efforts to reduce activity numbers, such as through the increases in budget support as noted below in 'Systems alignment'. As our analysis in later sections highlights, New Zealand has worked to consolidate its aid programme and has not contributed to the rise in activities that has been witnessed in recent years.

However, strategic and policy guidance is lacking with regards to a 'whole-of-New Zealand approach to development', and the roles and responsibilities of other New Zealand agencies in the Niue-New Zealand partnership, something that is required if the 'New Zealand Inc.' strategic priority is to operationalise in practice. New Zealand has done a good job encouraging links at the senior officials' level, including supporting direct engagement between Niue and New Zealand government agencies. The excerpts from the 2013 senior officials' bilateral talks²² summarise New Zealand's existing approach to fostering institutional linkages between the two countries:

"New Zealand encourages Niue to fully utilise resources available through NZ line ministries and agencies to support best outcomes for Niue....."

New Zealand also encourages "Niue to have an independent relationship with these New Zealand departments with Post to provide introductions and back up if required. MFAT is able to provide contacts for NZ agencies for Niue to establish relationships directly, but may act as facilitator if Niue prefers. It is useful for Post to be kept aware of any relationships Niue establishes."

While that level of encouragement is good, the lack of a clear policy or strategy of how to effectively link Niue and New Zealand government departments at the sectoral and

21 MFAT (2013) Niue Annual Plan and Report, 2012-13, 18th July 2013

22 MFAT (2013) Bilateral Talks between New Zealand and Niue, 29-30 April, 2013, unpublished internal document



departmental levels causes significant confusion amongst many senior public servants in Niue who are unsure whether New Zealand domestic agencies have a mandate to operate in Niue and how to access the services of these agencies. It also creates problems when there is a misalignment of expertise and capacity. The excerpts below from interviews with two senior Niuean public servants exemplify these issues:

"...we like the direct government-to-government relationships and that's how we see things evolving, Post is helping us organise more of these partnerships in areas like health and education, which is good, we think these partnerships are very important but they need to be more systematic and address our priorities, which is not always the case'²³.

"..they [New Zealand] also need to do more systematic government-to-government secondments and training. There needs to be some sort of twinning pool, it takes too long and is not coordinated at the moment. Gaps need to be systematically identified across the public service and these need to be prioritised and then solutions found, it is a bit ad hoc now. Plus we have to be able to say no to some things. For example, Business Mentors got the contract for the whole of the Pacific, but to be honest the services they were providing were clearly not suited to Niue, it was mismatched'²⁴."

It is clear from the excerpts above that Niue is expected to lead with regards to the identification of its capacity building priorities and the building of relationships with the relevant New Zealand government agencies to help address those priorities. But as the analysis in 'systems alignment' below outlines, the current capacity of the Niuean government to systematically assess and prioritise its capacity building needs is very weak, this coupled with the lack of clarity around the process for establishing linkages with New Zealand government agencies leads to an ad hoc and ineffective system of engagement between the two governments. This evaluation identified a number of human resource development priorities in central areas of government such as planning, statistics, cabinet processes and public financial management that could benefit from immediate capacity building or capacity supplementation. This support could demonstrably improve government effectiveness and efficiency which is a key strategic priority under the JC and this could be delivered through a 'whole of government' approach.

The problem is that many people in the Niuean public service are unclear how to approach the New Zealand government about their capacity building needs, or have done so in the past in an ad hoc manner to no avail; there are also cases, such as that expressed in the second excerpt above that highlight frustrations due to a mismatch in previous capacity development assistance from New Zealand. One of the benefits of a 'clear strategic framework' would be to provide clarity on the totality of New Zealand Inc.'s assistance (financial and technical), the responsibilities of New Zealand agencies to Niue, and how New Zealand as a whole will support Niue to build individual and institutional capacity in a locally appropriate way. This is something that the New Zealand government needs to clarify itself before the New Zealand Inc. priority can be meaningfully operationalised.

23 Key Informant 23, pers comm, 3rd March 2015

24 Key Informant 33, per comm, 6th March 2016



For the reasons stated above the evaluation team found that New Zealand should do more to articulate a clearer strategic vision for its programme in Niue with supportive country strategy documentation, at present the JC and associated documentation only partially address the need for an overarching programme-level strategic plan which articulates how the sum of financial and human resources are deployed to address the constraints to human and economic development in Niue. However, this is not a straightforward issue, particularly considering the lack of clarity around the Realm state relationship, and what constitutes 'necessary economic and administrative assistance', and the ambiguity regarding the responsibilities of New Zealand government agencies. These things affect the extent to which a 'clear strategic vision' can be articulated.

2.1.2 Policy Alignment

An important example of policy alignment is the adoption of Forward Aid Plans (FAPs). These plans outline a medium-term budget envelope that provides details of all activities from all funds under each of the high level strategic priorities over the course of the JC. This provides a level of predictability for Niue government counterparts with regards to aid flows and is a very useful planning tool for MFAT and the Niuean Government. New Zealand has demonstrated a significant degree of flexibility with regards to its year-on-year ODA commitments, and this has enabled it to address some important emerging issues, such as the need to undertake a Banking Review and the subsequent establishment of Kiwi Bank, which was a very important outcome. The presence of a three year programme of funding where yearly funding can be rolled over is best donor practice in support of medium term budgeting in the evaluation team's view. This is particularly important considering the significance of New Zealand's funding for the budget of Niue. Unfortunately the lack of medium-term planning capacity within the Niuean government affects the potential utility of this document as an overarching planning tool, an issue which is discussed further under 'Systems Alignment' below.

FAPs make a big difference to medium term fiscal planning. They provide the foundations to enable proper Medium Term Expenditure Frameworks, where forward estimates reflect the costs of existing policies, allowing fiscal space to be calculated and fiscal priorities reviewed and set annually. It is recommended that MFAT explored lobbying for it be introduced as a new Donor Practices in an "Upgraded PEFA" (while ensuring that Donor Practices do not get dropped in upgraded PEFA). It is a Potential New Global Standard for a Medium Term Perspective in Donor Practices. For ideal practice, FAPs could be strengthened if forward year estimates could be split by economic (Goods and Services and Capital) and function (COFOG) classification standards.

One issue that was remarked upon by Niuean public servants directly involved in the management of New Zealand funded activities was the burden of reporting associated with the acquittal of funds. **While New Zealand was acknowledged as being a very flexible and responsive partner there were concerns that reporting requirements were too burdensome and were duplicative in many areas**, and there were calls for New Zealand to modify its policies with regards to reporting to make them more streamlined. This review found that New Zealand has been very flexible with regards to its reporting and has initiated a number of changes that have reduced the reporting burden on Niue significantly. These include the move from one to three month financial reports, the acceptance of less detailed



reporting than was previously required, and the move to 'one activity, one report' with regards to the provision of budget support. It is clear that as the relationship between the two governments has improved the focus has been on reducing the reporting burden and moving to higher level policy dialogue and engagement as noted under 'Policy Dialogue' below. As the section on 'systems alignment' explains, a large part of the problem with regards to reporting within the Government of Niue stems from inefficiencies and a lack of guidance from the government itself with regards to reporting on New Zealand (and other donor) funds. This includes reports from government departments to the Niue Cabinet.

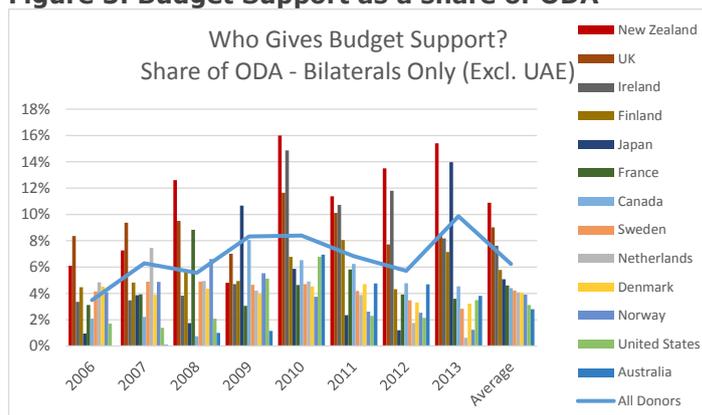
2.1.3 Systems Alignment and Budget Support

Systems alignment is a measure of the extent to which a donor has worked with and through partner government systems and sought to strengthen those systems. One of the principal mechanisms through which systems alignment is achieved is through the provision of budget support²⁵, wherein ODA funds are disbursed into recipient government bank accounts and reflected as grant revenue in annual budgets for expenditure through recipient government financial systems in accordance with budget allocations. This evaluation considers the types of budget support provided by New Zealand to Niue, it assesses the countries fiduciary risk, assesses absorptive capacity and then suggests ways in which New Zealand's budget support provision can be improved.

2.1.4 Overview of Budget Support to Niue

New Zealand is no stranger to budget support; indeed as Figure 3 reveals, at 11%, it provides the highest levels of budget support of any OECD bilateral donor in terms of share of a donor country's total ODA, followed by the United Kingdom (9%), Ireland (8%) and Finland (6%). New Zealand's budget support share of ODA is almost double the donor average of 6%.

Figure 3: Budget Support as a share of ODA



25 For analysis of drivers of budget support see Budget Support Annex in the Synthesis report, which reveals an inverse relationships between perceptions of corruption and levels of fiduciary risk and budget support levels received, and that perceptions of corruption matter more than the quality of fiscal management performance.



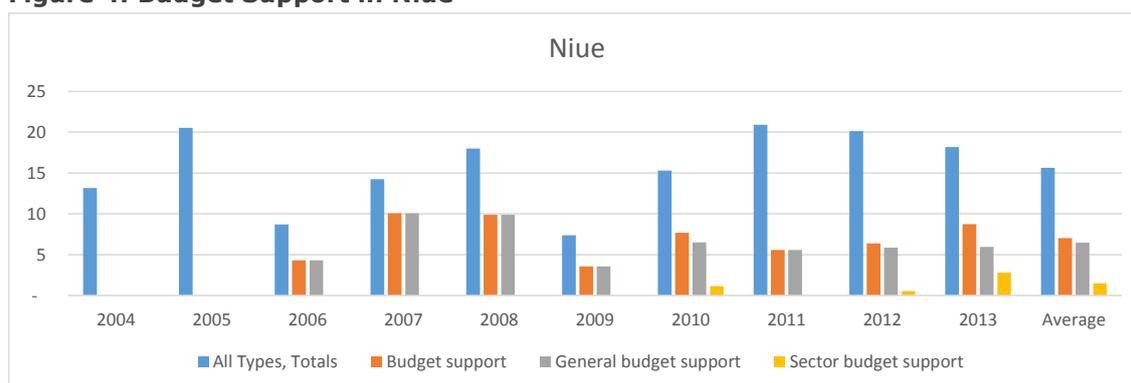
New Zealand has been the only donor providing general or sector budget support to Niue. Table 1 and Figures 4 and 5 below provide an overview of the different types of budget support operations in place. There are basically three types: general budget support, sector budget support, and agency budget support. General budget support has been relatively stable over time since 2009, averaging around USD17 million p.a. and averaging around 36% of all ODA. In the past General Budget Support constituted a much larger share of ODA, reaching 71% in 2007.

Table 1: Budget Support Programmes

Budget Support Like Program	Budget Support	Banking Establishment	Private Sector Development	Tourism Marketing	Tourism Matavai Management Support	Tourism Redevelopment Stage 2	Education	Health
1. Type	General	Agency	Sector	Agency	Agency	Sector	Sector	Sector
2. Timeframe	Multiyear	Multiyear	Multiyear	Multiyear	Multiyear	Multiyear	Multiyear	Multiyear
3. Directness	Direct	Direct	Direct	Direct	Direct	Direct	Direct	Direct
4. Structure	Multi-tranche	Programmatic	Programmatic	Programmatic	Programmatic	Programmatic	Programmatic	Programmatic
5. Condition Types	General	General and Specific	General	General	General	General	General	General
6. Targeting	Untargeted	Untargeted	Soft Earmarking via Budget	Soft Earmarking via Budget	Soft Earmarking via Budget	Soft Earmarking via Budget	Soft Earmarking via Budget	Soft Earmarking via Budget
7. Timing	Ex-ante	Ex-ante and Ex-poste	Ex-ante	Ex-ante	Ex-ante	Ex-ante	Ex-ante	Ex-ante
8. Variability of Tranches	Fixed	Fixed and Variable	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed

Niue’s General Budget support foundations are varied and are set by the constitutional relationship, and agreed in the Joint Statement of the Principles of Partnership between Niue and New Zealand in 2003, and the Joint Commitment. The Joint Commitment essentially sets the general conditions and aspirational and guiding targets as the basis for budget support disbursements. Dialogue is more an informal arrangement based around mutual respect. **The budget support arrangement resembles more of a straight line unconditional operating subsidy than a performance linked budget support operation.** It is a multi-year programme, based on the provision of an approved set of multiple tranches, with payments received prior to any conditions being met. Payments are essentially fixed and not variable based on performance.

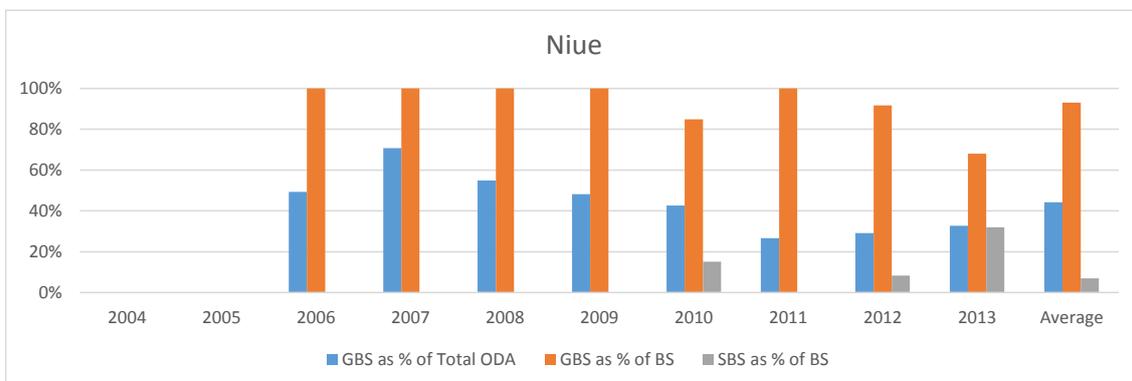
Figure 4: Budget Support in Niue



Source: OECD-DAC CRS Database, Currency USD



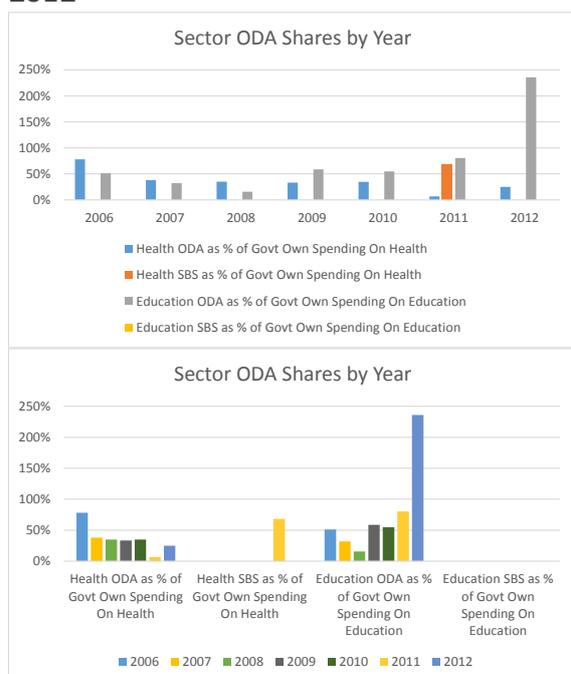
Figure 5: Budget support levels (% of ODA)



Source: OECD-DAC CRS Database

Over the period small amounts of sector budget support were provided to Niue, generally equally shared between communications, health, tourism and banking and financial services; though each sector was dominant at different times, suggesting volatile aid, fragmented annual planning, and limited multiyear planning. Prima facie, such variability of sector focus over time is not good for planning and delivering on development objectives. In 2013, banking and tourism were the dominant sector receiving sector budget support. Sector budget support as a share of total ODA has also been relatively volatile with an opening 15% of all budgets in 2010 when sector budget support operations commenced, then 0% in 2011, 8% in 2012, and then increased to 32% in 2013. Most Sector budget support goes direct to government and semi-autonomous agencies.

Figure 6: Health and Education Sector ODA and Budget Support Trends 2006 to 2012



Source: OECD-DAC CRS Database



While small in size, New Zealand follows an effective approach to sector budget support in Niue when it provides it. It adopts a clear results focus, with soft hypothecation (earmarking) of sectoral resources through soft budget approval mechanisms, supported by soft conditionalities around mutually agreeable results. In other words, New Zealand adopts a flexible and adaptable approach to budget support operations. Such an approach supports policy dialogue on inputs and outputs, but needs to be supported by appropriate human resources for that dialogue. It also helps to drive a shared understanding between the budget support donor and the implementing agency on what is actually required to achieve desired results. This is a departure from the European Union (EU) and World Bank model of sector budget support, where funds are not necessarily hypothecated to the sector, nor are linked to the costs of attaining conditions and objectives of the sector budget support arrangement²⁶.

Sector based assistance is low for health. The health sector is not at risk of being over-aided through projects or sector budget support. **Since 2009, education has breached the 50 per cent mark for education sector ODA as a percentage of own government spending, and in 2012 it breached the 200% mark²⁷. Such high levels can seriously compromise the budget process and refocus ministry attention away from sustainable government practices in favour of focusing efforts on donors and donor systems.** The health sector has much lower levels, though there is a case for more stable levels of sectoral assistance in terms of share of own source funding and nominal amounts.

2.1.5 Fiduciary Risk Analysis

In order to make prudent judgements about its budget support operations in Niue, it is important for New Zealand to understand the fiduciary and development risks (see Box 1) associated with Niue's PFM system, this is the focus of this section. A focus on fiduciary risk is critically important as there are claims of strong links between levels of perceived fiduciary risk and a donor's willingness to provide budget support.

26 OECD definition does not require the sector to benefit from the budget support resources.

27 Most of the increase in funding for education in 2012 came from Australia, when it increased disbursement from USD0.5 million to USD3.1 million and then USD 2.6 million in 2013.



Box 1. Defining Key Risks

Fiduciary risk is the risk that aid or government funds: i) are used for unauthorized purposes; ii) do not achieve value for money; or iii) are not properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including lack of: capacity; appropriate procedures and systems; competency or knowledge; bureaucratic inefficiency; or active corruption.

Development risk is the risk that development assistance or government/agency resources will not achieve development objectives and/or long term goals including economic growth and poverty reduction and enabling objectives such as reform and capacity development. Development risk is influenced by the level of administrative burden placed on governments /agencies by donors as well as compliance costs associated with complex donor procedures that do not match technical capacities of individuals and institutions. There is a position that capacity development and reform can be better supported by appropriate use of various country/agency system components. The idea is centred on the principle that “to improve a system you should use the system”.

