

**BEYOND 'BDFL':
FOCUSING AID DELIVERY RESEARCH PROJECT
FINAL REPORT**

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Date: 2 May 2016

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KEY MESSAGES

1. There is good evidence that **the global development landscape is changing** in a way that challenges ODA donors such as New Zealand to rethink their role in achieving development outcomes in recipient countries. Partner countries are seeking more and better technical and policy advisory support alongside aid investments. This research concludes that greater focus across the aid programme, and particularly at country level, will help to ensure that New Zealand remains a relevant and valued aid donor.
2. Optimal focus in aid delivery is very **context specific**. This makes it difficult and inappropriate to establish a one-size-fits-all definition, guidance or targets for optimal focus. The 'BDFL' and '5+5' agendas have good intent, and have influenced behaviour to some extent, but shifting to fewer, larger, longer activities has not and should not be pursued universally. There is a strong case for a **principles-based approach** to defining optimal focus at a country level.
3. Evidence that the pursuit of **bigger, fewer and longer** activities leads to development results is inconclusive; although a long-term view (as opposed to longer activities *per se*) is likely to promote effectiveness.
4. There is evidence that **depth** of engagement and having a long-term view can facilitate changes in aid programming, such as a greater focus on policy dialogue and strategic relationships, that could lead to better development results. Depth of engagement was found to be driven more by the sectoral or thematic spread of aid investments than by the number, size and length of activities.
5. There is evidence of a reasonable degree of focus in current aid delivery in **some programmes**. Focus is less apparent at a **TCAF level**.
6. Deeper and more strategic engagement requires **specific technical expertise**, either on staff or contracted in. MFAT needs to be clear about its intentions and expectations in terms of deeper and more strategic engagement, as a basis for guiding decisions on the allocation of resources and capabilities.
7. Optimal focus should be defined at a country level and driven through a bilaterally-led **country strategy** process. This strategy would provide the unifying vision for all of MFAT's engagements in a given country. It would respond to identified country needs in a way that coordinates bilateral, regional and other support (i.e. TCAF) in a coherent programme of aid, designed to reflect MFAT's capacity to engage.

EXECUTIVE SUMMARY

Background

The New Zealand Aid Programme has pursued a 'Bigger, Deeper, Fewer, Longer' (BDFL) agenda for several years, in the hope that this would help to focus aid delivery and bring about development effectiveness and management efficiencies. This agenda has also been known as the 5+5 agenda (aspiring to activities of 'at least five years, \$5 million'). Both BDFL and 5+5 sought to achieve focus by consolidating aid investments at the activity level.

This report summarises research findings on focusing aid delivery and makes recommendations on the actions that MFAT needs to take to get to an optimal state of focus. It considers focus not only in terms of the number, size and length of activities, but also the extent to which they are spread across sectors and regions, and their mode of delivery.

The research analyses the current state of the New Zealand Aid Programme against four key research questions:

1. What is the current state of focus in the New Zealand Aid Programme?
2. What are the advantages and disadvantages of a focused aid programme?
3. What factors enable and constrain the achievement of optimal focus?
4. How should optimal focus be described, monitored and reported?

The project was implemented by the Planning and Results Team in DSE, together with consultancy firm *Allen + Clarke*. This report brings together the findings from three main sources of information: a literature and document review, analysis of data extracted from MFAT's Activity Management System over the last two trienniums, and interviews with activity managers from bilateral and some regional programmes and from the Partnerships Programme.

Main findings

The challenge

The global development landscape is changing. The significance of Official Development Assistance (ODA) is diminishing in the face of private flows, domestic revenue and south-south cooperation. There is now wide recognition that policy related to global public goods (and bads) such as climate change, migration, taxation and trade, overshadows the impact of aid on development outcomes.

The New Zealand Aid Programme is, therefore, faced with the reality of having to achieve full expenditure for less activity management effort in order to free up time for deeper engagement and policy dialogue. This is the future of aid. New Zealand needs to position itself to stay relevant to its partners and fulfil the expectations of stakeholders at home and abroad. This research concludes that greater focus across the aid programme, and particularly at country level, will assist in realising this ambition.

Current state

As a whole, the aid programme has activities spread across the 12 sectors defined by its investment priorities. Some countries, such as Fiji, Tonga and Vanuatu, have activities in 9 or 10

investment priorities while others have a somewhat narrower sectoral focus. Aid investments in Niue and Tokelau are the most focused, concentrated on 2 investment priorities in each country, but with substantial (multi-sectoral) general budget support.

Total spend on aid activities has increased by 19.7% over the past two trienniums and the number of activities has decreased by 13.0%. Over the same period, the median annual activity spend has increased by 65.2% to \$408,000, while the number of activities with <\$100,000 annual spend decreased from 188 in 2009/10 to 98 in 2014/15. This indicates that IDG has had some success in moving to fewer, larger activities.