See Shand, 2005 and for political risk, DiPiazza and Bremmer, 2006

There are many different ways to measure and quantify systemic fiduciary risks emerging as a result of weaknesses in PFM systems. One way is a simple expert opinion of Public Expenditure and Financial Accountability (PEFA) results. Another way is to weight PEFA scores for fiduciary risk factors, in recognition that some PEFA indicators are more important for fiduciary risk than others (e.g. bank reconciliations are more important for fiduciary risk compared to medium term budgeting, which is more important for development risk) – these two approaches are adopted here. The aim of using PEFA²⁸ is not to ‘score’ Niue’s performance, as such, or compare it to other countries performance, as each country has different institutional contexts and human capital constraints. PEFA is simply a tool that can be used to systematically highlight the strengths and weaknesses of PFM systems and the associated fiduciary risk.

It is important to appreciate that PEFA provides an evidence base to discuss reform priorities. It was never meant to be the defining prioritisation tool. Setting PEFA targets as aspirational and guiding targets has been shown to be very helpful to implementers to own and direct reform over time.

Niue performs below par on PEFA with an average score of a high C and an average PEFA-10 score of a high D+. It is the poorest performer compared to other countries in the study. The figures below reveal the strengths and weakness of Niue’s fiscal management systems.

28 See Appendix A of the Synthesis report for a discussion of the applicability of using PEFA in small island states



Niue's fiscal management performance highlights include (Figure 7): i) an accurate headline budget and good tracking of expenditure arrears; ii) low levels of unreported expenditure and good management of fiscal risk posed by public corporations; iii) the legislature approves the budget not overly late; iv) there is good reconciliation of tax assessments and payments, and a robust tax payment transfer systems; v) commitment control and cash and debt management systems are good; vi) human resource and payroll systems are timely and well controlled; vii) there is good compliance with key transaction recording rules; viii) bank reconciliation is timely with few irregularities; ix) data on service delivery is available, reliable and useful; x) in-year financial reports are timely and informative and there is a complete set of annual financial statements; xi) external audits are of good quality and comply with auditing standards; xii) parliamentary procedures for reviewing the budget are robust; and xiii) there is timely scrutiny of audits after they are submitted to Parliament.

However, Niue's fiscal performance is constrained due to weaknesses in certain systems (Figure 8). These include: i) too many transfers of appropriations between different entities during the year, compromising the integrity of the annual budget; ii) use of a non-standard classification system making it difficult to compare performance; iii) poor disclosures in the budget and on donor projects; iv) a disorderly budget process; v) **there is no effective medium-term budgeting or planning system** with a lack of multi-dimensional fiscal forecasts, inadequate costing of sector strategies, no routine system to include future current costs of projects in a set of forward year estimates, and there is no system for rollover of forward year estimates; vi) **Tax rules are too opaque**, with weak tax payer registration systems, and inadequate tax debt collection systems; vii) there is poor consolidation of cash balances; viii) systems for contracting loans and issuing government guarantees is too risky; ix) payroll audits are not performed; x) **the procurement system is completely inadequate**; xi) the level of understanding of control rules within the administration is not good enough; xii) **internal audit is very weak**; xiii) advances provided are not cleared properly; xiv) there is poor comparability of budgets and accounts – with no routines for portfolio budget statements or annual reports; xv) **financial statements are too late to be of any use and accounting standards used are inadequate**; xvi) external audits are too late to get timely actions and consequently there is poor follow-up on audit findings; and xviii) legislative scrutiny of budgets and audited accounts is insufficient.

Overall, the weakness in the system constitute a moderate to substantial level of fiduciary risk, with weak classification systems, inadequate disclosures, lack of medium term focus, poor clearances of advance accounts and untimely financial statements and audits. Development risks – or the risk of development objectives not being achieved – were also assessed as substantial, primarily due to an absence of medium term budgeting along with weak annual reporting.

MFAT does not use country systems a lot, but when it uses budget support it does well in terms of forecast accuracy and timeliness of disbursement. Overall however, donor practices associated with budget support was rated as average at time of the last PEFA assessment. This was due to untimely and incomplete estimates of aid projects and non-alignment of estimates dialogue with Niue's budget cycle. This should improve very quickly due to the outstanding system of Forward Aid Plans (FAP) used by New Zealand, which sets the



foundation to deliver clarity and predictability (noting the FAPs are only estimates of future commitments and are not hard commitments).

Figure 7: Niue’s Fiscal Management Performance – Strengths

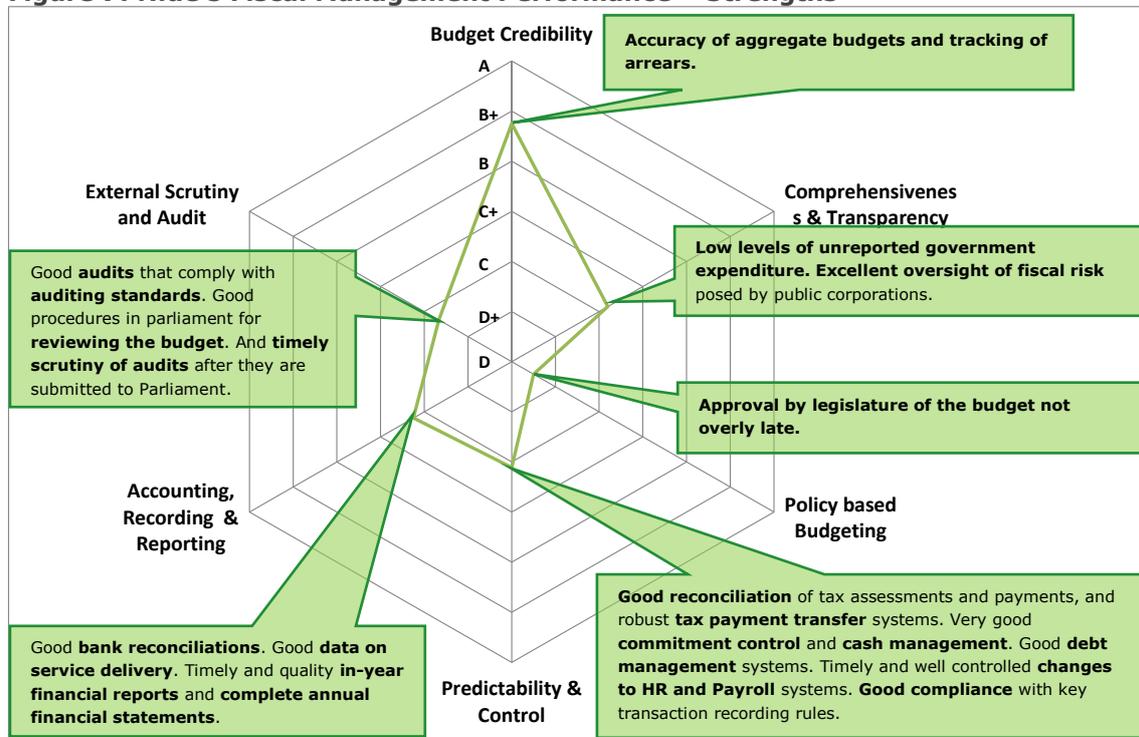
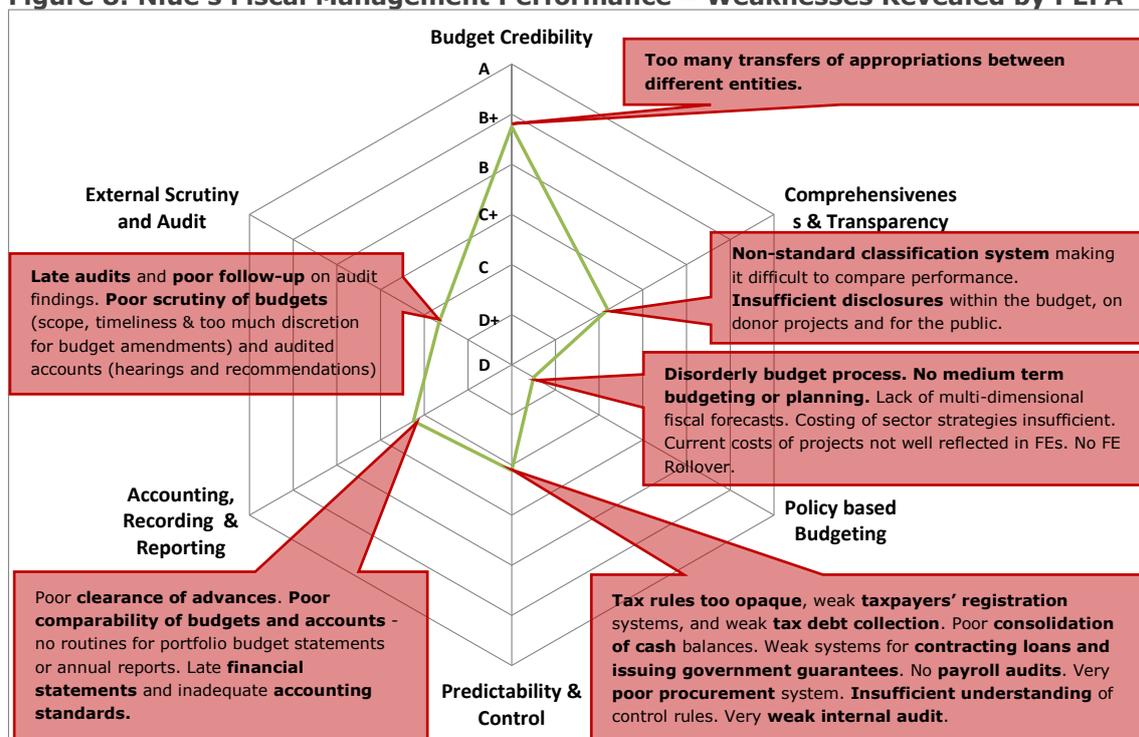
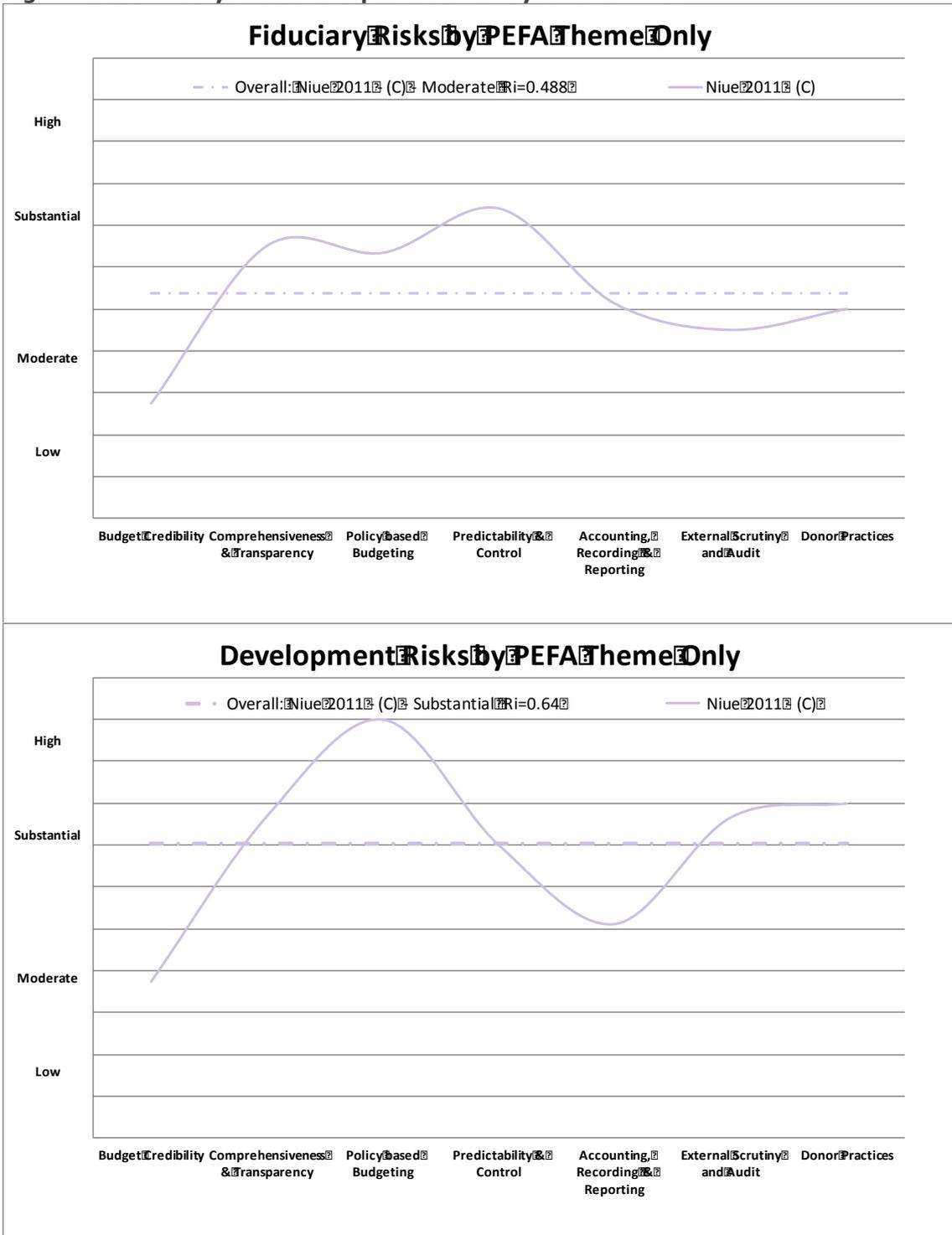


Figure 8: Niue’s Fiscal Management Performance – Weaknesses Revealed by PEFA



Figures 9: Fiduciary and Development Risks by PEFA Theme



Our analysis of fiduciary risk suggests that levels of budget support for Niue as a share of total ODA appear to be out of line with the relationship between budget support and fiduciary risk. On the face of revealed levels of fiduciary risk, the amount of budget support as a share of total ODA received provided to Niue over the last ten years (c10%) is higher than expected if one ignores other factors such as small size and the Realm state relationship. That said, the team recognises that reducing budget support levels is unlikely to be a prudent move, however, the team does believe that focusing on making budget support more effectively should be a key priority moving forward.

Niue is ready for a move to a more coordinated, harmonised and balanced approach to budget support. However, given that the fiduciary risks associated with its provision are still relatively high, with only moderate probability of delivering increasing development benefits, there is a case that more reform is required before more flexible funding can be provided. That said, given Niue's small size and the constitutional relationship, there remains a strong case to deliver budget support at high levels, but with an increasing focus on fiscal performance and improving the effectiveness of the financial assistance delivery mechanism. This could be done by linking the budget support operation to a performance management arrangement in order to help the Government be more efficient and effective when allocating, distributing and spending its resources. Such an approach also provides a foundation to assist with strengthening fiscal performance improvement plans, and in particular, establishing a culture of managing rolling plans. One such approach – team-based performance management is discussed further in Section 4.

2.2 Harmonisation

New Zealand's harmonisation efforts include its delegated cooperation arrangement with Australia, which sees it deliver education and waste management-related projects on behalf of the Australian government. There is also increasing partnership work with the European Union. The Niuean government's development cooperation management unit - the Project Management Coordination Unit (PCMU) established within the Office of the Premier, is a relatively new organisation and has focused thus far on acquiring funds for new projects and, as such, recipient-led harmonisation efforts are not well advanced.

One of the benefits of harmonisation is the opportunity it affords for one donor to influence the decisions of another. This is particularly important in technical areas, where one donor may have significant experience dealing with local technical issues and capacity constraints, and may be able to influence the design of systems that are appropriate to local conditions. **The renewable energy sector is an example where greater harmonisation is required because of this issue.** The recent technical issues associated with the sub-optimal design and operation of renewable energy technology provided by another donor (which led to extensive damage to solar panels in the powerhouse), and the damage that caused Niue's power infrastructure is a case in point. A review of broader systems issues is being undertaken with funds provided by the New Zealand government, including a review of system risks and grid stability. If significant damage had been caused to Niue's power generation plant due to the actions of another donor then considering the lack of local funds and the constitutional obligations of New Zealand, it would most likely be New Zealand who would be responsible for the rehabilitation of the power supply. This has happened in the



past and could happen again in the future. **Due to its exposure to risk New Zealand needs to work closer with the Niuean government and other donors in the design and implementation of infrastructure projects delivered in Niue, and in the assessment of risk. While the projects of other donors are ultimately not New Zealand's responsibility, the exposure to risk is real,** so New Zealand has an interest in ensuring that technical projects are suited to local technical conditions and better mechanisms for working with other donors and the Niuean government in this space need to be investigated. This could also lead to maintenance and operational efficiencies. New Zealand's recent experience in the Cook Islands ensuring that renewable energy infrastructure funded by other donors in the Southern Islands mirrors that funded by New Zealand in the Northern islands is a good example of influencing the design of other donor projects in a positive way.

2.3 Coherence

This evaluation considers two aspects of coherence. The first is programmatic coherence. This involves looking at how New Zealand deploys all the financial and technical resources at its disposal to achieve its strategic priorities in Niue. This includes analysing how the various programmes complement each other (or not) and whether there are any practical attempts to integrate and build synergies between the different elements of the broader programme.

The second is the coherence of domestic New Zealand policy. New Zealand seeks to take action to "identify positive synergies and avoid the negative consequences" of its domestic policies²⁹. The avoidance of negative spill-overs emanating from domestic policies is a key feature of the emerging Policy Coherence for Development (PCD) agenda³⁰. Ignoring these spill-overs can undermine development objectives, and reduce the effectiveness of development efforts³¹.

2.3.1 Programmatic Coherence

Table 2 below provides details of the priorities of New Zealand's development cooperation programme in Niue and the various programmatic funds at its disposal to achieve outcomes in these areas over the previous three financial years. This discussion focuses on 'investment in economic development' and 'promoting human development' as they are the focus of this evaluation. New Zealand's funding for 'economic development' constituted between 25% and 28% of its total budget over the last three years, which is approximately NZD3 million per year. New Zealand invests in 'economic development' through five funds: the Bilateral

29 See: Policy Coherence for Development: Enhancing the Development Impact of New Zealand Policies, MFAT

30 OECD (2013) Better Policies for Development: In Focus 2013: Policy Coherence for Development and Global Food Security, OECD, Paris.

31 Morales, E.S (2014) Policy Coherence for Sustainable Development in the Post-2015 Framework, OECD Brussels 2014



Programme, Pacific Economic Development Programme, Pacific Regional Agencies fund, Partnerships and Funds Programme, and Pacific Transformational Fund.

Under the Bilateral Programme New Zealand funds a small number of relatively large value investments in tourism marketing, tourism infrastructure development, banking establishment and private sector development. New Zealand's funding for redevelopments at Matavai resort and its direct funding for tourism marketing have contributed significantly to the growth in tourism numbers that has been witnessed in the last few years. The establishment of Kiwibank, which was only possible with New Zealand funding, was also a very important economic development activity that has multiple benefits for the community. Projects such as these make a direct contribution to economic development in Niue as noted in Section 4. The Pacific Economic Development Programme provides a relatively small amount of funds for a range of small value activities (seven activities in 2014-15 with an average value of approximately NZD80,000). These range from support with trade facilitation, technical assistance and training in areas of economic importance like fisheries, and funding regional bodies to provide high level technical advice in areas like public financial management, private sector development and infrastructure management. These programmes don't invest directly in economic infrastructure but seem to target areas where economic benefits can be maximised through better cooperation (e.g. through more favourable regional and global trade outcomes or more favourable fishing license outcomes), where risks to economic development can be addressed (e.g. infrastructure) and where governments systems can be improved (e.g. PFM), so in effect they seek to support the enabling environment for economic development and private sector development in particular. The Partnerships and Funds Programme has a similar profile of initiatives over the last three years, i.e. project's that address risks (in this case in Maritime safety in particular), and efforts to improve capacity in key areas such as audit. The Pacific Regional Agencies Programme funds regional bodies to provide support to Niue in the areas of economic development, such as the Forum Fisheries Agency and Pacific Trade and Investment Promotion.

The lack of a strategic overview with regards to how New Zealand seeks to promote economic development in Niue creates difficulties when seeking to assess the coherence of New Zealand engagement at the 'priority' level because there is no frame of reference to compare investments against. Looking at New Zealand's overall investments in economic development, it is clear that the majority of programme funds are targeted towards a small number of large value investments that seek to promote economic growth, augmented by a relatively large number of small value activities that seek to supplement capacity, provide training, and address risk. It is difficult to ascertain how the small value activities support or complement the larger value ones, or seek to address those issues that constrain economic development in Niue, and there is no obvious linkages between the different programme funds. The small programmes address an array of issues that are nominally related to 'economic development' but it is not clear how effective they are at addressing the real constraints. New Zealand's contribution to economic development in Niue could be made clearer by explicating exactly how the different funds are being strategically used in support of economic development. For example, Bilateral Programme funds for economic growth-related activities, Pacific Economic Development funds for training and technical advice, Partnerships and Funds to address risk issues with the help of New Zealand agencies etc. In this way the logic underpinning each fund could be explained and opportunities between the different funds could be more systematically assessed.



Funding for Human Development constitutes around 10% of annual programme funds and is delivered via five programme funds: the Bilateral Programme, Pacific Human Development, Partnerships and Funds, Pacific Regional Agencies and Scholarships. These programmes focus on improving health and education outcomes, and human resource development. The Bilateral Programme provides sector budget support for the Departments of Health and Education, is essential for the ongoing operations of those departments. The Pacific Human Development Programme provides funds for regional programmes in areas like NCDs and blindness, which provides services in Niue. The Partnerships and Funds programme also provides a small amount of funding for NCD prevention in the most recent financial year. Both the scholarships programme and funding for the University of the South Pacific through the Regional Fund focus on building human resource capacity both on and off shore.

As with 'investing in economic development', the lack of a strategic framework for New Zealand's investments in human development affects the coherence of this support.

Table 1: Programme priorities, programme funding source and percentage of total funds (NZD)

Total Programme Funds	16,525,604	17,994,184	15,518,887
<i>Programme Priorities</i>	<i>2012/13 (Actual)</i>	<i>2013/14 (Forecast)</i>	<i>2014/15 (Forecast)</i>
Investing In Economic Development (Tourism, Banking Establishment, Infrastructure, PSD, Various Regional Programmes)			
Bilateral Programme	3,217,500	3,577,731	2,812,855
Pacific Economic Development	897,117	1,085,834	543,061
Pacific Regional Agencies	198,000	390,392	251,400
Partnerships and Funds	54,260	58,935	40,365
Pacific Transformational	0	0	250,000
Total	4,366,877 (26%)	5,112,892 (28%)	3,897,681 (25%)
Promoting Human Development (Health and Education Budget Support, HRD, NCD initiatives, Blindness)			
Bilateral Programme	884,154	470,000	560,000
Pacific Human Development	216,580	609,497	359,670
Partnerships and Funds	0	0	25,000
Pacific Regional Agencies	415,000	415,000	415,000
Scholarships	158,326	231,891	360,535
Total	1,674,060 (10%)	1,726,388 (10%)	1,720,205 (11%)
Multi-Sector Activities (Budget Support, Asset Management, Administrative Assistance)			
Bilateral Programme	9,506,760	10,096,000	9,375,000
Pacific Regional Agencies	530,581	603,806	537,000
Partnerships and Funds	0	0	110,000
Pacific Head of Mission Fund	25,299	22,125	25,000
Total	10,062,640 (61%)	10,721,931 (60%)	10,047,000 (65%)
Building Safe and Secure Communities (Pacific Judicial, Police, Legal advice)			
Pacific Human Development	160,413	197,779	174,612
Partnerships and Funds	171,556	224,444	293,511



Total	331,969 (2%)	422,223 (2%)	468,123 (3%)
Improving Resilience (Regional environment programme)			
Pacific Regional Agencies	90,058 (0.5%)	91,732 (0.5%)	91,732 (0.6%)

2.3.2 Policy Coherence for Development

The aim of PCD is to ensure that New Zealand’s domestic policies achieve positive results for developing countries and avoid negative spill-overs. In 2013 MFAT commissioned a review into opportunities to improve its PCD³² (“Sapere Report”) and this research identified a number of options. The primary area for expanding PCD that is relevant to Niue includes expanding New Zealand’s Pension Portability Programme (PPP).

In 2013 the New Zealand government signalled its intention to modify PPP arrangements. The proposed improved PPP policy would allow residents of Realm states (aged 65 and over) to apply for New Zealand superannuation or the veteran’s pension from their country of residence provided they can demonstrate they were resident and present in New Zealand for ten years since 20 years old, including five years since the age of 50. The improvement of these arrangements is a topical issue that has generated significant debate both in New Zealand and in the small islands states of the Cook Islands, Niue and Tokelau, who are initially targeted by the new arrangements. The *Social Assistance (Portability to the Cook Islands, Niue and Tokelau) Bill* was introduced into parliament in July 2014 and was subject to a second reading and review in May 2015. All parties supported the Bill, but parliamentary records highlighted some concerns over the requirement that citizens of the Realm, who are New Zealand citizens, should demonstrate that they have resided in New Zealand for five years after 50, which is different from the treatment of New Zealand citizens residing in New Zealand. Amendments to this effect have been proposed by the New Zealand First Party³³.

These concerns were reinforced by the Premier of Niue, Toke Talagi, who attended sittings of the Social Services Committee in 2014 to explain Niue’s position regarding the proposed amendments. In his address³⁴ the Premier emphasised that, as pointed out above, citizens of the Realm not resident in New Zealand are treated differently than those resident in New Zealand. He argued that the NZ parliament had not appropriately considered what it meant to be a citizen of the Realm and that there were many unresolved issues that needed to be addressed with regards to the Realm state relationship between Niue and New Zealand. The Premier suggested that the new arrangements may in fact have negative effects on the population of Niue and further drive depopulation as people leave to fulfil the ‘5 years after 50’ requirement. The Premier went on to acknowledge his support of the amendments suggested by the Cook Islands, which includes the waiver of the ‘5 years after 50’ requirement.

32 MFAT (2013) Sapere Report - Research Synopsis – Opportunities to Improve New Zealand’s Policy Coherence for Development, see: http://www.aid.govt.nz/webfm_send/676

33 See New Zealand Parliament Bills progress: http://www.parliament.nz/en-nz/pb/legislation/bills/00DBHOH_BILL56944_1/social-assistance-portability-to-cook-islands-niue-and

34 Unpublished notes of Toke Talagi’s address to the Select Committee



The Ministry of Social Development estimates³⁵ that once the changes have been instituted applications from approximately 38 Niuean's will be received in the first year and four in the second. One would imagine that the number of Niuean's who can apply for payments would then remain low as those below the age of 65 reach that age in subsequent years. While these numbers are small, they constitute a reasonably high proportion of the 65 and over cohort, which in 2011³⁶ was just 181 people, some of whom would already be accessing New Zealand pensions under the old scheme.

At present the matter remains unresolved before the House and it is unknown if the proposed amendments will be approved. It seems that the economic and potential migratory issues associated with this policy change have either not been modelled, or not communicated effectively to the Niuean government. In line with its commitment to PCD, the New Zealand government should ensure that a clear position is reached on the proposed benefits and costs of this policy change for Niue and every consideration should be given to adopting a policy position that reinforces its commitment to supporting the retention of people in Niue, which is enshrined in the Joint Commitment between the two countries.

2.4 Efficiency

Due to the high level nature of this evaluation, this report does not focus in detail on activity level efficiency issues but programme-wide indicators of efficiency - proliferation and fragmentation is one such indicator. The international development community recognises the negative impact of proliferation and fragmentation on the effectiveness and efficiency of ODA. Fragmentation reduces development effectiveness because it increases the burden on partner countries, which have to manage, coordinate and monitor aid contributions.

Proliferation and fragmentation also increase the burden on donor agencies, affecting their ability to manage ODA programs efficiently. The terms 'fragmentation' and 'proliferation' are widely used but often poorly defined. There are several different types of proliferation. Donor proliferation is the number of donors supporting a particular partner country, or the number of donors operating in a particular sector within a partner country. Activity proliferation is the number of activities funded at the global or country programme level, for all donors or for an individual donor. Fragmentation relates to the spread of donor involvement or engagement. The term fragmentation can refer to the number of sectors in which a donor or donors are involved (through funding activities). One of the ways that donors attempt to mitigate problems of country system fragmentation is through the increased use of budget support type modalities.

35 Ministry of Social Development (2015) Briefing Note: New Zealand Superannuation/Veterans Pension Special Portability Arrangement to Eligible Residents of Niue, Tokelau and the Cook Islands, 16th March 2015

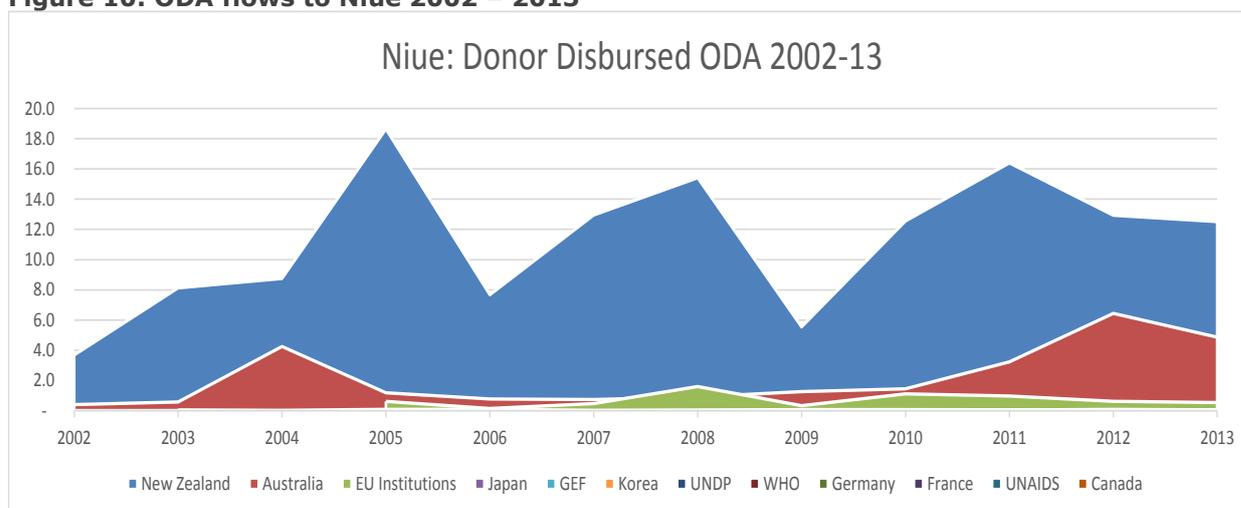
36 Government of Niue (2012) Census of Population and Households - 2011



2.4.1 Proliferation and Fragmentation

The proliferation and fragmentation of aid programs has important implications for the effectiveness of aid inflows and the efficiency of programme delivery. Generally speaking, the greater the extent of proliferation and fragmentation of aid flows, the greater the administrative burden it places on both receiving countries and donors. This not only makes aid harder to manage (and thus makes aid more inefficient) but it can also take time away from other public administration tasks, such as domestic resource mobilisation and budget execution. Figure 10 below provides an outline of ODA flows in Niue from 2002 to 2013.

Figure 10: ODA flows to Niue 2002 – 2013³⁷



As noted above aid flows to Niue are dominated by New Zealand. Australia and the EU also provide some important support and Australia's aid has grown in recent times. As highlighted in Figure 11 below, New Zealand has provided USD135.2 million in ODA to Niue between 2002 and 2013, followed by Australia at USD26.2 million; Japan, the EU and UN institutions have also contributed small amounts of ODA to Niue.

³⁷ All data from this and subsequent figures in from the OECD-DAC CRS database, see: <https://stats.oecd.org/Index.aspx?DataSetCode=CRS1>



Figure 11: Donor shares of disbursed ODA; Niue 2002 – 2013

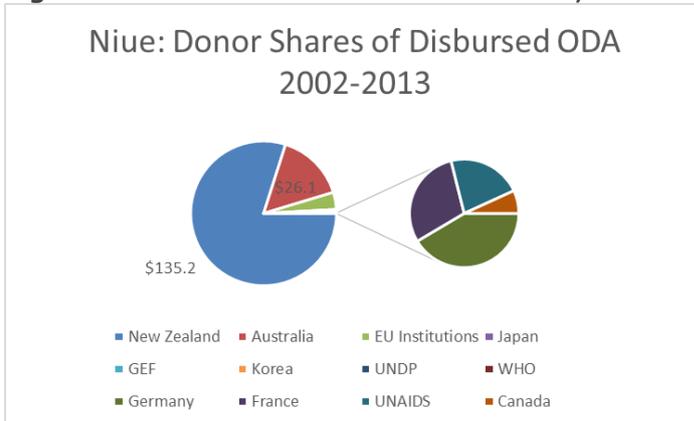


Figure 12 below provides details of the ODA sectoral investments. **Between 2002 and 2013 most ODA went to general budget support (43%)**, followed by government and civil society (12%), tourism (9%) and education (8%). There are significant amounts of other multi-sector and other sector disbursements.

Figure 12: Sectoral Investments in Niue

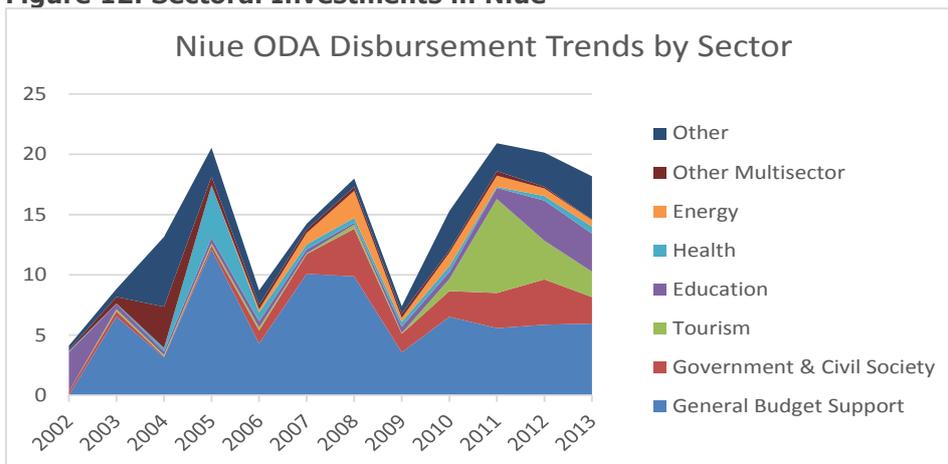


Figure 13 below provides details of donor supported activities to Niue. Over time activity levels have increased significantly, rising from 35 in 2002 to a high of over 100 in 2010 and then down to 80 in 2013 – this is a significant number of activities for a small country such as Niue with very limited capacity and quite a small aid budget. As is clear from Figure 17, however, New Zealand has made considerable efforts to reduce its activity levels, which have decreased from a high of 40 in 2004-5 (associated most likely with Cyclone Heta recovery) to a low of 13 in 2013; this level will continue to decrease in line with the budget support consolidation discussed in 'Systems Alignment' above and is a clear indication that New Zealand has made significant efforts to improve development effectiveness through programmatic consolidation. The above analysis suggests that while New Zealand has made some efforts to improve the efficiency of its programme delivery the donor landscape in Niue isn't quite as simple as it used to be and there are more actors and more activities. This increased activity most likely places significant capacity constraints on the Niue Government.



Figure 13: Donor-funded activities in Niue

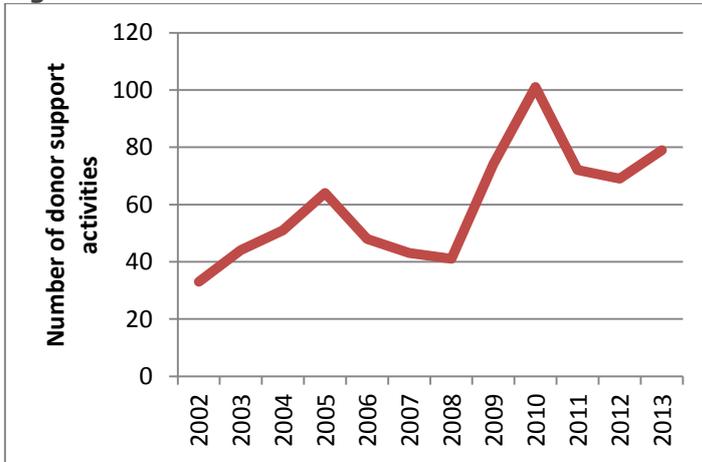
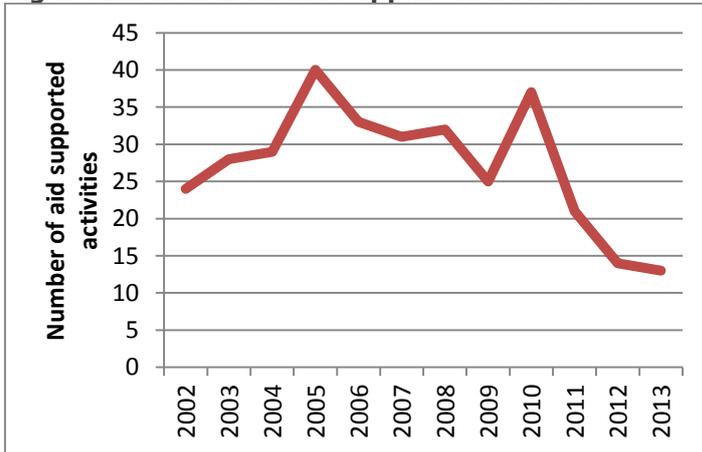


Figure 14: New Zealand-supported activities



2.5 Relationship management

This evaluation also examines the relationship between New Zealand and Niue, and the extent to which this relationship has been conducive to meaningful engagement, supported effective policy dialogue, allowed strategic issues to be addressed, and facilitated the ownership of the development programme and mutual accountability between the partners. The focus on relationships is especially important in the Realm state context considering the deep and interconnected relationship between the peoples of New Zealand and Niue.

2.5.1 Realm state relationship

Niue is a self-governing state in free association with New Zealand. In this context 'self-governing' means that Niue has full legislative power in all areas, while the status of 'free association' gives Niuean's full New Zealand citizenship. Prior to 1974 Niue was a non-self-governing territory of New Zealand; Niue chose 'self-governing in free association' status in



preference to that of full independence or political integration with New Zealand³⁸. While the new arrangement conferred a different status on the people of Niue, it was clear that the economic assistance provided to Niue by New Zealand over the decades would continue, as New Zealand's Associate-Minister of Foreign Affairs, the Hon. Joe Walding, informed the UN General Assembly:

"On 19 October [1974] New Zealand and Niue will end their relationship of administering Power and non-Self-Governing Territory; we will enter a new period of partnership on a basis of equality. As a self-governing state, Niue will take its place as a full member of the South Pacific Forum along with other independent and self-governing states in the Pacific, including Papua-New Guinea. Niue's new Constitution contains my Government's assurance that New Zealand's economic assistance to Niue will continue as before³⁹". In line with this sentiment, Section 7 of the Niue Constitution states that it shall "...be the continuing responsibility of the government of New Zealand to provide necessary economic and administrative assistance to Niue⁴⁰".