Taken together, the current situation shows that some programmes are quite focused and others are striving for a greater degree of focus. Focus is less evident once total country aid flows (TCAF) are taken into account. Interestingly, some staff felt that bilateral programmes had a much stronger sectoral focus than TCAF, but this wasn't always supported by the data. While some programmes have achieved a degree of focus by design, the current state is largely a product of historical legacy, reactive, piecemeal programming and resistance to change (including to exit sectors).

There have not been any dramatic changes in the use of various aid modalities over the past two trienniums. What is most striking is the continued predominance of project modalities, used by 55% of activities in 2014/15. New Zealand has retained relatively strong use of budget and sector support modalities by international standards¹.

Are focused aid programmes better?

The literature review and staff interviews indicate that some dimensions of focus are more strongly related to development effectiveness than others. Deeper engagement and having a long-term view (as opposed to longer activities *per se*) stand out as having the most potential to effect a shift from transactional relationships to policy dialogue, to ensure that staff invest in key relationships and to elevate the attention given to results, accountability and sustainability. Long and deep engagements can also be effective at building credibility and trust. It is reasonable to infer that these changes in the nature of aid engagement would in turn enhance the achievement of development results, although the research was not able to conclusively prove it.

Depth and having a long-term view can also facilitate the scaling up of interventions. Successful scaling up requires comprehensive understanding at a systems level, including of the policy and institutional environment for interventions in a country. When done well, the scale up of successful interventions can improve or extend development outcomes. It is usually more credible to attribute change to larger-scale interventions, thus scaling up can also support improved accountability.

Depth and a long-term view are driven more by the number of sectors or themes the aid programme is engaged in in a given country, than by any activity-based metrics. Bigger, fewer and longer activities may or may not also assist in effecting changes that could be reasonably linked to development effectiveness, depending on their particular design and their relationship to other investments in the same sector or country.

The use of high order aid modalities and partner systems promote sector-level rather than activity-level engagement, can help strengthen partner institutions and support sustainability.

¹ OECD (2015), *OECD Development Co-operation Peer Reviews: New Zealand 2015*.

They are therefore a useful contributor to, and facilitator of, a focused aid programme. However, projects will continue to be an important component of a mixed portfolio.

There is no conclusive evidence that any of the dimensions of focus result in management efficiencies. It is possible that smaller activities incur a greater management overhead than larger ones. However, it has not been possible to fully assess the cost of small activities for this research, or compare these with larger activities, as departmental resourcing requirements are not currently included in an activity's business case (PAA). If there is an administration efficiency dividend from larger activities, this would free up time for the more strategic engagement that characterises focused delivery.

There is however evidence that deeper and longer engagement at the sector level would change the nature (not quantum) of work, with less time spent on transactional work and more time spent on analysis, dialogue and policy. This implies a need for greater specialist technical expertise, either on staff or contracted in, and a need for clear roles at Post and in Wellington and collaborative processes between them, to support quality policy dialogue. IDG staff are generally very positive about the prospect of focusing aid delivery and report feeling too thinly spread across activities and sectors.

Focused aid delivery does run the risk of threatening agility and innovation as donors can get locked in to larger or longer activities, and in some cases even attempt to specify activity inputs and outputs years in advance. But if the primary intent of focus is on reducing the number of sectors (rather than activities) the aid programme is engaged in, it may in fact promote nimble aid delivery through better understanding of critical constraints and opportunities and hence identify where new or different approaches are required. Small activities aligned to clear strategic objectives can provide excellent value for money and demonstrate New Zealand's willingness to be flexible and responsive.

Constraints and enablers to achieving optimal focus

Lack of coordination across aid investments, and to a lesser extent between aid and wider New Zealand interests, constrains the achievement of optimal focus in any given country. The 'matrix model' currently in operation in IDG has resulted in regional and multi-country programmes with the mandate to pursue each of the 12 investment priorities in a relatively unconstrained way. It has also led to a multiplicity of funding windows. There is a lack of clarity about the role and strategic intent of regional and multi-country programmes in general, and their ideal relationship with bilateral investments. Interviews with SED and GLO regional programme staff, as well as bilateral programme staff, revealed they were advocates for a stronger country-led focus. They were also of the view that while there is a place for regional and multi-country funding, particularly in support of regional institutions such as ASEAN and the CROP agencies, more could be shifted to the bilateral level.