The new arrangement meant that Her Majesty Queen Elizabeth II, in right of New Zealand, continued to be Head of State of Niue, represented by the Queen's Representative, the New Zealand Governor-General. Her Majesty the Queen also retained powers with regards to external relations and defence, but as noted by Bertram and Watters⁴¹ "...the effective source of advice to Her Majesty the Queen in right of New Zealand on Cook Islands and Niuean matters are Her Cook Islands and Niuean Ministers", this means that when New Zealand acts on behalf of Niue in external affairs and defence it does so on the delegated authority of Niue. In 1988 a declaration was lodged with the United Nations regarding the ability of Niue to enter into international treaties in its own right and to not be subject to treaties entered into by New Zealand. This reversed the previous arrangements wherein Realm states of New Zealand were subject to the same treaties as New Zealand⁴².

While issues of 'free association', 'necessary economic and administrative assistance' and 'powers with regards to external relations and defence' might sound redundant in an evaluation of development cooperation between two independent states, this is certainly not the case in this evaluation. **The Realm state relationship is a very real and dynamic one, and the relationship between New Zealand and Niue is affected very much by the unresolved issues and different perceptions regarding the optimal nature of that relationship and the rights and responsibilities of each country, as the issue of pension portability raised above suggests.** As noted by a senior key informant from

38 Bertram, I.G and R.F Watters (1984) New Zealand and its Small Island Neighbours: A Review of New Zealand Policy Toward the Cook Islands, Niue, Tokelau, Kiribati and Tuvalu, Institute of Policy Studies Working Paper 84/01 October 1984

39 Official Record of the General Assembly, Twenty Ninth Session, Plenary Meetings, Vol.1, p.76 [2239th Meeting, 23 September 1974], cited in Bertram and Watters

40 Section 7, Niue Constitution Act (1974) , 29th August 1974

41 Bertram and Watters (1984)

42 Bertram and Watters (1984)



MFAT ...“our relationship with the Realm states is driven by the constitutional relationship....it has everything to do with the political settlement between us⁴³”.

Aside from the political settlement enshrined in the new constitutional arrangements, another key shift in the relationship between New Zealand and Niue after 1974 was the transfer of responsibility within the New Zealand government for the management of its affairs in small islands states, the Ministry of Island Affairs to the Ministry of Foreign Affairs. This “...changed New Zealand's dealings with the authorities in its former island territories from a basis of dependence to one of full inter-governmental partnership and it was the natural culmination of the process of constitutional development which has taken place in recent years⁴⁴”. With the transference of responsibility to MFAT the relationship shifted to a more inter-governmental, ‘development’ - oriented model.

In 1984, Bertram and Watters⁴⁵ made an important point about the ramifications of this shift in the context of New Zealand – Niue relations, a point, which remains valid to this day. It relates to the shift from a subsidy to ‘development aid’ with regards to financial support from New Zealand and all that that entailed. As noted in the 1984 report, a subsidy is an intra-national resource transfer of purchasing power from one place to another to support activities that are not economically sustainable. On the other hand ‘development aid’ is more like an investment, it is the impermanent transfer of finances across international borders that is supposed to catalyse change in the recipient country so that ultimately these resource transfers are no longer required, once a country attains a certain level of ‘development’. These transfers occur within the complex international architecture of ODA, which involves bilateral aid from countries like New Zealand, multilateral concessional finance and grants, financial flows from emerging donors, and other official financing. The provision of these flows also brings with it the monitoring and evaluation of economic and human development progress and the setting of targets and key performance indicators, which usually have to be achieved for transfers to continue.

After the constitutional changes in 1974 and the concomitant shift in New Zealand government responsibility to MFAT, the relationship between the two states moved from one of unconditional subsidy and support, built on a recognised special relationship, to one of conditional development finance in a more traditional donor-recipient context. Senior officials in both Niue and New Zealand continue to acknowledge the ‘special relationship’ that exists between both countries and it is clear that due to the constitutional links and other close ties the relationship is not a traditional donor-recipient one. However, while it may be ‘special’, the broader architecture of development cooperation remains a dominant feature of the relationship, and the Niue aid programme is therefore subject to the same checks and balances as other aid programmes. New Zealand’s economic assistance to Niue comes from its ODA budget and is delivered by the New Zealand aid programme alongside it’s many other country programmes. New Zealand government agencies that provide technical assistance to Niue largely do so with funds made available through the Partnerships and

43 Key Informant 1, pers comm 14th May 2015

44 MFAT (1974) Annual Report

45 Bertram and Watters (1984)



Funds Programme administered by MFAT, and not with their own domestic funds, in the same way they do with other less 'special' countries.

The use of ODA funds to finance 'necessary economic and administrative assistance' to Niue, however, is a source of tension between the two countries. For example there is sensitivity within the Niue government over the use of the word 'aid' and the word 'development' has been removed from the Joint Commitment [for Development] for this reason. There is also tension over the extent to which Niue should be held accountable for the spending of New Zealand ODA and this stems from different interpretations of what is meant by 'necessary economic and administrative assistance'. This in turn affects everything from the timeliness and quality of reporting under an ODA framework to policy dialogue regarding feasible 'development' outcomes for Niue. For the purposes of New Zealand budgeting, Niue is an ODA recipient in much the same way that Indonesia or Tonga is. This is at odds with Niue's conception of itself, however.

On the Niuean side there is a preference for more clarity on exactly what is meant by 'necessary economic and administrative assistance', as far as the evaluation team can ascertain this has never been defined. It is also clear that Niue would prefer that all 'necessary economic and administrative assistance' be delivered through a direct budget support modality (which is akin to an ongoing subsidy) without all the administrative issues associated with accounting for ODA. While this currently takes place within an ODA framework, noting the dependence of Niue on New Zealand's economic assistance, and the limited prospects for economic sustainability, this transfer is, in practice, more akin to a permanent subsidy than an impermanent investment in 'development'. Recent bilateral talks⁴⁶ and associated agreements have flagged a move to a higher proportion of aid being delivered as budget support. There is now a commitment on New Zealand's behalf to examine ways to more effectively deliver the 'necessary economic and administrative assistance' to Niue in a way that reduces administration and reporting and lifts policy dialogue to a new level. As noted in recent bilateral talks:

"NZ acknowledges that funding obligations are delivered via a development process, but noted that the constitutional partnership provides flexibility, and New Zealand is happy to look at how the funding is arranged and looks forward to hearing Niue's ideas on funding models. Both partners acknowledge the benefits of aiming for fewer activities and streamlined reporting requirements⁴⁷". As noted above in 'policy alignment' this is already happening.

The appetite to consider these issues has arisen due to the demonstrable improvement in relations between the two states over the last few years. In the past there was some significant tension stemming from differing perceptions regarding Niue's accountability for New Zealand ODA. As one senior former Niuean government official commented "before [during the time of the Muldoon government] maybe New Zealand was too soft, then it

46 MFAT (2014) Bilateral Talks Between Niue and New Zealand Governments, 29-30th April, 2014

47 Ibid



moved completely the other way and the relationship was very prescriptive and controlling, now we are finding a good balance in between⁴⁸”.

Aside from issues around ‘necessary’ economic assistance and appropriate modalities, other issues associated with Niue’s external activities and New Zealand’s role in the external affairs of Niue also affect the relationship between the two countries. As noted by key informants from the Niue and New Zealand governments, there are ongoing issues associated with the representation of the Queen’s image on Niuean coins, appropriate international representation and the role of the Head of State, and the disclosure of the nature of Niue’s international relationships with other states. These issues stem from differing perspectives on the roles of Niue and New Zealand with regards to that section of the Constitution that pertains to ‘external affairs’, and in particular the obligations of Niue to report its ‘external affairs’ to New Zealand. This is another area where further clarity on mutual expectations would be advantageous.

The new country strategy process that is being developed by MFAT should include political-economic situational analysis that clarifies New Zealand’s position regarding the ‘necessary economic assistance’ and ‘external affairs’ questions; this could be supported by analytical work on appropriate levels of funding for service delivery and the contribution of other forms of income to the Niue economy going forward. This would provide a more solid political and analytical foundation upon which to build a country-level programme strategy.

Aside from the political relationship between the two states it is also important to consider the broader structural relationship between the two countries. In summary the shift to free association, which changed the political relationship, occurred within the context of ever strengthening economic, cultural and social linkages. While the constitutional relationship signalled a shift towards a more independent relationship. This was, in some respects ignorant of the broader economic and other interests between the two countries. This was, and remains, particularly the case in areas like migration and labour market access. Clearly the existence of citizenship arrangements acted as a push factor in these areas, while the performance of the New Zealand economy acted as a pull factor.

2.5.2 Policy dialogue

Effective policy dialogue is an important aspect of quality aid delivery and fundamental to the maintenance of a strong and coherent strategy of development cooperation. Policy dialogue is defined as “the expression of a set of values or principles that the leadership of an organisation holds to be important in delivering its mandate or in bringing about change⁴⁹”. Policy dialogue is an important component of aid delivery as it can have a demonstrable influence on policy change. Policy dialogue is effective when areas of policy interest, objectives, and priorities are identified and communicated effectively, when the necessary capabilities exist to ensure engagement can be meaningful, when credible and relevant

48 Key Informant 35, pers comm 5th March, 2015

49 ODE (2013) Thinking and Working Politically: An Evaluation of Policy Dialogue in AusAID, April 2013, Department of Foreign Affairs and Trade, Office of Development Effectiveness



evidence is used, and when informal and formal approaches are used and power imbalances addressed⁵⁰.

There are numerous policy dialogue channels through which New Zealand engages with the Niuean government, these include: annual high level bilateral meetings at official's level, bilateral meetings at Ministerial level, informal engagements through relationships at Post, and during visits from technical staff from Wellington who engage Niuean counterparts on technical matters. New Zealand government agencies operating in Niue also engage in policy discussion on issues directly relevant to their activities in-country in areas like: policing, customs, immigration and infrastructure management for example. The pathways for policy dialogue are therefore many and varied, from the Ministerial level down to discussions on suitable sectoral policies.

The capacity to engage in meaningful policy dialogue is enhanced when there is a shared understanding of the roles and responsibilities of donor and recipient, and a sound understanding of the development challenges faced by a country. Due to the relationship issues discussed above and the various unclarified matters regarding 'necessary economic and administrative assistance' and 'external affairs', policy dialogue at present focuses too much on transactional and accountability issues and not enough on higher level strategic issues around the ultimate nature of the relationship between the two states and the development options for Niue going forward. Now that the relationship between the two countries has improved demonstrably it is clear that these issues will be front and centre of dialogue going forward, as foreshadowed in recent bilateral talks⁵¹. However it is critical that these discussions be based on a realistic understanding of what is possible in Niue from a development perspective going forward. Is long term economic sustainability a possibility for Niue? What levels of service delivery are appropriate? To what extent can tourism realistically displace New Zealand ODA? These are questions that need to be directly engaged with through evidenced-based policy dialogue in an honest and forthright manner. This would set the foundation for the development of a clearer and more strategic framework for assistance on the New Zealand side, and a more practical and achievable development vision for Niue.

2.5.3 Facilitating ownership and mutual accountability

Ownership is the extent to which developing countries lead their own development policies and strategies, and manage their own development work on the ground⁵². Mutual accountability is based on the premise that donors and developing country governments must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid. Fostering mutual accountability and ownership has been an ongoing issue for the Niue - New Zealand relationship over the last three years of the JC. New Zealand has made some significant efforts to improve accountability on its side, particularly through the provision of reliable and indicative multi-

50 Ibid

51 MFAT (2014) Bilateral Talks Between Niue and New Zealand Governments

52 OECD-DAC (2010) Glossary of Key Terms in Evaluation and Results-based Management, see: <http://www.oecd.org/development/peer-reviews/2754804.pdf>



year aid commitments. The presence of a mutually agreed Results Framework and joint reviews of progress has improved mutual accountability at the programme level, but planning, monitoring and accountability systems within the Government of Niue remain quite weak. Over the years, the inability of the Government of Niue to report on time and account for its expenditure of New Zealand funds, has caused frustrations within the programme. This has led to some modifications to the reporting requirements and a relaxing of those requirements by New Zealand.

Frustrations regarding prioritisation and planning also continue to affect the relationship - this is a key feature of 'ownership'. While Niuean 'ownership' of its development agenda is nominally high, its functional ownership of the programme is limited by the many capacity constraints it faces. As noted in the Paris Declaration, ownership from a partner country perspective involves more than just the articulation of a high level strategic vision, it also involves strengthening operational frameworks, improving accountability to parliament and to citizens, and increased transparency. The data presented under 'Systems Alignment' suggests that Niue needs to do a lot more to strengthen the more functional aspects of ownership to ensure the vision it articulates in *Niue ke Monuina*, can be effectively implemented.

It is clear from the analysis in the previous sections that a number of issues pertaining to the Realm state relationship between Niue and New Zealand remain unclarified. There is not a shared understanding on what is meant by 'necessary economic and administrative assistance' with Niue preferring a more unconditional, subsidy, akin to what existed in the past, and New Zealand actually delivering aid through a more prescriptive ODA framework. There are also unclarified and ongoing issues regarding New Zealand involvement in and expectations regarding Niue's 'external relations'. Some characteristics of what may be considered 'necessary economic and administrative assistance' noting the economic and administrative constraints faced by the Niuean government are discussed in the conclusion to this report.

2.6 Summary

A number of issues affect the quality of aid delivery in Niue. At the political level there are unresolved issues and differing perceptions regarding the optimal nature of the Realm state relationship and the rights and responsibilities of each country, the issue of whether New Zealand's financial assistance should be considered 'aid' is indicative of this. It is clear that Niue will continue to rely on financial assistance from New Zealand and that it is highly dependent on these flows to maintain current standards of living. In that context these flows are more akin to a permanent subsidy than an aid-based relationship, which is, by its very nature, temporary. Regardless, this assistance is delivered through an ODA architecture with all that that entails (e.g. high levels of reporting, results based frameworks over short periods of time, etc.). The evaluation team is of the view that the modality through which New Zealand provides assistance to Niue (as ODA) does not presently reflect the political-economic reality.

At the operational level, New Zealand's strategic development cooperation framework is somewhat weak and doesn't sufficiently address the underlying issues that affect economic and human development in Niue, nor does it appropriately articulate how the sum of New Zealand's resources will be used to address these issues - this stems in part from the



unresolved aspects of the Realm state relationship noted above. This leads to a lack of coherence in programme delivery.

Regardless of the nature of the relationship, it is clear that Niue could not meet its economic and human development responsibilities to its citizens without New Zealand's economic assistance. Niue is one of the most highly aided countries in the world, with each citizen receiving approximately USD 8,460 per year – much of which is provided by New Zealand through budget support. However, on the face of revealed levels of fiduciary risk and perceptions of corruption, the amount of budget support as a share of total ODA provided to Niue over the last ten years (c10%) is higher than expected if one ignores other factors such as small size and the Realm state relationship. Niue faces a number of significant challenges that need to be addressed to improve development effectiveness; some of the most pressing are medium term budgeting and planning and procurement. Deficits in its planning and budgeting mean that while it may have high nominal ownership of its development agenda through a string strategic vision, its capacity to operationalise that vision is limited. Weaknesses in these systems, in turn reduces the efficiency and effectiveness of New Zealand's aid.

The analysis of fiduciary risk suggests that Niue is ready for a move to a more predictable, coordinated, harmonised and balanced approach to budget support. However, given that fiduciary risks associated with its provision are still relatively high, with only moderate probability of delivering increasing development benefits, more reform is required before more flexible funding can be provided – Section 4 addresses this issue in more detail. In recent times the relationship between Niue and New Zealand has strengthened considerably. In the past the focus has been too transactional, but there is now an appetite to address the higher level policy issues and explore different funding modalities. In order for that to happen effectively New Zealand will need to coordinate its whole-of-government resources better and engage more consistently in evidence-based policy dialogue on development options for Niue.



3. Findings – Results

The following section reviews the results of New Zealand’s support for economic and human development in Niue. In the context of development evaluation, ‘results’ are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. This section begins with a review of the downstream impacts of New Zealand aid to Niue, before moving on to review the results (outputs and outcomes) of New Zealand’s support for economic and human development.

3.1 Aid flows and development achievements

This section reviews available evidence of results of New Zealand’s support for economic and human development in the Niue. It is particularly concerned with the downstream impacts of New Zealand aid to Niue. In principle, such inquiry looks at the sustainable impact of aid on variables such as real exchange rate, exports, employment, migration, remittance flows, private sector investment, government expenditures and revenues, imports and, importantly, GDP and GNI growth and human development outcomes such as achievements in health and education. In the case of Niue, however, severe data availability constraints dictate examining a much smaller number of variables, as identified below.

This investigation was originally intended to provide a comprehensive empirical analysis of the downstream impacts of New Zealand aid to Niue. A preliminary analysis of this type demonstrated, however, that owing to severe data constraints it is not possible to provide results that are sufficiently robust to provide insight into these downstream impacts. Indeed, in Niue’s case it is difficult in the extreme to conduct a statistical analysis owing to these constraints. The constraints relate primarily to both the periods of time for which data on development achievements are available, and the number of variables necessary to isolate the possible impact of aid from those of other drivers of these achievements. Owing to this the investigation that now follows initially confines itself to focusing on trends over time in aid and development achievements and, building on this, the analysis that is required to establish whether there is a causal relationship between these trends.⁵³ While it provides a tentative assessment of downstream impacts, it in large part seeks to inform future analysis of the possible downstream impacts of New Zealand aid to Niue.

In what follows we present data taken from the best sources available. In the case of demographic and economic data (on the resident population and GDP) these data have been

⁵³ Data have been taken from the best sources available. In the case of demographic and economic data (on population and GDP) these data have been taken from various issues of the Asian Development Bank Key Indicators for Asia and the Pacific, aid data are taken from the OECD International Development Statistics and all other data from the World Bank MDG Statistics source. Throughout this analysis we use the most recent data available, for the longest time period possible. The earliest year for which non-aid data are available is 1982.



taken from Niue Statistics Office publications available on the SPC website,⁵⁴ aid data are taken from the OECD *International Development Statistics* and child and infant mortality data from the World Bank MDG statistics website. Throughout this analysis we use the most recent data available, for the longest time period possible.⁵⁵

We commence with a brief examination of levels of aid received by Niue. The key question addressed is whether these levels are sufficient to expect that aid might have had some impact on its downstream development achievements. This is not to imply that they have, just to establish whether it is valid to look for an impact, be it positive or negative. We then seek to 'eye-ball' the data by presenting changes over time in variables on which downstream impacts are assessed in the relevant literatures.

3.1.1 Niue's Aid Receipts

The levels of ODA provided by New Zealand are easily large enough to have observable impacts on Niue's development achievements, be they positive or negative. Indeed, these levels are such that it would be difficult in the extreme to imagine that there have not been such impacts. This is based on levels relative to Niue's GDP and resident population (see Figures 15 and 16). These are the traditional ways that ODA is measured in the research literature on aid effectiveness. Niue's ODA receipts from New Zealand relative to its GDP have over the period 1999 to 2012 been as high as a 118% percent and have averaged 54 percent.⁵⁶ Niue's New Zealand ODA receipts relative to its population have over this period have averaged NZD7,611 in local 2009 prices. These numbers are enormous by the international standards of developing country aid receipts. The average per capita receipts for all developing countries, excluding India and China, in 2013 was USD20, while the equivalent ODA to GDP ratio is less than 2 percent. It is also worth noting that New Zealand has provides the bulk of Niue's ODA receipts. It provided 80 percent of Niue's total ODA between 1990 and 2013. The story of aid to Niue, including its downstream impacts, is very much a story of New Zealand aid to it.

54 The relevant documents Niue Vital Statistics Report 1987 to 2011, Gross Domestic Product of Niue 2004 to 2006 and Niue Gross Domestic Product 2012.

55 Constant price GDP data seem only to be available from the year 2003 onward. Current price GDP data are available from 1999 onwards. Constant price GDP data for 1999 to 2002 were obtained from the current price data, by assuming that the rate of inflation in Niue was five percent in each of these years. We acknowledge that this inflation is merely an assumption and not based on any evidence specific to Niue. In view of this, a number of other inflationary scenarios were assumed and applied to the data used in the real GDP per capita growth and real GDP per capita level regressions reported below. The overall picture did not change significantly among these scenarios. Note also that, importantly, GDP per capita was calculated using the resident population of Niue.

56 The peak in ODA was in response to Cyclone Heta in 2004.



Figure 15: Niue's ODA Receipts Relative to GDP, 1982 to 2012

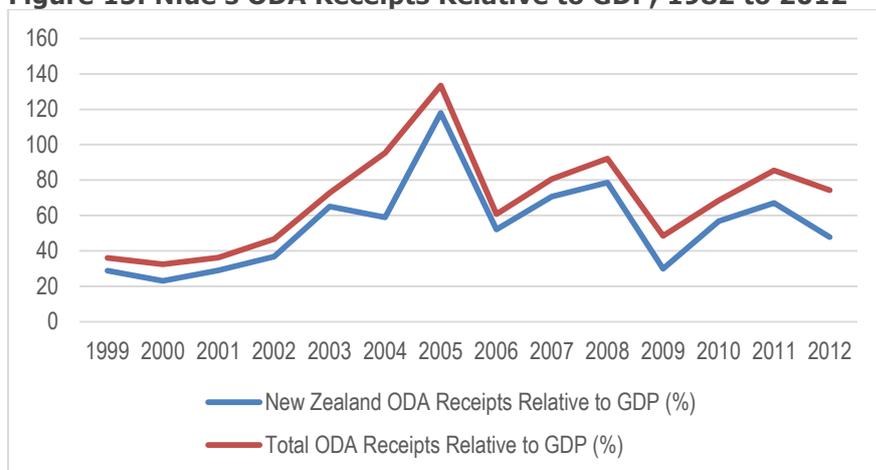
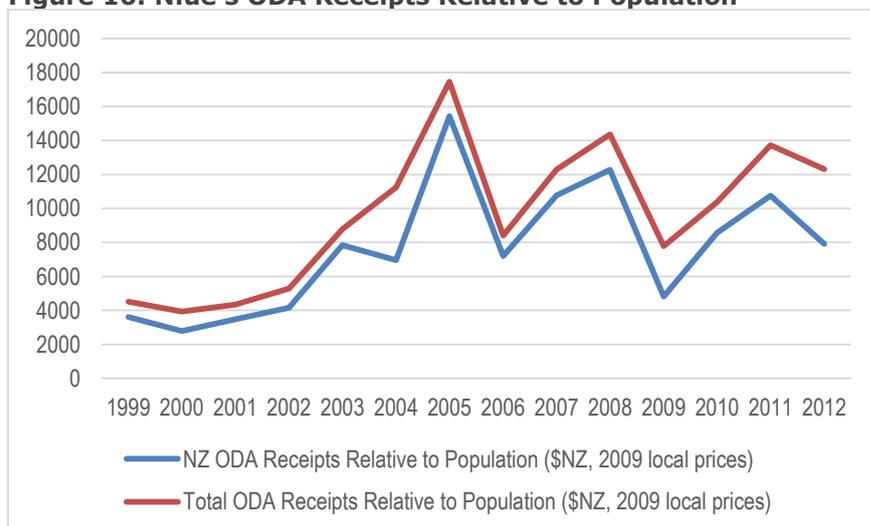


Figure 16: Niue's ODA Receipts Relative to Population



3.1.2 Development Achievements in Niue: Eye-balling the Data

Changes over time in various development achievements of Niue are shown in Figures 17 to 19. Real GDP per capita between 1999 and 2012 is shown in Figure 17. The level of real GDP per capita is far higher in 2012 than in 1999, increasing from approximately NZD12,500 to NZD16,570 in 2009 prices. The rate of growth in real GDP per capita has though been somewhat volatile, as is common in Pacific Island countries. It has been as high as 10.8 percent and as low as -5.6 percent (see Figure 18).

Human development achievements, in child and infant health, are shown in Figures 19. The relevant indicators are the child and infant mortality rates. Both rates rose from 1990, reaching respective peaks of 28 and 23.4 deaths per 1,000 live births in 2005, but have fallen in more recent years. It needs to be remembered that given Niue's very small population this represents a tiny number of deaths, but any child or infant death is a tragedy.



Figure 17: Real GDP per capita, Niue, 1999 to 2012

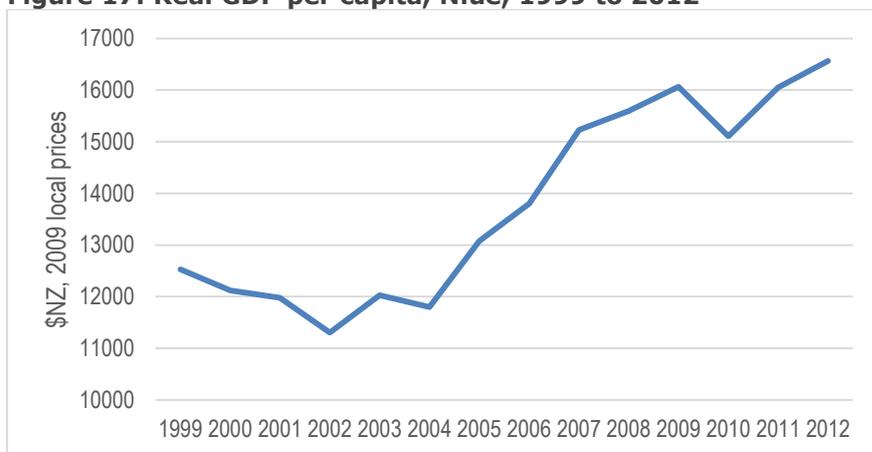


Figure 18: Real GDP per capita Growth, Niue, 2000 to 2012

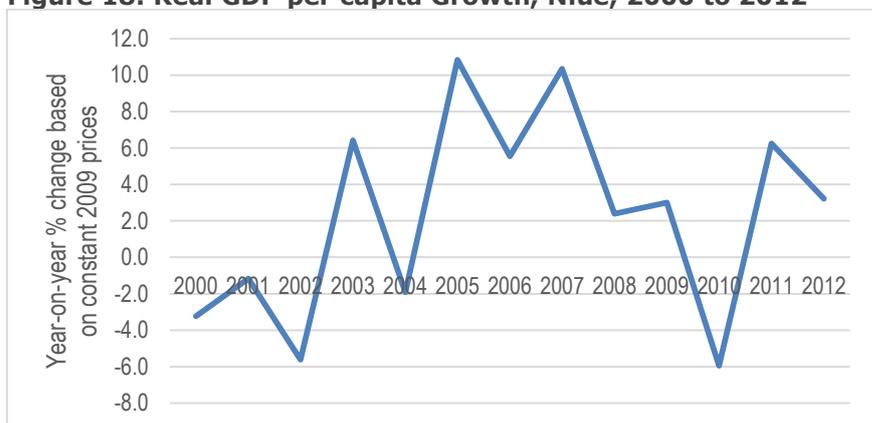
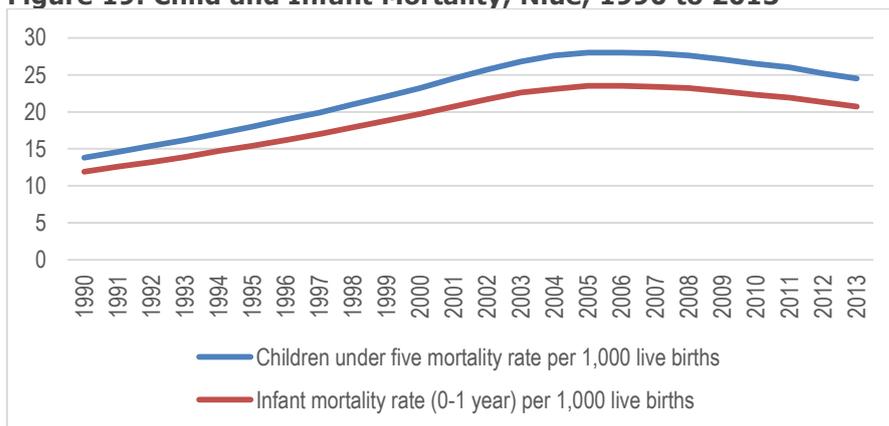


Figure 19: Child and Infant Mortality, Niue, 1990 to 2013



3.1.3 Downstream Impacts: An Assessment

What have been the downstream impacts, if any, of New Zealand ODA to Niue? Owing the level of this ODA relative to Niue’s GDP and population it is a statement of the obvious to say that it has had downstream impacts. The key question that needs to be answered in this



context is as follows. Would development achievements in Niue be lower in the absence of ODA from New Zealand? In response to this question, it would again be stating the obvious to respond, especially with regards to GDP per capita, with a 'yes'. This is not only based on the level of support from New Zealand relative to Niue's GDP and population size, but also on the basis of the findings reported below. As to how much lower is a matter of speculation. So too is the issue of the sustainability of downstream impacts, although noting that this might not be an appropriate question to ask in the case of a Realm state, whose residents are citizens of the donor country in question. One might think that in a situation where a donor's aid is the equivalent of roughly 50 percent of the GDP of the recipient, that removing this aid might have a lasting negative impact on the recipient's economic and human development achievements.

In an ideal evaluation environment we would have sufficient empirical data to robustly and precisely address these questions, regarding the extent of impact and sustainability. The results of analysing the data would be cross-validated with results from qualitative data, case study and key informant investigations of the quality of New Zealand ODA and its delivery in Niue. The focus of this investigation, which would need to go further than what is provided in Sections 3, would be to provide insight into the quality of New Zealand aid to Niue. After all, it is quantity interacting with quality that will determine whether there are downstream impacts and whether these impacts are desirable from an aid effectiveness perspective. Quality will be dependent on a range of factors that will be influenced by both donor and recipient government behaviour, and will include whether the aid has addressed pressing development changes or diverted attention from them, whether it is aligned to recipient government priorities, whether the recipient government has a sense of ownership of what the aid is trying to achieve, whether there has been sufficient mutual accountability between the donor and recipient, whether there is sufficient capacity in the recipient to independently promote good development outcomes, and whether the activities of different aid donors are harmonised.

Based in the investigation reported in sections below, and that reported above, it can be speculated that the extent to which New Zealand aid has contributed to sustained downstream impacts is limited. A more precise and definitive response to this question, however, requires more thorough investigation of the nature of that just outlined.

3.2 The Results of New Zealand's Support for Economic Development

The following analysis focuses on three aspects of New Zealand's support for economic development in Niue. First is the review of New Zealand's support for the tourism sector, second is the review of smaller investments which are designed to improve the enabling environment for private sector development, and third is New Zealand's support for the banking sector which has brought about some significant positive changes in the financial sector.

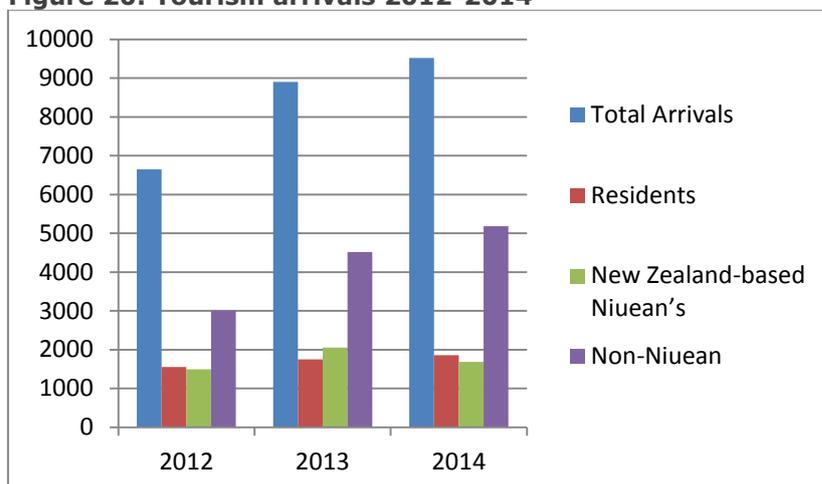
3.2.1 Tourism

Tourism is of growing importance to the economy of Niue. In recent years, tourism in Niue has been subject to significant growth. Figure 20 provides details of the growth in tourism numbers between 2012 and 2014. Between 2012 and 2014 total arrivals grew by 2,869, from 6,647 to 9,516 total arrivals – an increase of 43%. In 2013 tourism generated NZD5.3



million for the Niue economy, which was around 25% of GDP in that year; this was up from NZD2.2 million in 2010⁵⁷. After New Zealand’s financial assistance, tourism is the second most important source of revenue for Niue.

Figure 20: Tourism arrivals 2012-2014



A closer look at tourism growth numbers over the last three years shows that essentially all of the growth has been in non-Niuean arrivals. Between 2012 and 2014 non-Niuean tourism arrivals grew from 3,014 to 5,183 or 72%. The majority of this growth occurred between 2012 and 2013. Major changes in the frequency of air travel to Niue precipitated these changes in 2013. Prior to 2013, Niue was serviced by one weekly (weekend) Air New Zealand flight per week. In 2013 an additional fortnightly mid-week flight was provided between mid-April and October, and in 2014 an additional mid-week flight was provided on a weekly basis from mid-May to late-November. These new flights, coupled with a growing marketing strategy have resulted in significant growth that is witnessed. The increase in the frequency and timing of these flights has enabled Niue to expand its peak tourism season, which is nominally between June and September, further into the shoulder on either side of that peak. The building up of numbers in the shoulder and low season is a key strategy for tourism in Niue going forward⁵⁸.

The continuing growth of tourism is seen as the platform for economic development by the Government of Niue and is strongly supported by the New Zealand government. As noted in the JC:

“Economic development is the key to Niue’s continued sustainability. Tourism is jointly identified as Niue’s best opportunity for this. Our joint goal is to develop a full tourism package, to promote Niue as a unique, exciting and pristine tourism destination⁵⁹”. Over the course of the current JC, New Zealand has invested in various aspects of the tourism

57 Figures from Niue Statistics Office

58 Martin Jenkins (2015)

59 JC, page 4



industry, including tourism marketing, tourism redevelopment and support for the management of the island's premier resort – the Matavai.

New Zealand's support for tourism marketing has been provided through the NZD 1.23 million 'Tourism Marketing, Promotion and Service Delivery Programme' (2011-2014), which ended in September 2014, and the NZD 2.1 million 'Niue Tourism Marketing Initiative' (2014-2017), which runs through to September 2017. The goal of the New Zealand-funded 'Tourism Marketing, Promotion and Service Delivery Programme' was to 'develop and increase tourism in a responsible and sustainable manner and tailoring Niue as a tourist destination taking advantage of Niue's clean, green environment, cultural and social values'. The proposed outcomes of the programme were 'sustainable growth in tourism', 'enhancing tourism experience', and 'creating an enabling environment that promotes sustainable tourism development'.

The first year of the programme focused on building the profile of Niue as a tourism destination, which in 2011 was a little known destination, particularly in mainstream markets in Australian and New Zealand. Advertising and public relations campaigns were instituted, a website was developed, and relationships with wholesale marketers and tourism trade professionals in key markets were established. Year two focused on maintaining that profile and adopting a more targeted approach to marketing. In year three more specific advertising was developed to support the additional Air New Zealand flight that commenced in April of 2013 and various joint venture promotion activities were developed.

These activities have directly contributed to a growth in tourism numbers, which was the key outcome indicator. As noted above, tourism arrivals have increased significantly over the course of the programme. **There was a 34% growth in tourist arrivals (over 2010), a 27% growth in airline capacity, a 10% growth in visitor products and significant growth in visitor spend (NZD3.1 million over three years)⁶⁰.** Niue is also the fastest growing tourism destination amongst wholesalers in the Pacific. Exit surveys have recorded very positive experiences from tourists with 100% satisfaction rates. New Zealand funded NZD 1 million in destination development activities alongside the marketing programmes, which helped improve public infrastructure, developed tourism sea tracks and trails, and provided signage activities which have also contributed to the improvement of visitor experience in Niue.

However, as Figure 20 suggests, year-on-year growth in tourism numbers has slowed (i.e. growth between 2013 and 2014 was slower than growth between 2012 and 2013), and there is concern within MFAT that lower than expected forward bookings is an indicator that the Government of Niue's tourism marketing strategy is not having the continuing impact that is required to retain market share, particularly in the face of aggressive marketing by other Pacific nations⁶¹. Associated with this is concern about the lack of ownership of the tourism strategy by the Government of Niue, which was an issue also raised by a number of local

60 MFAT (2014) Tourism Marketing, Promotion and Service Delivery Programme, Activity Completion Report, August 2014

61 MFAT (2014) Update to the Minister of Foreign Affairs on the Niue Tourism programme



Niuean key informants interviewed for this evaluation who were concerned about the overall strategic direction of tourism in Niue.

The outcomes with regards to the creation of an 'enabling environment that promotes sustainable tourism' have been less obvious and the logic regarding this aspect of the programme is somewhat unclear. In response to this proposed outcome, the Activity Completion Report comments on the 'ripple effect' being felt across the private sector and the investment in new tourism infrastructure and tourism developments more generally. However, this is an outcome of the growth in tourism as opposed to being the result of an improved 'enabling environment' for sustainable tourism. An enabling environment is the suite of strategies, macro and micro economic policies, human capital investment, infrastructure, technology transfer activities, legal framework and capital finance flows which shape and constrain activities in the private sector. The New Zealand tourism marketing programme has very little impact on these broader issues. In fact, a number of key informants in Niue interviewed for this evaluation expressed concern over the broader 'enabling environment' for sustainable tourism. These concerns included dissatisfaction with the Niue Tourism Board's stakeholder engagement strategies and its failure to engage in more dialogue with smaller operators, the lack of confidence in the recently commissioned Niue Tourism Strategy 'Unleashing Tourism', concerns over the sustainability of Niue's long term tourism growth goal of 20,000 by 2017. Concerns regarding the sustainability of ongoing funding for tourism – particularly for Operations and Maintenance (O&M), the poor quality of telecommunications infrastructure, the lack of finance for small scale tourism developments, a lack of available labour, and a lack of clarity over proposed future tourism developments (i.e. the often discussed 'Chinese' tourism development).