Coordination issues are exacerbated by the lack of a clear country strategy to provide the unifying vision for all of MFAT's development engagements in a given country, and which reflects and supports New Zealand's wider ambitions there. Such a strategy would demand clarity of purpose, and the process of developing it would surface coordination 'rub points' and force resolution. This should speed up decision-making relating to programme and activity implementation under the agreed vision. Beyond the Pacific, where MFAT's connections, knowledge and experience are not so strong, it is especially important that the focus of the aid programme reflects wider New Zealand interests and is driven by our expertise, including in specific sectors or on specific issues. It is only through a coherent strategic focus that New Zealand can expect to have an impact in

these larger economies. In large countries or regions, this may extend to the geographic focus of the aid programme as well.

An effective country strategy process would ensure that the number of sectors or issues New Zealand is engaged in reflects MFAT's capacity to engage meaningfully in them and a country's capacity to deliver development outcomes across multiple sectors. It would also provide an opportunity to prioritise sectoral engagements where necessary, including contracting out of activity management (via Management Service Contractors or similar) where MFAT capacity is stretched and engagements are deemed lower priority.

The drive to demonstrate fast results and achieve full expenditure is a reality of ODA. Longer term investments were seen by some staff to be incompatible with the desire for fast results, even though staff frequently reported that real change came through long-term engagement focused on changing attitudes, policies, regulations or laws which tended to be slower both in terms of spend and the production of demonstrable results. This points to the need to determine the right balance of a given portfolio (country as well as whole-of-aid-programme level) to satisfy different interests with a combination of high/low spend and fast/slow delivery. It also suggests that much greater attention needs to be paid to activity pipeline management, to guard against expenditure pressures giving rise to unfocused investments at the end of the financial year.

This research was not able to determine whether or not the achievement of optimal focus is constrained by the current skill set of IDG staff. As reported above, staff are generally very positive about the opportunity for deeper engagements and the change in their work that would flow from that. Bilateral programmes did report that greater use of high order modalities and partner systems was constrained by MFAT's limited capacity to engage in conversations about partner's public financial management or other key weaknesses in the recipient government's systems. Recent independent country evaluations of Samoa, Niue, Cook Islands and Tokelau also suggested a need to strengthen human resource capacity in key technical and operational areas to support quality policy dialogue.

Describing optimal focus

This research concludes that any description of optimal focus needs to be contextualised to the recipient country and that a universal definition or target(s) would be inappropriate, unrealistic and unnecessary. Instead, MFAT should take a principles-based approach to defining optimal focus at a country level. These principles should include:

- Focus should be determined through a credible country strategic planning process that drives coherence across all New Zealand Aid Programme investments to meet development and New Zealand national interests.
- In determining focus, consideration needs to be given to MFAT's capacity to engage meaningfully in a country, sector or issue.
- Focus should reflect an assessment of a partner country's capacity to deliver development outcomes in proposed sectors.
- Using high order modalities and partner systems are useful components of a focused programme, but a mixed portfolio of modalities is likely to be appropriate in many country contexts.
- The New Zealand Aid Programme should seek to leverage off existing investments to add depth and scale, and in support of taking a long-term view. This requires looking up and

down the value chain of existing investments and targeting system bottlenecks. It may also mean 'coupling' investments, so for example investments in infrastructure builds are delivered hand-in-hand with support for establishing more functional policy and regulatory environments to support the operation of the infrastructure.

- There are benefits in retaining the ability to be nimble and responsive, within the context of deep and long-term engagement in a given sector. This includes retaining some ability to respond outside of the chosen sectors. Otherwise, IDG risks becoming too rigid, too narrow and closed to new opportunities.
- Similarly, there is a need for the focus of programmes to evolve over time on the basis of ongoing understanding and learning from successes and failures, and analysis of emerging gaps and needs. The country strategy should provide long-term stability, but with some flexibility to change course where circumstances demand it.
- Focused aid delivery works best with strong donor coordination by the partner country. If this is absent, MFAT should look to take a lead to help bring this about in countries where New Zealand is a significant aid partner.
- Any reduction in sector engagement in order to achieve optimal focus needs to be supported by clear messaging to manage any potential partner government misunderstanding or concern.

Recommendations

Drawing on the research findings, this report makes a number of recommendations on actions that MFAT needs to take to achieve an optimal state of focus:

- 1. Strengthen approaches for country focus across TCAF.**
- 2. Retain commitment to use of high order modalities and partner systems.**
- 3. Upskill staff to support deeper engagement.**
- 4. Take a principles-based rather than target-based approach to defining optimal focus.**
- 5. Develop a system to monitor and assess the true cost (Crown and departmental) of aid activities.**
- 6. Monitor and evaluate the impact of focusing aid delivery.**
- 7. Develop country strategies that support the achievement of optimal focus.**

1. INTRODUCTION

1.1. Background

The New Zealand Aid Programme has pursued a 'Bigger, Deeper, Fewer, Longer' (BDFL) agenda for a number of years, in the hope that this would help to focus aid delivery and bring about development effectiveness and management efficiencies. This agenda has also been known as the 5+5 agenda (aspiring to activities of 'at least five years, \$5 million'). Both BDFL and 5+5 sought to achieve focus by consolidating aid investments at the activity level.

The overall impact of the BDFL and 5+5 agenda on the aid programme has not been comprehensively assessed. A 2012 report on progress towards achieving BDFL noted a steady shift to fewer and larger value activities over the previous 3 years, and good progress to increasing focus on sustainable economic development.² However, it did not ask whether activity profile was the best way to achieve focus, and did not assess the impact (if any) of the changes in activity profile that had been observed.

Purpose of this research

The purpose of this research was to define optimal focus, primarily at a country level, and to identify actions necessary to achieve optimal focus over the next four years.

The research was aimed at answering four research questions:

1. What is the current state of focus in the aid programme?
2. What are the advantages and disadvantages of a focused aid programme?
3. What factors enable and constrain the achievement of optimal focus?
4. How should optimal focus be described, monitored and reported?

1.2. Optimal focus

As noted above, BDFL and 5+5 had a relatively narrow field of view in that they were primarily concerned with counting activities and determining their size and length. This research has taken a broader view. Optimal focus is here considered to be a combination of several dimensions:

- Number and size of activities.
- Length of activities.
- Sectoral spread of activities.
- Geographic spread of activities, within countries and between programmes.
- Use of higher order aid modalities.
- Use of partner systems.

² New Zealand Aid Programme (2012). *Activity Focus and Concentration Report: Bigger Deeper Fewer Longer*.

1.3. Scope

The research concentrated on defining optimal focus at the country level, taking into account the Total Country Aid Flow (TCAF). At the regional programme and sectoral level, and for the Partnerships Programme and Scholarships Programme, optimal focus was explored in terms of what this means for TCAF and for focus across the aid programme.

2. METHODOLOGY

This research was undertaken by the Planning and Results Team in DSE, together with consultancy firm *Allen + Clarke*.

The research involved three main data collection methods and phases:

1. Literature and document review.
2. Analysis of aid expenditure data from the Activity Management Systems (AMS).
3. Interviews with staff.

2.1. Phase One: Literature and document review

Phase One produced a literature review that addressed the following questions:

1. What are the advantages and disadvantages of an aid programme characterised by few, large activities; long-lasting activities; activities in few sectors in a country; activities in few countries or regions; use of high order aid modalities, and; use of partner country systems?
2. What trends are discernible in other (comparable) international aid programmes, as regards activity number, size, spread and modality?

The literature was selected following a search based on the criteria for focus in aid delivery shown above in section 1.2.

2.2. Phase Two: Analysis of aid expenditure data

In Phase Two, AMS data from the last two trienniums was analysed to identify trends in different dimensions of focus and to produce a current state assessment based on 2014/15 data. Key questions for this phase were:

1. Trends
 - How has the number, scale, length, sectoral focus and modalities of activities changed over the previous two trienniums?
 - How has the number and nature of contracts per activity changed over time?
 - What patterns are discernible, e.g. trends by geographic region or programme type?
2. Current state
 - What is the current profile of activity number, scale, length, sectoral focus and modality by programme, country and investment priority?
 - What is the current number and nature of contracts per activity?

The data was analysed according to the established dimensions of focus, as well as added themes discerned during the data collection.

Key methodological issues around the data extraction and analysis process used in this research were:

- Data was extracted from AMS on 19 October 2015 and covers data to 30 June 2015.

- Data on expenditure reports actual expenditure.
- An 'activity' included:
 - activities in implementation (i.e. not in design, defined as those with a 95% or greater increase in subsequent PAA)
 - activities with at least one approved PAA
 - activities with actual spend, in any given year
 - all 'Programme activities' and Funds or fund activities as per criteria below.
- The determination of whether to include/exclude the fund or the fund activity was based on the following criteria:
 - where the fund has no approved PAA, then the fund activities were included
 - where all fund activities within a fund have approved PAAs, then the fund activities were included, and not the fund.
 - where none, or only some of the fund activities within a fund have approved PAAs, then the fund was included and not the fund activities.
- For the Scholarships Programme, each country or region was considered to be an activity. Prior to the creation of the Scholarships Programme in 2012 scholarships activities were part of individual bilateral programmes. As far as possible, these historic activities have been assigned to the Scholarships Programme and then aggregated to country/region as described.
- For multilateral agencies and Pacific regional agencies, different phases of core funding contributions to the same agency were considered as one activity. Therefore, each agency was considered to be an activity for core contributions. Special contributions are counted as a separate activity.
- All activities were analysed under their present day programmes as far as possible. Where activities have transferred between programmes they were assigned to their most recent programme. Older programmes were mapped to the current set of programmes.
- The length of an activity in a given year was calculated on the basis of the number of past years where the activity had spend plus the number of forecast or PAA budgeted years spend (whichever was the greatest) as at the end of that year. For example, on 30/6/2012 an activity had 3 years of past spend, plus budget for 1 more year, so in 2011/12 the activity is 4 years in length. By 30/6/2013 more budget is approved so the activity now has 4 years past spend plus 3 (new) years forecast, so in 2012/13 the activity is 7 years in length.