New Zealand's support for tourism has also extended to the redevelopment of the Matavai resort, including the construction of 20 new rooms, a new motel development, and upgrades to existing rooms at the Matavai – this has been far and away the majority of New Zealand expenditure in tourism. Scenic are investing significantly in the upgrading of services at the Matavai and seek to raise the service standard from 3.5 stars to 4 stars over the next year or so and to align the Matavai to its corporate standards. Scenic are focusing on the human resource development and upskilling, improving procurement, reducing staff turnover, improving food quality and the procurement of local produce, and integrating the Matavai into its own comprehensive regional marketing strategy.

But to be profitable over the long term, Scenic, and the Directors of Matavai Niue Ltd, are of the view that the Matavai needs to be expanded by up to 20 rooms to increase economics of scale and meet foreshadowed demand over the medium-to-long term. To this end, MFAT has commissioned a study to review investment options⁶²; this review has suggested an upgrade and expansion of rooms and facilities at the Matavai and is likely to see another significant investment by New Zealand over the next two to three years to the value of around NZD7 million dollars. This new investment is expected to generate net whole of life revenue of NZD20.2million over the next 20 years; incremental value to Niue government is in the order

62 Martin Jenkins (2015)



of NZD 4.8million in the form of taxes. If this were to occur then New Zealand's total investment in tourism in Niue would amount to NZD25 million over eight years.

But a number of issues place New Zealand's significant investment at risk. Not the least of which is the lack of a strong medium term plan for tourism and economic development more broadly that addresses the 'enabling environment' issues discussed above. For tourism to be sustainable in the long term, other aspects of the economy require attention, these include the upgrade and maintenance of economic infrastructure (particularly telecommunications), the retention of a suitably trained work force, addressing land tenure issues and making commercial land available for productive activities and integrating sectoral planning under a tourism 'lens'. The weak planning capacity of the Niue government is a serious constraint to this happening and needs to be supplemented. As the analysis above suggests, tourism does have the potential to make a more significant contribution to GDP in Niue, but it is not a panacea for the economy. Niue is and will remain dependent on financial flows from New Zealand over the long term but there is an opportunity to reduce Niue's dependence on these funds; however, for this to occur a number of broader issues need to be addressed.

3.2.2 Banking

In 2012-13 New Zealand provided NZD1.38 million to assist in the continuance of banking facilities in Niue and the establishment of KiwiBank as the sole commercial banker in the country. In September 2011 the GoN was advised by the Bank of the South Pacific (BSP) that it was likely to withdraw its banking services from Niue after a review of its Pacific banking enterprises; this was due to the unprofitability of its Niue agency⁶³. The BSP advised the GoN that it could not continue providing banking services without a NZD1.3 million capital investment and an ongoing annual subsidy of NZD0.3 million. This prompted The GoN to review the provision of banking services on the island.

In 2012 a review⁶⁴ of transactional banking in Niue was conducted and various recommendations were made. The review found that the existing financial services on the Island (which included BSP, the Niue Development Bank and widespread informal banking) did not meet the current and future needs of Niue. In particular the review found that there were significant delays in the clearance of overseas remittances, limited availability of tourists to access cash and use credit cards, significant delays in securing personal and business loans and also very high transaction costs associated with transfers of all kinds. The increasing focus on enhancing tourism and increasing revenue was seen as particularly important and one of the primary reasons for improving services.

In response to this analysis New Zealand acted swiftly and strategically to address the many issues associated with finding a solution, this included providing continued support to ensure Niue was removed from the Financial Action TaskForce blacklist⁶⁵, providing support for the

63 MFAT (2013) Programme Activity Authority, Niue Banking Establishment, 20th February 2013

64 Burleigh Evatt (2012) Niue Transactional Banking Review, 6th March 2012

65 Niue was placed on the Financial Action Task Force blacklist in 2001 and was on that list until 2012. New Zealand was instrumental in supporting Niue's removal from that blacklist. Niue faced a number of sanctions from the international community following a series of issues associated with and the



drafting of new legislation, providing assurances and lobbying KiwiBank, providing funds to assist in the establishment of a new banking system, and engaging strategically with political actors. As a result of these activities the transition from BSP to KiwiBank occurred reasonably smoothly and the Niue branch of KiwiBank opened in April 2013, offering a range of banking services to Niuean's. Shortly after this, NZ EFTPOS also established services in Niue and there are now 23 EFTPOS terminals covering 26 businesses and six government departments.

These two initiatives combined have had a big impact of financial service provision in Niue. For example between June 2013 and December 2014 there was a significant increase in electronic card transactions in Niue rising from just under NZD400,000 to over NZD 800,000 in that period⁶⁶. The provision of these services is essential for the financial security of Niuean's and for the maximisation of tourism inflows. The provision of these services also plays an important role with regards to fiduciary and corruption risks as these risks plummet when transactions are undertaken electronically; it also improves forensic analysis and cash flows within the economy more generally. For consumers and business people, services have become more efficient and secure, facilitating more trade, more trust and less barter. For government, GST evasion and avoidance is made harder, which increases tax revenues.

While banking services provision has markedly improved through the establishment of KiwiBank there remain some significant issues in this sector that were raised by a number of private sector actors interviewed in Niue. The first concerns the role of the Niue Development Bank and the recent history of loan write-offs that have occurred. The introduction of a commercial bank, which has very strict loan requirements, into a sector where high levels of loan write offs are common has caused some shocks within the community and it will take some time for people to adjust to the commercial requirements for business and personal loan provision. The informal financial sector is also a very prominent feature of the Niue economy and there are a number of large money lenders who provide informal loans at very high interest rates. This also affects expectations with regards to the role of the banking sector and creates a difficult operating environment for a commercial entity.

3.2.3 Private Sector Development

New Zealand provides support for private sector development through its funding of the Niue Chamber of Commerce (CoC), which has a budget of NZD1.05 million over three years. The CoC has been active in Niue for close to 40 years and provides a range of services to the 179 active businesses in Niue, these services include: business mentoring and training, providing business loans, coordinating business awards and private sector event support, conducting business confidence surveys, and leading on government-related economic development activities. The CoC is managed by a long term private sector development professional on secondment from the MBIE in New Zealand. New Zealand funds the CoC's activities and allocates approximately NZD350,000 each year for private sector development.

establishment of shelf companies on the island by the international firm Mossack Fonseca in the late 1990's.

66 Government of Niue (2015) 2015/16 Budget Statement, 13th May 2015



The CoC has been very active and results from its business outlook survey suggest that local business confidence is improving in line with the increase in tourism numbers and the changes to banking that have also been supported by New Zealand. 147 of the 179 businesses in Niue completed the 2013-14 survey which reported the following key outcomes:

- 70.5% of businesses believed that general business conditions improved in 2013;
- 68.9% expected conditions to continue to improve in the next financial year;
- 20% of businesses reported a turnover of between NZD20,000 to 40,000 which was up from 9.7% in the previous survey; 30% reported a turnover of over NZD40,000 in 2013;
- There was a 105% increase in the use of EFTPOS; and
- Electronic transactions were now 60% of all transactions.

Business sentiment had certainly improved compared to the previous two surveys and there is reasonably high optimism in the business community. These sentiments were supported by key informants from the private sector interviewed by the evaluation team who reported increased turnover and growing confidence linked to the benefits of tourism. Key informants also commented on the important role played by the CoC particularly with regards to business planning advice and training, and in business promotion, however a number of key informants from the business community commented on issues associated with the focus of the CoC on government economic development activities as opposed to private sector-oriented business development activities.

The role of the CoC as a provider of support and advocacy for the business community in Niue is presently affected by the dual roles it plays as both a private sector advocate and representative body and as Niue's chief economic development agency for the government. The latter is a role the CoC has progressively taken up since 2010. In this role the CoC writes proposals for the government for funding and generally acts as a government business (grant) development agency, sourcing funding from external donors for government activities. New Zealand supports the CoC in this role, and the CoC works directly to the Premier who prioritises this work. However private sector actors and CoC members are of the view that the CoC should primarily focus on providing services directly to local businesses which is the original mandate of the Chamber, and the role Chambers of Commerce play in other countries. The conflation of these two roles, while somewhat of a necessity in Niue due to skills constraints, does affect both the services that can be provided and the advocacy work it can pursue on behalf of the private sector. It is clear that some separation of responsibilities is seen as necessary by CoC members and many within the business community.

Despite the optimism in the business community, the results of the 2013-14 survey and a number of private sector key informants, pointed to a number of issues that continue to affect the enabling environment for private sector development in Niue. These include the tax and duty structure, the cost of supplies, labour constraints, payment and debt collection issues, limited access to commercial land, lack of insurance, problems with infrastructure (ICT in particular), risks associated with lifeline projects, and the non-implementation of the private sector superannuation policy.



The labour shortage issue was mentioned by practically everyone interviewed by the evaluation team. Private sector actors called for changes to the Immigration Act that would enable a freer flow of labour into Niue; key labour constraints were particularly being felt in technical and trade-related areas. There has been an increase in the migration of workers from other Pacific Islands to Niue but there are concerns over the predictability of these flows, the limitations of the Immigration Act, and the political sensitivities associated with foreign labour, particularly when considered within the broader political narrative of re-population by people of Niuean heritage residing in New Zealand.

Box 2: Foreign Workers in Niue

The evaluation team interviewed a number of foreign workers involved in various aspects of the Niuean economy, some of whom provided much needed technical skills; and had done so for some time. These workers commented on the uncertainty they faced as foreign workers. A number of them wanted to build a life in Niue but the inability to access land for family housing and productive activities was a major constraint for them, and something that was very anomalous to them considering the vast amount of unoccupied land and housing on the island as a result of depopulation. While a number of these workers earned more income in Niue than they did in their home country, and wanted to stay, the problem with securing land was affecting their long term decisions, and a number were contemplating moving back to their home countries.

The shortage of land for commercial activity was also seen by many key informants as a massive brake on private sector development. Incentives to invest in private sector activities were affected by the many complex and drawn out land-related court actions that are ongoing in the country. There is a perception amongst private sector actors that court action with regards to land registration is only initiated once there is an indication of commercial development by a potential investor on unregistered family land⁶⁷. The drawn out nature of the current court process does not instil confidence in potential investors particularly considering the outcomes of some previous decisions pertaining to land ownership⁶⁸. The Government of Niue is presently training new Land Commissioners and hopes that a new and more expedient process for dealing with land issues will help address the issue, but a number of senior government and private sector key informants interviewed for this evaluation suggested that large scale reform is probably needed to appropriately address the issue and provide confidence for business.

67 There are two types of land in Niue, Crown Land and unregistered Family Land. Court actions by family members, many of whom live in New Zealand, are usually initiated after an application for registration has been lodged with the court, this involves the conduct of surveys and this process brings activities with regards to land to the attention of relatives who may also have claims with regards to family land. What typically ensures is a process of appeals against registration decisions which can become very drawn out and lead to significant emotional turmoil, as noted by one senior informant “the biggest social event of the year, and the most tension filled week is when the high court sits to review court cases’.

68 The Niue Land Commission was disbanded in the early 2000’s after the Government lost confidence in its Commissioners after some dubious decisions. Its function was then taken over the Niue High Court, which is presided over by judges from New Zealand.

Problems with infrastructure were also front and centre in the minds of private sector actors. These concerns ranged from the risks associated with the so-called 'life-line projects', to a lack of investment in ICT infrastructure and underfunding for asset management more generally. The need to upgrade the airport runway by 2018 in order to ensure the continuation of Air New Zealand flights is a major financial investment and one that the evaluation team believes New Zealand is planning to fund as part of its ODA transfers and Realm state obligations. Awareness of this in the business community is not high and confidence should be restored with regards to this issue. The same applies to the wharf redevelopment, which if not addressed, could have a significant impact on shipping. The business community is also affected by the ongoing issues associated with ICT infrastructure particularly the narrow bandwidth and the intermittent telecommunications services. This is seen as a major issue particularly by those involved in the tourism sector.

A number of other infrastructure related issues were seen as major risks to both tourism and private sector development more generally, by key informants from both the private and public sectors. Chief amongst these was the lack of funds for asset management. New Zealand provides NZD 1 million for asset management over three years and the GoN has its own small asset management budget but this is very low considering the need for ongoing maintenance of energy, water, telecommunications and road infrastructure, which are all important for the continued growth of the private sector and for the provision of basic services for both residents and tourists. New Zealand has acted to help address issues with regards to energy infrastructure but major issues remain. One issue that was highlighted by numerous key informants was the matter of solid waste which has grown considerably alongside the growth in tourism numbers. The facilities to deal with this at present are very rudimentary and will require upgrading. One of the issues with regards to this is the non-enforcement of the government's waste management plan. The issue of waste water was also raised by numerous key informants who are concerned about the impact increased tourist numbers will have on water quality noting the generally poor state of sewerage infrastructure on the island. While water quality testing does not indicate any effects on the water table as yet⁶⁹, there are concerns about this issue within the community.

New Zealand provides significant support for these issues through its project specific funding and through its administrative assistance but there seems to be a lack of a systematic approach to asset management prioritisation within the Niue government and a lack of medium term budgeting for assets. This is something that could affect tourism and private sector development more generally if not addressed.

69 The Ministry of Public Works conducts a range of water quality testing on ground water used for drinking, which in Niue sits about 50 metres below the surface. This testing has not reported any negative results thus far and this is primarily due to the size of the catchment and storage area and the depth below the surface. But as noted by key informants from the MPW sewerage infrastructure is of a generally poor quality and much of it is in need of upgrading, new large scale treatment infrastructure is also required to treat waste pumped from domestic and commercial sewerage tanks.



3.3 The Results of New Zealand’s Support for Human Development

The following section discusses the results and sustainability issues associated with New Zealand’s major investments in Human Development.

3.3.1 Health

New Zealand has provided significant long term support to the health sector in Niue, ranging from the rebuilding of the Fooou Hospital after Cyclone Heta, to the provision of New Zealand medical specialists, funding for the Chief Medical Officer and the treatment of Niuean’s in New Zealand. New Zealand’s funding under the current JC includes NZD1.44 million over four years in sector budget support for the Niue Health Sector Support Programme. The aim of this funding is to “assist and support Niue to ensure delivery of an appropriate level of essential health services recognising Niuean’s status as New Zealand citizens⁷⁰”. This funding supports six objectives: quality improvement, locum cover, visiting specialists, promotion of public health initiatives, management and monitoring of the Niue Hospital, and medivac coordination. The programme is implemented in coordination with the Counties Manukau District Health Board (CMDHB) who have been working with Niue counterparts for over six years.

Funds for this programme are disbursed to the Niue Health Department (NHD) in tranches on an annual basis after the receipt of annual progress reports and annual financial acquittals. A completion report that includes reference to OECD DAC criteria of efficiency, effectiveness, sustainability etc. is also due upon cessation in October 2015. MFAT has reported significant frustration with the reporting quality from the NHD and has worked with counterparts to improve outcomes level reporting and the results framework⁷¹. Aside from the issue of reporting, progress is reported as solid, with the role of the CMDHB seen as providing value for money for the programme. The support for locums is seen as particularly critical for the support of ongoing services noting the lack of Niuean doctors, and the extensive visits from the CMDHB professionals provides vital services to Niuean’s that would otherwise not be available. For example in 2014, 789 cases were treated for a wide range of issues by New Zealand doctors, and 12 medical specialist teams visited Niue to provide services in many areas including: infection control, mental health, paediatrics, orthopaedics, ophthalmology, general practice, cardiology, physical activity, medical technology and dermatology⁷².

New Zealand’s ongoing support for health in Niue is important considering the relatively low health budget in Niue. The NDH receives approximately NZD1.9 million per year, 65% of which is comprised of salaries, and 30% of which is used for operational expenses, which includes the costs of running the hospital (e.g. electricity, which is almost NZD60,000 per year) and other expenses such as pharmaceuticals (which costs upwards of

70 MFAT (2012) Grant Funding Agreement, Niue Health Sector Support, 23rd January, 2012; and GFA variation on 20th May 2013

71 MFAT (2014) Activity Monitoring Assessment, Niue Health Sector Support, 28th November 2014

72 Niue Medical Health Visits Table 2014, NDH



NZD170,000 per year)⁷³. These limited funds leave very little room for primary and secondary prevention activities. New Zealand's funds, which comprise around 20% of the health budget, are vital for the training of medical professionals, the provision of specialist medical services, the provision of medical technology and the ongoing efficient management of the hospital.

As noted under 'Budget Support' health expenditure in Niue is relatively high, particularly compared to other countries in this suite of evaluations⁷⁴, but it has gone down significantly as a proportion of the budget in recent years. In 2012 Niue's per capita health spending was NZD1,166 per person and 9% of GDP, this fell from 11.4% of GDP in 2009. By comparison New Zealand spends approximately USD3,022 per person on health on New Zealand citizens in New Zealand, which is around 10% of the budget and has increased in recent times – this is almost three times higher than New Zealand citizens in Niue receive. Niue also receives very small amounts of assistance from other donors in the health space such as the WHO, UNFPA and SPC, but these funds contribute very little to the quality and coverage of service delivery.

The paucity of discretionary health funds affects the capacity of the NDH to engage in preventative primary and secondary prevention, which could, over the long run, actually reduce the burden on the health budget – instead stress on the budget is increasing. The primary reason for this is the growth in NCD prevalence. The recent STEPs report highlighted the significant issues associated with NCDs in Niue⁷⁵, which is the most common cause of death in the country. Based on a comprehensive survey of the Island's population the report found that: over one-third of the population was hypertensive, 38% had raised glucose levels, 35% had raised cholesterol levels, 61% were obese, 86% were overweight, and overall 44% were at a high risk of NCD's. These numbers are particularly high even in the Pacific context. The report suggested a large number of suggested actions ranging from health promotion to taxes and primary and secondary prevention. At present the Niue government targets NCDs through its Health Strategic Plan and is involved in various regional initiatives but it lacks both the financial and technical capacity to effectively address this issue, an issue which many developed countries (including New Zealand) have great difficulty addressing. At present New Zealand's funds for health only partially address the NCD challenge. The discussion in Section Four suggests how New Zealand could better support Niue in its health and NCD efforts.

3.3.2 Education

The education sector in Niue is comprised of Early Childhood Education (ECE), primary school and high school between years 7 and 13. There is one primary school on the island which has 222 enrolled students and a teaching ratio of 1:18; and one secondary school which has

73 Key informant 25 per comm (senior health care manager, Fook Hospital)

74 For example, the Cook Islands has a GDP per capita health spend of NZD 755 per person

75 WHO (2013) Niue NCD Risk Factors, STEPS report, May 2013



182 enrolled students and a teaching ratio of 1:20⁷⁶. The Department of Education is the largest government department in Niue and employs 64 staff, the majority of staff teaching in primary school are of Niuean heritage; there are significantly more expatriate staff teaching in the high school (40% of all high school teachers). These teachers are sourced from other Pacific Islands, New Zealand and the Philippines in particular. Education in Niue is free and compulsory for all students up to the age of 15. There are no fees associated with the provision of education and parents are also provided with a quarterly allowance to cover the costs of uniforms and education resources. Students are taught in Niuean until year 4 and thereafter English becomes the language of instruction, this is part of the countries language protection policy and has been a feature of education in Niue for some time.