2.3. Phase Three: Interviews with staff

In Phase Three, interviews with staff focused on validating the analysis from Phase Two and on identifying where the aid programme is having most success or difficulty in focusing its delivery. The interviews covered:

- How programmes arrived at their current focus.
- Perspectives on what optimal focus meant.
- Gaps, constraints and improvements required to achieve optimal focus.

- The implications of optimal focus for workload, job satisfaction and capability.

Staff from all Pacific bilateral programmes other than Nauru and Fiji³ were interviewed, along with staff from the Indonesia and Timor-Leste bilateral programmes, and Africa and Latin America/Caribbean programmes. Regional programme staff from Human Development and Economic Development, the ASEAN and Scholarships teams, as well as staff from Partnerships Programme and Scholarships Programme, were also interviewed.

2.4. This report

The research findings presented in this report are based on information collected and synthesised across all three phases of data collection. The findings are structured around the four key research questions. The report also reflects written feedback received from two Heads of Mission (in Asia and the Pacific) and feedback from a workshop with several Directors and Deputy-Directors.

³ Due to coincidence of timing with Tropical Cyclone Winston.

3. RESEARCH FINDINGS

3.1. Focus in aid delivery: Current state

This section draws on the analysis of AMS data to determine the current state of focus in the New Zealand Aid Programme. See section 2.2 for notes on the data extraction and analysis rules used for the purposes of this research.

3.1.1. International context

Focus is one aspect of the international community's broader agenda for aid effectiveness, dating back at least as far as the Paris Declaration (2005) and reaffirmed and updated through the Accra Agenda for Action (2008) and the Global Partnership for Effective Development Cooperation (2011).

In the literature and documents cited, focus is for the most part discussed with reference to either the sectoral or geographic spread of a donor's entire aid programme. Alongside concerns with effectiveness, donors have consolidated their aid programmes due to fiscal austerity (such as in Ireland) or in response to political drivers to decrease ODA spending and narrow aid partnerships (as in Australia).

At the country level, which is the focus of this research, there is little published analysis of donors' assessment of the costs and benefits of different numbers and sizes of activities. This is reinforced by the lack of DAC reporting at the activity level.

3.1.2. The New Zealand Aid Programme

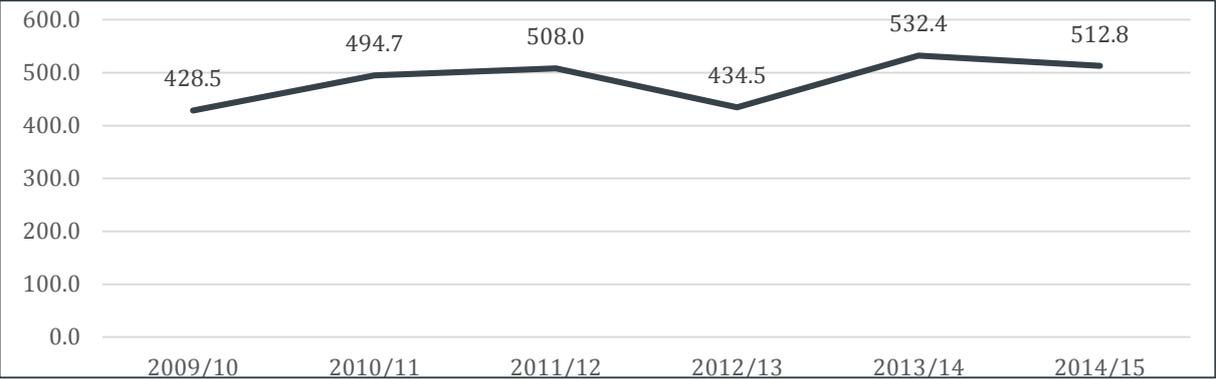
When considering New Zealand Aid Programme investments, it is important to recognise that around 60% of funding is focused on the Pacific and a further 18% on Asia. In some Pacific Island countries, New Zealand is the main contributor to ODA and net ODA is a significant percentage of gross national income (GNI). For example, in Tokelau total ODA is estimated at more than 85% of GNI⁴. In other countries, particularly larger Asian countries, total ODA is less than 1% of GNI and New Zealand is a relatively small donor. The nature of New Zealand's engagement, including as regards focus, must therefore reflect the widely ranging contexts in which the aid programme works.

Number and size of activities

Looking back over the last two trienniums, data extracted from AMS shows that the total spend on aid activities has increased by 19.7% to \$512.8m in 2014/15 while the number of activities has decreased by 13.0% to 496 in 2014/15 (Figures 1 and 2).

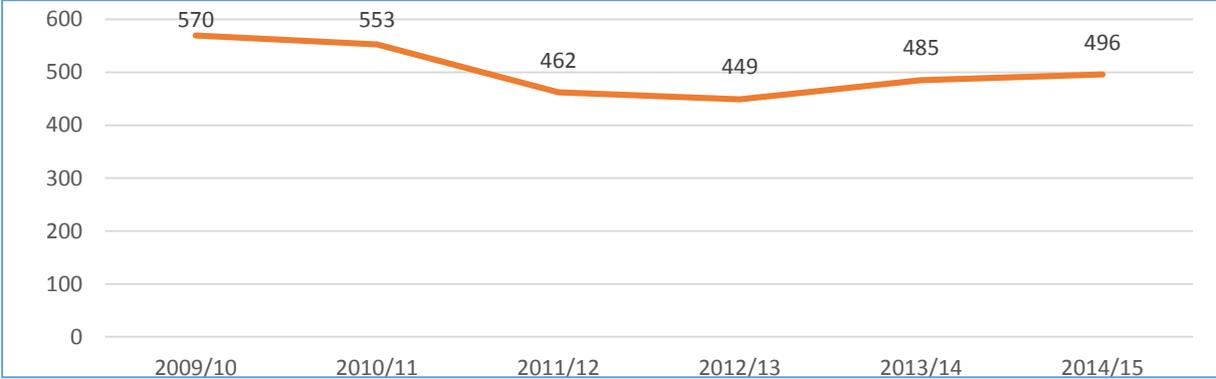
⁴ Data limitations make it challenging to estimate GNI in Tokelau and this is a conservative estimate based on USD18.7m in ODA and GNI of USD21.7m.

Figure 1: Total spend (\$m)



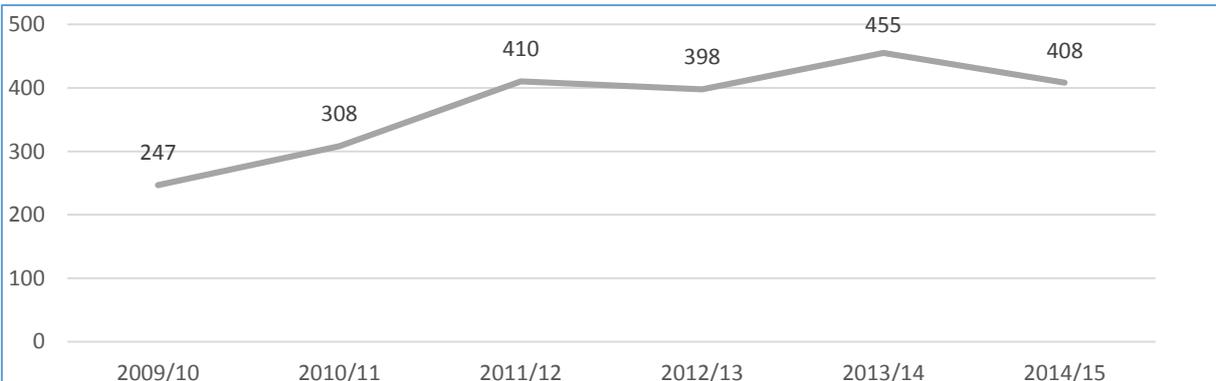
Note: There are minor differences between the spend data shown here and the 'official' final figures, due to anomalies in the calculations. These differences are not significant.

Figure 2: Number of activities (with expenditure in year)



Median annual activity spend has increased substantially (by 65.2%) over this 6-year period to \$408,000 (Figure 3). A number of programmes reflect this experience. For example, over the two trienniums, the Niue bilateral programme has seen annual expenditure increase from \$11.0m to \$15.0m while the number of activities has declined from 30 to 10. The Tuvalu bilateral programme grew from \$2.0m to \$10.7m annual spend, while the number of activities declined from 9 to 8.