New Zealand has had a significant influence on education in Niue. The Department of Education has delivered the New Zealand curriculum since 1995, its students sit the NCEA, and many Niuean teachers are trained in New Zealand. New Zealand also provides NZD 200,000 per year through the Education Support Programme through a sector budget support modality. The goal of this support is to continue improving and sustaining the quality of education in ECE, primary and secondary by focusing on: teacher training and performance management, enhancing leadership, improving teaching quality, improving ICT, providing learning pathways into careers, developing policy, developing special education programmes and providing equipment. New Zealand is quite flexible in its support and provides sector budget support in advance of upon receipt of an annual work plan and detailed budget, with appropriate performance indicators⁷⁷.

In March 2015 the evaluation team facilitated a focus group discussion with senior representatives from the DoE to discuss the progress of the New Zealand-funded programme and the issues with education in Niue more generally. The DoE thanked New Zealand for its ongoing support, which it noted was critical to improving the quality of education in Niue. The DoE faces a very constrained budget environment, with the vast majority of its appropriation going to departmental salaries. For example its annual budget in 2012 was NZD1.74 million, this was only 5.6% of the government budget in that year and had to cover the wages of over 60 staff and the operational expenses of two schools. The NZD200,000 provided by New Zealand is essentially the only significant non-salary expenditure available to the DoE. While New Zealand funds are appreciated there is heavy burden placed on staff with regards to reporting and administrative processes associated with the management of this support. This was not an issue in the first two years of the programme as there was a dedicated education programme coordinator, but this person has since left and the administrative burden now falls on senior staff within the DoE. While New Zealand has been flexible in their reporting requirements, the dual reporting requirement and burdensome Niuean cabinet level procurement approvals process has proven difficult – the DoE is required to seek Cabinet approval for procurements over NZD5,000, which can cause significant delays in the programme. These issues have led to delays in the implementation of the work plan. The issue of procurement is a major one that was highlighted in our analysis under 'Fiduciary Risk' in Section 2.

76 All statistics sourced directly from the Department of Education in Alofi

77 MFAT (2012) Programme Activity Authority, Education Sector Support, 30th April, 2012



A number of other broader issues were raised that presented challenges for education in Niue. The first was the sustainable provision of teaching staff. Many Niuean teachers travel to New Zealand to undertake their training and it is estimated that only 1 in 10 return to teach in Niue. The key reason for this is the significant difference in salaries between the two countries (most salaries range between NZD 17,000 to 26,000 in Niue and NZD 60,000 to 70,000 in New Zealand). So New Zealand also acts as a pull factor drawing teachers away from Niue. The DoE is then required to fund the sourcing of expatriate teachers to fill the gaps, particularly in secondary school. **Only 25% of teachers in Niue have Bachelor level education and as they upgrade their skills over time in line with the DoE's focus on upskilling, there is a real chance more and more teachers will remain in New Zealand.**

A second issue raised by discussants was the role language plays in educational achievement. The DoE reported that, with regards to maths achievement, Niuean students are on par with New Zealand students from the outset, but in the area of literacy Niuean students lag behind particularly in the early years. As noted above Niuean primary school students are taught exclusively in Niuean until year 4 and in English thereafter; the DoE believes this is the reason behind the lack of performance in literacy. The necessity to teach Niuean to year 4 also reduces the pool of suitable teachers at primary school level, which is an issue considering the problems with retention. While this is part of Niue's language protection policy, respondents suggested it was at odds with the actual language in use in many Niuean households, many of whom communicate primarily in English, or a mixture of English and Niuean. Discussants were of the view that English should be the language of instruction from the outset in order to address this issue. The DoE was seeking the services of a language specialist to assist in determining the influence of this policy on education outcomes but the resources for this are not available within the current budget envelope.

A third issue raised by discussants was the lack of high level policy dialogue and systematic technical engagement between the DoE in Niue and counterparts in New Zealand. Despite implementing the New Zealand curriculum since 1995 there was no systematic relationship between the NZ MoE and Niuean DoE. Representatives from the MoE did visit Niue occasionally (for example in 2014) and there was permission from the MoE for the DoE to engage with New Zealand educational agencies, such as the Teachers Council and Careers New Zealand, but these types of institutional engagements were not seen as systematic in nature. Noting the many challenges facing the education sector in Niue (language, finances, teacher training, teacher retention etc.) there is certainly scope for a more systematic level of engagement. Such engagement would help ensure the outcomes of New Zealand sector budget support are more sustainable.

As noted in earlier sections, it is clear that despite the small budget and significant challenges, Niue is delivering education outcomes in a cost effective fashion. According to the Education Department NCEA pass rates are 100%, and many high school graduates move on to complete tertiary education in New Zealand or at USP in Fiji. More needs to be done to address educational deficits in the early years associated with the language policy, and to implement a system of teacher training and upskilling that does not take teachers away from Niue.



3.4 Summary

New Zealand's support for tourism has contributed directly to the significant increases in tourist numbers over the last three years. There has been a 240% increase in tourism's contribution to GDP over that time, rising from NZD2.2 million in 2010 to NZD5.3 million in 2014. Business confidence is up, and the provision of new banking services, which could not have been done without New Zealand's support, has helped improve the efficiency, effectiveness and security of financial services in Niue. New Zealand is considering investing more in tourism infrastructure in order to improve services and meet demand, and this has the potential to add an additional NZD20.3 million in additional revenue of the next 20 years. **While this direct support has been important there are a number of barriers to economic development that remain to be addressed, that if not tackled appropriately will undermine the impact and sustainability of New Zealand's support.** Chief amongst these is the issue of land, followed by labour availability, infrastructure development and asset management. These issues need to be addressed in a strategic and systematic fashion - this issue is discussed further in Section 4. New Zealand's support for economic development has produced some strong results but in general more needs to be done to address underlying issues that constrain economic development and the sustainability of the results observed.

New Zealand's support for health is a key part of its Realm state responsibilities. Its support for health, which is 20% of the health budget, is critically important considering the low health budget and the significant proportion of expenditure that goes to salaries and operations. Stress on the health budget precludes investment in preventative primary and secondary health care. An NCD crisis is looming, which could have significant impact on the budgets of both Niue and New Zealand and this could precipitate a new wave of medically-related depopulation if services on Niue are not improved. This will undermine achievements in the health sector going forward and have further impacts on the economy. New Zealand's support has been important as it enables the provision of a range of services that would otherwise not be available to Niuean residents, but more needs to be done to systematically address the NCD crisis.

New Zealand's support for education is very important and is essential for the continued improvement in education outcomes. Without this support the DoE would not be able to invest in any teaching quality initiatives. Educational achievements in Niue are high and education is delivered in a relatively cost effective fashion considering the significant constraints that exist in Niue. However, there are a number of issues that will affect the sustainability of results in education going forward. These include the impact of the language policy on literacy achievement and the problems with teacher retention. Further, it is clear that the DoE could benefit from a more systematic and direct engagement with the MoE in New Zealand and with other education sector actors as the capacity to continually improve the enabling environment for high quality education provision is significantly constrained.



4. Findings – Improving Development Effectiveness

This section draws on the findings from the previous two questions and identifies the key changes that are needed to ensure that New Zealand’s programme is more relevant, efficient, effective, and contributes to sustained economic and human development outcomes in Niue. It also identifies opportunities for strengthening New Zealand’s whole-of country approach.

4.1 Implications of a move from ODA payments to national transfer payments under the Realm State relationship

The previous sections have highlighted a number of issues pertaining to the Realm state relationship between New Zealand and Niue, and the financial management and efficiency issues associated with the performance of the Niuean PFM system and the provision of ODA to Niue. The following section provides some discussion of these issues and suggests some ideas for New Zealand to consider to improve development effectiveness.

It is clear that Niue might be above the ODA eligibility⁷⁸ threshold, which may make it due for consideration of a UN resolution on graduation from ODA, and usher in the multi-year post-ODA transition period, which can be around four years after adoption of the UN resolution. MFAT is already considering policy in this area with regards to the Cook Islands. The position on Niue’s ODA eligibility is less clear – this is because of the difficulty with determining its Gross National Income (GNI), which is the metric used to calculate ODA eligibility by the UN and OECD-DAC. Niue’s GDP per capita was found to be USD13,892, its GNI per capita was not calculated, and there is some uncertainty on the adjustments to GDP. In particular, the state of electronic and off-shore banking in Niue may mean that GNI is significantly lower than GDP, as it is understood that Kiwibank actually transfers cash out of the country rather than bringing cash in. Moreover, income earnings and expenditures actually made, essentially all occur electronically in New Zealand rather than in Niue. In other words, cash and money are not physically in the country. This could make income classified as foreign-sourced as it never really gets remitted back to Niue at all.

78 Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). Countries are removed from the DAC List of ODA Recipients, if the country is considered too rich – i.e. have a sustained GNI per capita over USD12,745 in 2013 dollars for three years in succession. See OECD Glossary and ODA eligibility fact sheet.



Nevertheless, assuming GNI and GDP are close, Niue may well be above the ODA threshold which is currently USD12,745.

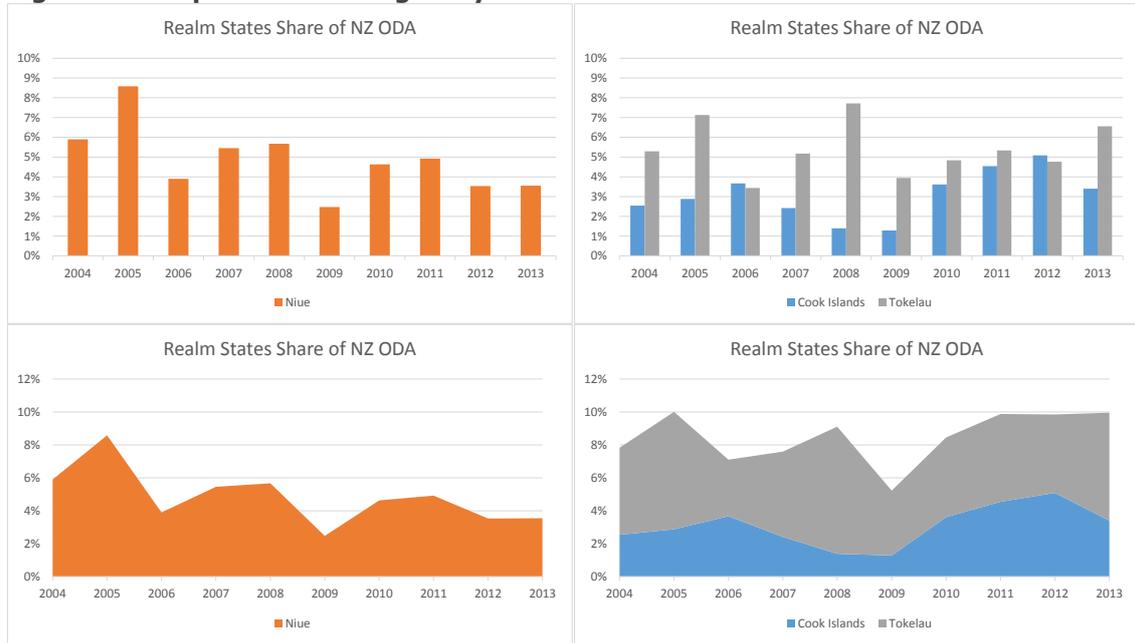
The practice of claiming ODA for payments made to meet obligations under statutory and Realm state arrangements is done on a voluntary basis. It does not appear to be regulated by the OECD-DAC. Australia for example does not claim ODA for similar payment obligations to its territories, which include: Norfolk Islands, Christmas Islands and Cocos Islands. Moreover, Australia are actually taking a more nationalistic approach with one of these states. In March, 2015, the Australian Government announced that it plans to abolish the National Assembly of Norfolk Islands and replace it with a Council, which bring it in line with the governance arrangements in the Christmas and Cocos Islands.

While the decision whether to claim ODA for Realm state payments is political, there remain key development policy matters to consider. It is useful to review the implications on overall ODA levels for MFAT and in particular the extent to which ODA claims affect overall aid levels. Other issues to consider are: i) why assistance should be provided (or not provided); ii) how that assistance should be provided; and iii) what sort of assistance should be provided.

On the first of these issues, it is estimated that by not claiming ODA for financial assistance provided to Niue, New Zealand's total level of reportable ODA would reduce by only 0.1% of GNI. Analysis was undertaken to assess the impact on ODA levels if other Realm states cease to be eligible for ODA or are removed voluntarily. The Realm states of Cook Islands, Niue and Tokelau, account for around 14% of all ODA from New Zealand, with Niue and Tokelau being the dominant recipients. With the removal of Niue as an ODA recipient, the Realm states share of ODA would fall to around 10% of all New Zealand ODA (based on current levels). If ODA status was removed for Niue in 2012, then New Zealand ODA would have reduced from 0.22% of its GNI to 0.21% (See Figures 21 and 22).

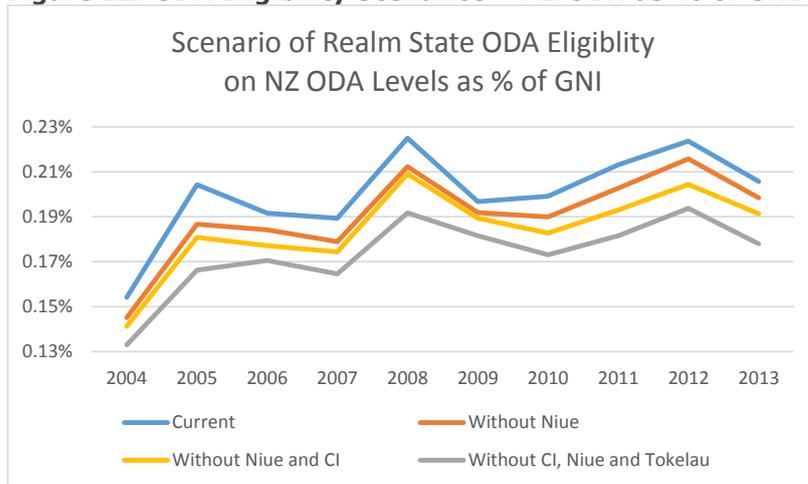


Figure 21: Impact of ODA Eligibility – Realm States Share of NZ ODA: 2004-13



Source: OECD DAC CRS

Figure 22: ODA Eligibility Scenarios – NZ ODA as % of GNI



The impact of ODA ineligibility for Niue will be determined primarily by New Zealand’s policy since it is the dominant donor. Other donors may be aware that if per capita GNI for a recipient country is above the high income country threshold of USD12,745 (in 2013 dollars) for four years, then under OECD-DAC rules financial assistance cannot be classified as ODA in the fourth year. The idea behind the rule is that rich countries do not require aid, and that poor countries should be prioritised over rich ones in recognition of the opportunity costs of providing aid. **If Niue became ineligible for ODA, this may affect the actions of other OECD-DAC donors to Niue (e.g. EU, JICA, KOICA and Australia) who have all provided aid to Niue in the past. This could result in a situation where less OECD-DAC aid is available to Niue once it has ‘graduated’, but this notion**



needs to be explored further. Clearly there would be implications for New Zealand if the number of donors to Niue decreased.

Financial assistance could still, however, be classified as 'Official Aid'; the definition of which is the ODA definition without the requirement to be on DAC List of ODA Recipients. The relationship between Niue and China will be an important factor in influencing the levels and types of financial assistance. The new China engagement model developed by Cook Islands may also be used by the Government of Niue for various purposes⁷⁹. The special Realm state relationship between New Zealand and the Niue will however, likely be the dominant geo-political factor whatever the case. Debates on levels of financial and non-financial assistance, and standards for public services need to be debated amongst stakeholders based on the types of scenarios and the evidence produced in this report.

The overall recommendation of the review team is that New Zealand should keep financial assistance at current real levels, irrespective of ODA eligibility status. That said, the ODA status of Niue is not the type of relationship we perceive Niue wishes to have with New Zealand – one that is not aid-based but built on the foundations of the statutory obligations enshrined in its Constitution. The evaluation team is of the view that this is a reasonable position to take and that it could form the basis of a more coherent and practical relationship between the two countries. That said, this remains a political issue as reductions of ODA as a percentage of GNI may be not in New Zealand's overall national interest.

The second issue is the why question – why provide financial assistance to a rich country? Clearly this is in recognition of New Zealand's Realm state duties and geopolitical considerations. It also stems from the fact that, as the most highly aided country in the world, without New Zealand's support, Niue would certainly not be able to provide adequate services and employment to Niuean's, and this would most likely result in further depopulation and migration to New Zealand. Also from a development perspective, there still remains much work to be done to help Niue become more resilient and closer to New Zealand in terms of governance, living and social service standards. This means that financial and non-financial assistance still needs to be more relevant, efficient, effective, and contribute to sustained economic and human development outcomes. Moreover, there are clear opportunities for strengthening New Zealand's whole-of country approach, which would help deliver on the three key objectives: economic growth, economic resilience and self-reliance.

The third issue is how should New Zealand's 'necessary economic assistance be provided'? It could be through ongoing financial assistance in the form of 'official aid', state transfers, or even special payments to Realm states, based around fiscal, economic and social policy dialogue. These discussions, and the levels of support provided by New Zealand, should be informed by evidence derived from public expenditure reviews in health and education, realistic assessments of the contribution of tourism to the economy, and realistic assessments of infrastructure and asset management needs.

79 See <http://www.csmonitor.com/World/Asia-Pacific/2012/0831/Clinton-to-Cook-Islands-US-cares-more-than-China>



With regards to the 'what' question, in the evaluation team's view New Zealand should move to direct financial assistance in the form of budget support or special purpose payments as opposed to donor or government-executed MFAT-financed projects. This should include the adoption of team-based performance management as an essential part of the budget support or conditional transfer design. To conduct this effectively New Zealand would need to invest more in policy dialogue capability and strategically deploy its government resources to assist Niue systematically in key areas, many of which are outlined in this report, while supplementing capacity where needed. This would significantly reduce the burden on Niue from an ODA management perspective and shift New Zealand even further from a transactional focus.

4.2 More effective budget support

New Zealand is considering ways to strengthen its budget support operations to Niue. MFAT is a world leader in use of the budget support mechanism, being the biggest user of the modality of all OECD donors (as a share of donor specific ODA). New Zealand's experience in Niue and other Realm states has been solid but lessons can be learned. Consequently, we have identified four key areas where we believe would help New Zealand to continue to be a leading budget support donor and deliver even more effective budget support in the future:

- i) **Be Strategic, Make Money Work and Aim to Reduce Volatility:** Set an appropriate balance between general and sector budget support in accordance with strategic policy priorities – in terms of levels of financing and the sectors annually and over the medium term, stay the course in a sector and hold both MFAT and Government of Niue to account for volatility. Use Forward Aid Plans (FAP) to support medium term planning and budgeting in Niue and use them within the context of fiscal performance dialogue during budget talks and within the context of the budget cycle.
- ii) **Address any Fungibility and Additionality Concerns** by setting conditions for annual and medium-term funding floors and ceilings – with funding floors for sectors or areas where there is risk of too little funding being allocated and spent, and funding ceilings for sectors or areas where there is risk of too much funding being allocated and spent. Use the FAP and Medium Term Budgeting in support of these arrangements. Work to build the capacity of Niue to engage in medium term budgeting using whole-of-government resources.
- iii) **Pursue Team-Based Performance Management as the implementation and monitoring mechanism**, with the aim of building a performance-orientated culture within teams and organisations.
- iv) **Spend time with political actors** to clearly articulate the risks and benefits of the new proposed budget support mechanisms as well as how political and reputation risks can be managed, as it is always important to recognise that politics, reform and aid effectiveness are intertwined.