Figure 3: Median annual activity spend (\$000s)



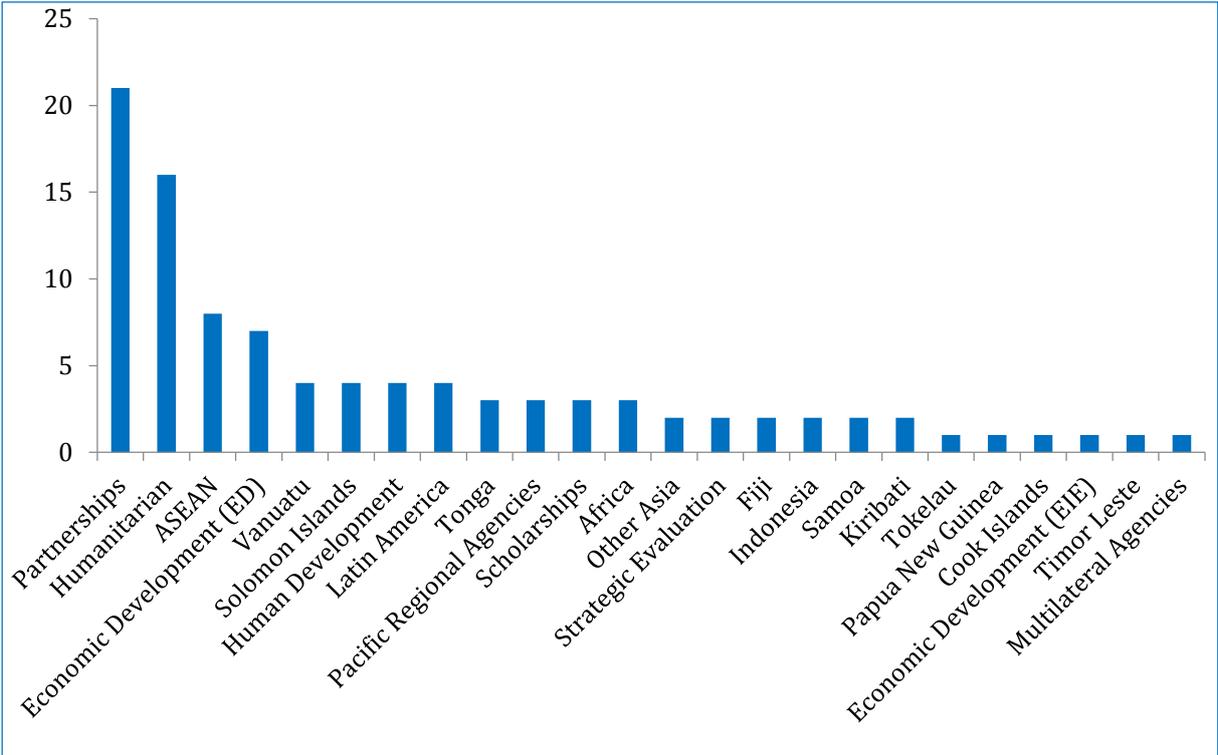
Other programmes have also seen a significant increase in the median annual activity spend. For example, the median annual activity spend on the Kiribati bilateral programme increased from \$130,000 to \$413,000 over the period as its expenditure tripled from \$5m to \$16m, while the

number of activities increased less markedly (from 13 to 18). Indonesia has not followed this trend, with the bilateral programme showing a decline in median annual activity spend from \$369,000 to \$283,000.

Small activities

The number of very small activities (<\$100,000 annual spend) has declined from 188 in 2009/10 to 98 in 2014/15. In 2014/15, these very small activities included 21 Partnerships programme activities and 16 Humanitarian programme activities (Figure 4). The median annual activity spend under these programmes was \$231,000 and \$150,000 respectively, indicating they are significantly smaller than the \$408,000 median annual spend for all activities. The bilateral programmes are, in general, under-represented in these very small activities.

Figure 4: Number of activities with <\$100,000 annual spend by programme, 2014/15



Interestingly, a lot of the activities which spent less than \$100,000 in 2014/15 were actually larger activities, but for one reason or another spent less in the year. It may have been the first or last year of the activity and funding was ramping up or down. So, small annual spend does not necessarily indicate a ‘small’ activity overall.

In terms of Investment Priority, Humanitarian Response activities are over-represented in the small annual spend activities. This is expected given emergency responses, which account for over three-quarters of the Humanitarian Programme expenditure, commonly result in many small contracts. There are also a lot of agriculture, education and health activities with less than \$100,000 annual spend. This likely reflects the large number of activities overall in these priority areas.

In terms of modality, the majority of small activities are 'projects' of one kind or another, which reflects the prevalence of project modalities in the overall activity profile. Technical assistance is slightly over-represented in the small annual spend activities, while core contributions are under-represented.

Length of activities

There are limitations in analysing trend data on the length of activities as the length of any given activity changes over its lifetime. As a result, more recent activities are likely to over-represent 'short' activities in the data.