It is recommended that Niue and New Zealand consider moving to a team-based performance management approach that is directly linked to a fiscal performance improvement plan and a budget support operation. Whether the budget support operation is



general or sector depends on the size of the funds available. If annual amounts are less than 20% of budget appropriations, an earmarked to the sector/agency budget support operation would be better (with funding floors and ceilings). This would be on the basis that size matters for incentives within organisations.

The evaluation team is of the view that team-based approach to performance management⁸⁰ will help address some of the persistent issues with planning and implementation that hinder reform in Niue. Performance management creates incentives for the ownership of policy choices. It focuses effort and resources on reforms that have a high impact and are achievable, using existing management systems and improving them over time. The aim of this approach is to direct attention to the inputs that are needed to deliver the outputs that will, in turn, lead to the reform outcomes prioritised by donors and the GoN through the budget support arrangement. Team-based performance management concentrates on the development and implementation of team-level rolling plans that cover all aspects of institutional development, it focuses on the actual tasks that need to be undertaken to implement change. Plans are developed by Government officials to reflect their goals and capacities, ensuring that accountability for successes and failures is firmly with the Government and not with external consultants. By instituting team-based performance management the Government is saying we value institutional culture as the primary determinant of performance. Moreover, we believe that managing teams is more effective than managing themes, as focusing on teams means more direct lines of reporting and increased accountability for results.

A team-based approach to performance management introduces validation systems that grade performance of teams or organisational units in different performance dimensions. In particular, annual work plan deliverables (Action-based Key Performance Indicators – A-KPIs) of administrative units (teams) are graded in terms of quality, timeliness and effectiveness in dealing with problems. These performance indicators would be in addition to the standard output targets used for budget support operations, and guided by aspirational outcome targets. These A-KPIs are essentially team work plans, and can be thought of as the inputs required to generate the outputs. Something that in our view is essential to get results based aid modalities working well in low capacity and/or low accountability environments.

Under such a system, league tables can be used to help incentivise teams, and target training and support where low performance is occurring. Moreover, the system supports the 'single plan, single M&E and single reporting' principle. In addition, it also provides a flexible approach to providing performance-linked budget support. It can help determine the variable payment components of the budget support funding agreement as funding levels can be linked to average and/or risk and impact adjusted grades. It should be noted that a team based performance management system also requires validated rating of reform or investment actions in terms of impact (or in other words importance), and risk of reform failure (or in other words difficulty). This ensure grades are fairer, as difficulty and

⁸⁰ Appendix A of the Synthesis report provides details of the team-based performance management process



importance can be taken into account when producing league tables of team performance. Such an approach recommended to help prioritise and sequence reform activities⁸¹.

4.3 Improve the enabling environment for private sector development

Both New Zealand and Niue need to address the many issues that affect private sector development in Niue and this needs to be done more systematically. There are many issues that affect the enabling environment for PSD in Niue, including land availability, labour constraints, the availability of commercial finance, high costs of inputs, and competition between the public and private sector etc. At present New Zealand's programme supports important economic development activities in Tourism and Banking but the sustainability of these activities is endangered by these underlying constraints to PSD. A significant amount of analytical work needs to be done to identify the most pressing constraints to PSD in Niue, and these should be prioritised. The results of this work (i.e. the identification of the most salient issues) should then form the basis of ongoing evidence-based policy dialogue and strategic and systematic whole of government support and capability supplementation from New Zealand. The focus of this support should be on addressing the specific issues directly, as opposed to treating the symptoms. The outcomes of this analysis and the actions agreed to with Niue would then provide a solid foundation for the work of the New Zealand government and non-government agencies in Niue.

4.4 Focusing on NCDs

New Zealand's support for health care in Niue is important as it provides access to health care services that would otherwise not be available to the population. This type of support is a practical manifestation of the Realm state relationship, in that it enables Niue to benefit from the provision of high quality service delivery. The Joint Commitment between New Zealand and Niue notes that New Zealand will support Niue with "adequate social service delivery". At present, New Zealand's support is potentially not adequate noting the looming NCD crisis. As also noted in Section 3 the most pressing health challenge facing Niue is NCDs. NCDs are the leading cause of death in the Pacific, and the leading cause of death in Niue, 44% of Niuean's are at high risk of NCDs. Deaths from NCDs will only increase over time, considering the high risk profile. The costs associated with treating those affected by NCDs will also rise and both the Niue and New Zealand governments will have to meet these rising costs.

The predicted rise in NCD-related health costs should be of significant concern to the New Zealand government given the Realm state relationship and the fluidity of movement by Niuean's from Niue to New Zealand. At present the New Zealand government supports Niue to the value of NZD300 per capita per year through its Health Sector Support Programme. The New Zealand government spends approximately USD3,022 in health care expenditure per capita per year on New Zealand citizens in New Zealand⁸². Niueans are New Zealand

81 Diamond, J, 2013, "Sequencing PFM Reforms", PEFA Secretariat, Washington DC, USA.

82 WHO (2013) New Zealand – Health Service Delivery Profile, 2012



citizens who are eligible for publicly funded health and disability services in New Zealand⁸³. As the Niuean population ages and NCD risk factors climb; if the provision of services for NCDs in Niue does not improve, then it could be expected that the call on New Zealand health resources would increase, particularly as many Niuean's have relatives in New Zealand who can also support them. The costs associated with this service provision would be very high considering the many disabilities associated with the contraction of NCDs (diabetes-related amputations, blindness etc.). The per capita health costs associated with the provision of health care for NCDs in high income countries is approximately USD3,971 per person⁸⁴. This is the direct medical cost and does not take into consideration the non-medical costs and the impact increased disability would have on the economy on Niue.

The Niue government has limited financial and technical capacity to address this issue in a coordinated fashion. Addressing this issue will involve a holistic strategy and improvement in a wide range of areas, such as primary health care delivery, health financing, health policy reform, strategic health communication, trade, and tax reform. High income developed countries have struggled to address the issue of NCDs, let alone fiscally constrained poorer countries. This is a complicated area that requires a high level of analysis and technical support. New Zealand has significant technical expertise in these areas, and is tackling many of these issues itself through various NCD-related programmes. While New Zealand is helping with the treatment of Niuean's with NCD's through its visiting medical specialists programme, and supporting the building of awareness through its funding for public health promotion, its approach to addressing NCD's, which is the biggest health challenge, is not systematic.

In order to better meet its constitutional obligations to Niue, New Zealand should assess avenues for more strategic and systematic support for Niue to tackle NCDs. This should be a strategic priority of New Zealand's whole-of-government approach going forward. This type of issues-focused strategic priority would lend an element of coherence to New Zealand's whole-of government approach that is presently lacking; it would provide a focus for better coordination across government, as the various tasks of New Zealand government bodies, vis-à-vis would be clear. An overarching whole-of-government approach towards this issue could be developed in cooperation with Niue and New Zealand government agencies that could drive better coordination and ensure the multiple funding pathways are used more strategically. Activities could involve establishing more direct and systematic relationships with relevant ministries in New Zealand (e.g. NZ MoH/Niue DH), technical help with health finance modelling (through Partnerships Funds for example), further tax reform (through government to government support, academic research etc.), and modifications to trade arrangements (through PACER plus); as well as agricultural initiatives that increase the supply of locally produced healthful food (which may be delivered through the Bilateral Programme for example). An overarching investment plan for whole-of-government support

83 See: <http://www.health.govt.nz/new-zealand-health-system/eligibility-publicly-funded-health-services/guide-eligibility-publicly-funded-health-services-0/nz-citizens-including-cook-islands-niue-or-tokelau>

84 Bloom, D.E, et al (2011) The Global Economic Burden of NCDs, Geneva: World Economic Forum, Harvard School of Public Health



for NCDs could be developed that would articulate how New Zealand is deploying its collective resources to help Niue address this important issue. The first step should be a public expenditure review of NCD health system costs and benefits, as noted in the recommendations section.

4.5 Supporting high quality education

As part of its Realm state obligations New Zealand should foster more systematic relations between the Niue DoE and the New Zealand MoE. Niue has been using the New Zealand curriculum since 1995 but does not have a systematic relationship with the MoE. The MoE is a high functioning organisation delivering one of the most effective education systems in the world. Its knowledge and experience would be of significant use to Niue as it also seeks to implement the New Zealand curriculum as efficiently as possible. Furthermore the MoE, with its large Pasifika and Niuean population, must have significant experience with language issues and teaching bilingual students; experience that could be of importance to Niue as it seeks to address this issue. This coupled, with the performance-based budget support processes described above, could help improve procurement and sectoral planning with the GoN, which would go a long way to improving high quality education provision in Niue.



5. Conclusion

This conclusion draws on the previous material to answer the Key Evaluation Question, which is:

“How, and to what extent, has New Zealand’s development cooperation contributed to sustainable economic and human development in Niue and what lessons can be learnt from this to improve country programme assistance in the future?”

With an ODA/GDP ratio of 80%, Niue is one of the most highly-aided countries in the world; the majority of this aid comes from New Zealand. Without this assistance the Government of Niue would not be able to provide important economic and social services to its people and GDP per capita would plummet. New Zealand’s ongoing economic assistance is vital for the continuing prosperity of Niue and is enshrined in its constitutional obligations. However, the capacity of the GoN to convert New Zealand’s economic assistance into sustainable economic and human development outcomes is limited due to its weak capacity in key areas, particularly Public Financial Management. Development and fiduciary risks in Niue are moderately high. In order to better fulfil its Realm state obligations New Zealand needs to assist Niue by systematically addressing the key constraints to economic development and better governance. A change in the nature of the financial relationship, coupled with a long term performance-based approach to capacity building could be the catalyst for a shift that would improve development effectiveness measurably.



6. Recommendations

1. New Zealand should embark on a trajectory of modifying its financial relationship with Niue, moving to a direct (non-ODA) transfer as part of its Realm state obligations. In order to assist the dialogue and decision-making required for such a transition, New Zealand should undertake the following analytical work; the aim of this work is to better define and articulate New Zealand's obligation to provide 'necessary economic and technical assistance' to Niue:

- Assess the ramifications of Niue's potential ineligibility from ODA status;
- Conduct public expenditure reviews in health and education to determine the most appropriate funding levels noting current and future service delivery thresholds;
- Assess the realistic contribution of tourism to GDP in Niue over the next 10 years; and
- Review infrastructure and asset management needs, particularly those that underpin tourism and forecast costs and risks into the future.

2. In the area of human development, New Zealand should prioritise Non-Communicable Diseases in a systematic way, as this is the single most pressing development challenge in Niue, which aside from its impacts on human health could have significant impacts on the health budget, and ultimately on economic development in Niue.

3. In the area of economic development New Zealand should continue to support tourism, but it should also seek to directly address the constraints to economic and private sector development through its whole of government resources. The first phase of this should involve undertaking analytical work that identifies the most pressing constraints to PSD in Niue, and these should be prioritised. The results of this work (i.e. the identification of the most salient issues) should then form the basis of ongoing evidence-based policy dialogue and strategic and systematic whole of government support and capability supplementation from New Zealand.

4. New Zealand should move to a contextually relevant team-based performance management approach to budget support that focuses on addressing the key PFM issues, using its whole-of-government capability.

5. New Zealand should instigate an institutional linkage programme between the MoE in New Zealand and the DoE in Niue that systematically works on key issues such as language policy support, teacher retention and teaching quality.



7. Appendices

7.1 Appendix 1 – Evaluation Criteria

SEQ 1

To what extent is New Zealand’s aid delivery in Niue of a high quality?

The investigation of aid delivery has involved looking at the relevance, coherence, and cost effectiveness (efficiency), of aid delivery; as well as the quality of policy dialogue and engagement with development partners. The evaluation has also applied other development effectiveness criteria such as those articulated under the Paris Declaration.

Relevance is the extent to which development interventions are suited to the priorities and policies of the target group, partner and donor⁸⁵. As noted in the PEF⁸⁶, MFAT is interested in two issues with regards to relevance: the presence of a clear strategic framework to guide the country programme, and an assessment of how well this strategy aligns to the priorities of the New Zealand aid programme and the strategies and needs of partner governments. Both issues have been explored in this evaluation.

This evaluation has considered two aspects of *coherence*. The first is the coherence of domestic New Zealand policy. This is an important issue noting the high level focus of this evaluation and its concern with the big picture of New Zealand’s whole-of-country impact. The second is the coherence of New Zealand’s development cooperation strategy in Niue and the extent to which the different elements of the programme reinforce each other and are synergistic, and whether there are logical inconsistencies between elements of the programme.

Cost effectiveness or efficiency, is a measure of how economically resources (inputs) are converted into results (in this case: outputs, outcomes and impacts). It is the extent to which the cost of a development intervention can be justified by its results⁸⁷. In accordance with the focus in the PEF, this evaluation will focus on the following issues with regards to efficiency:

1. Assessing whether programmes are being managed effectively to meet objectives and deliver results;
2. Assessing whether the benefits of programmes are commensurate with funding and effort; and

85 MFAT (2014) Evaluation Policy for the New Zealand Aid Programme, 30th June 2014

86 See Page 7 of the TOR

87 MFAT (2014) Evaluation Policy for the New Zealand Aid Programme



3. Assessing how programmes have performed against the New Zealand aid programme operational priorities in leveraging partnerships, innovation, replication, scaling up, focusing effort and effective development.

Effective policy dialogue is an important aspect of quality aid delivery. Policy dialogue is defined as “the expression of a set of values or principles that the leadership of an organisation holds to be important in delivering its mandate or in bringing about change⁸⁸”. Policy dialogue is an important component of aid delivery as it can have a demonstrative influence on policy change in developing countries. This evaluation has assessed the quality of policy dialogue by looking at the extent to which New Zealand’s dialogue accords with internationally recognised effective policy dialogue principles⁸⁹, which include:

1. Clarifying the intention of policy dialogue by identifying areas of policy interest, objectives, priorities and what success might look like;
2. Balancing the negotiating capital (power, knowledge and ownership) between participants;
3. Ensuring the necessary capabilities and characteristics (skills, knowledge, experience and personal credibility) of the people engaged in policy dialogue;
4. Supporting both formal and informal policy dialogue processes and address power imbalances; and
5. Incorporating credible and relevant evidence which is, wherever possible, jointly owned.

This evaluation has also examined the relationship between New Zealand and Niue and the extent to which this relationship have been conducive to meaningful engagement, supported policy dialogue, allowed strategic issues to be addressed, and facilitated the ownership of development programmes and mutual accountability in developing countries. The examination of these issues is particularly important in the New Zealand – Realm state context due to the special nature of this relationship.

In addition to the above, the evaluation will also consider the aid effectiveness principles articulated in the Paris Declaration and the Accra Agenda for Action⁹⁰. Definitions of these principles and the issues that will be examined in relation to them are listed below:

Ownership: Developing countries must lead their own development policies and strategies, and manage their own development work on the ground. In this context, the evaluation will review the extent to which partner country leadership has been respected and efforts made to help strengthen that leadership.

88 ODE (2013) *Thinking and Working Politically: An Evaluation of Policy Dialogue in AusAID*, April 2013, Department of Foreign Affairs and Trade, Office of Development Effectiveness

89 Ibid

90 OECD-DAC (2005/8) *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*, Paris: OECD-DAC, see: <http://www.oecd.org/development/effectiveness/34428351.pdf>



Alignment: Donors must line up their aid firmly behind the priorities outlined in developing countries' national development strategies, they should use partner country systems, and their aid must be untied and be predictable. The analysis of alignment will involve looking at alignment to partner strategies, the use of country systems, the strengthening of public financial management capacity, and the strengthening of national procurement systems.

Harmonisation: Donors must coordinate their development work better amongst themselves to avoid duplication and high transaction costs for poor countries. The analysis of harmonisation will look at the extent to which common arrangements and simple procedures have been used, whether labour has been divided effectively, and whether incentives for collaborative behavior have been established.

Managing for results: All parties in the aid relationship must place more focus on the results of aid, and the tangible differences it makes in poor people's lives. The analysis of 'managing for results' will include looking at whether country programme results are linked to a partner country performance assessment framework, whether attempts have been made to harmonise monitoring and reporting, and whether New Zealand has contributed to improving the capacity for results-based monitoring in Niue.

Mutual accountability: Donors and developing countries must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid. In this context the evaluation will examine the extent to which New Zealand provides timely, transparent and comprehensive information on aid flows that enables Niue to present comprehensive budget reports, and whether there has been mutual progress in implementing agreed commitments on aid effectiveness.

SEQ 2

What are the results of New Zealand's country programme in X and how sustainable are these results?

'Results' includes the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. Sustainable results are those that are likely to persist into the future and are resilient to economic, environmental and social perturbations⁹¹. The assessment of sustainability will take into consideration the adoption of supportive policies, regulations, and financing; the building of appropriate human capital; and the building of organisational capacity in the partner country.

Outputs are defined as 'the products, capital goods and services which result from a development intervention; and may also include changes resulting from the intervention which are relevant to the achievement of outcomes⁹²'. Outputs are generated via the discrete activities of donors, and are commonly reported through activity and programme-level M&E

91 Berkes, F. and C. Folke (1998) *Linking Social and Ecological Systems: Management Practices and Social Mechanisms for Building Resilience*, Cambridge University Press

92 OECD-DAC (2010)



frameworks. Since 2011 MFAT has focused significantly on results-based management, and activity and programme level results frameworks are in place for all activities and programmes. Activity and programme level results frameworks have been developed and the documents supporting these frameworks are available to the evaluation team. These M&E documents contain a vast amount of information on the achievement of outputs (or otherwise) of country programme activities. Due to the high level nature of this evaluation, we have not focused significant resources on assessing outputs, as these reports are already available to MFAT, and the aggregation of outputs would tell us little about the high level effects of the aid program. We have, however, reviewed trends in the achievement of outputs in different sectors, and assessed the overall output performance of the country programme over time.

This evaluation has focused more extensively on determining the outcomes and long term impacts of New Zealand's aid at the country programme level. This includes determining the planned, or achieved medium term outcomes, and the intended or unintended, positive and/or negative long term impacts arising from New Zealand's aid programme in Niue. Some outcomes are shorter term in nature (such as the development of skills in financial management), and some are medium to longer term in nature (such as the development of better budget support arrangements and concomitant improvements in financial stability and budget execution for example). This evaluation has assessed the medium term outcomes that have arisen from New Zealand's country programme support and the conditions for the emergence of those outcomes.

A significant amount of effort has been dedicated to assessing the impact of New Zealand's country programme assistance at the 'big picture level'. This includes looking at the intended or unintended, positive and/or negative consequences of New Zealand's economic assistance. This includes the assessment of the downstream effects of New Zealand's aid to Niue, including the impact of aid on economic growth, income, real exchange rates, investment and migration.





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