Overall, it is possible to say that there are more activities less than 5 years in duration than 5+ years in duration, but the longer activities tend to be higher spend per year. Many of the longer activities are multilateral engagements and so this higher expenditure would be expected.

Number and type of contracts

The number of contracts per activity has grown over the past two trienniums from 1.72 contracts per activity in 2009/10 to 2.18 in 2014/15. Grant Funding Agreement (GFA) and Contract for Services (CFS) have remained the most dominant types of contract over the two trienniums, by some margin. In 2014/15, 44% of contracts were by way of a GFA and 31% were by CFS. There has been a reduction in contracts under the Approved Contractor Scheme, Grant Contribution/Disbursements and Memorandum of Understanding. In 2009/10 these collectively made up 32% of contracts; by 2014/15 they had reduced to 11% of contracts. Management Service Contracts have remained steady at 1% of all contracts.

Sectoral spread

There has been a reduction in variation in the number of activities by investment priority over the past two trienniums (Figure 5). The greatest reduction in activities has been in the Law and Justice sector. There have also been reductions in the number of Education and Health sector activities, however these remain the two largest investment priorities by activity number.

Education, Tourism and Law and Justice have the highest median annual activity spend (Figure 6). There is, however, quite strong fluctuations in mean annual spend by priority and it is difficult to identify much in terms of a trend over the two trienniums.

Figure 5: Number of activities by investment priority (with expenditure in year)

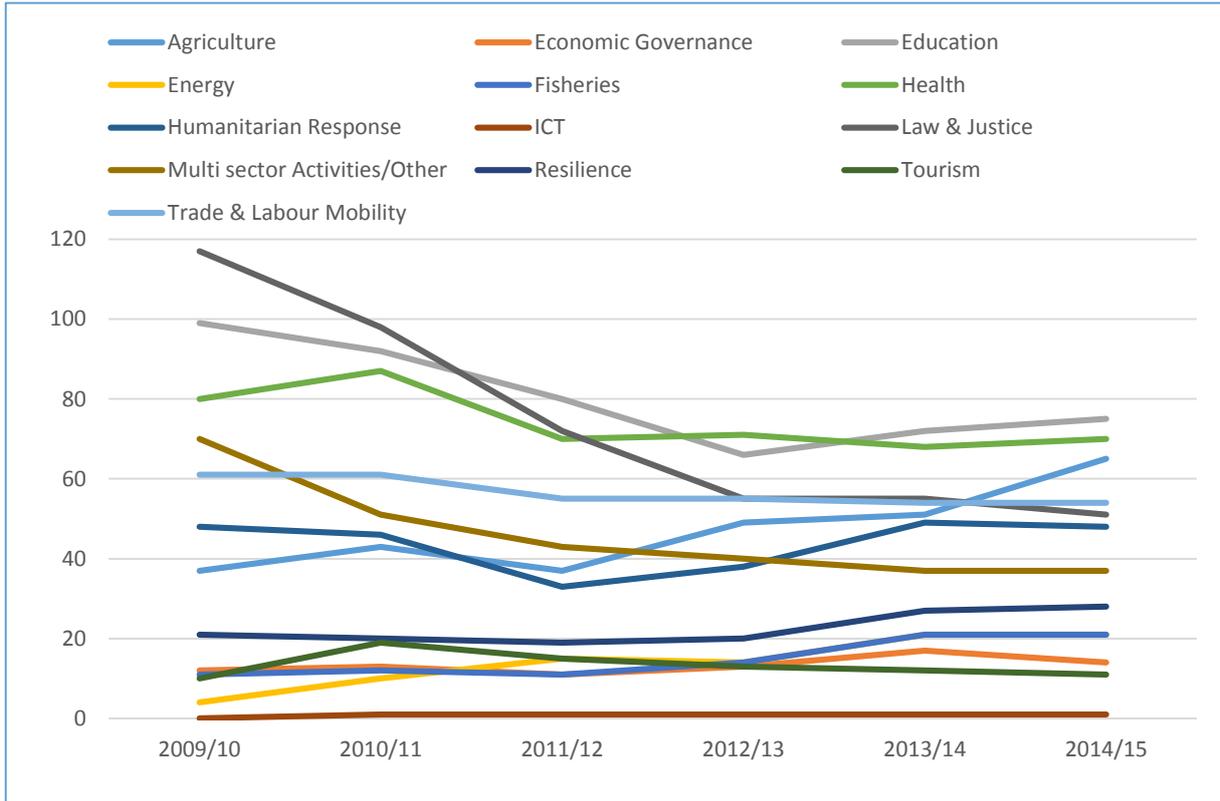
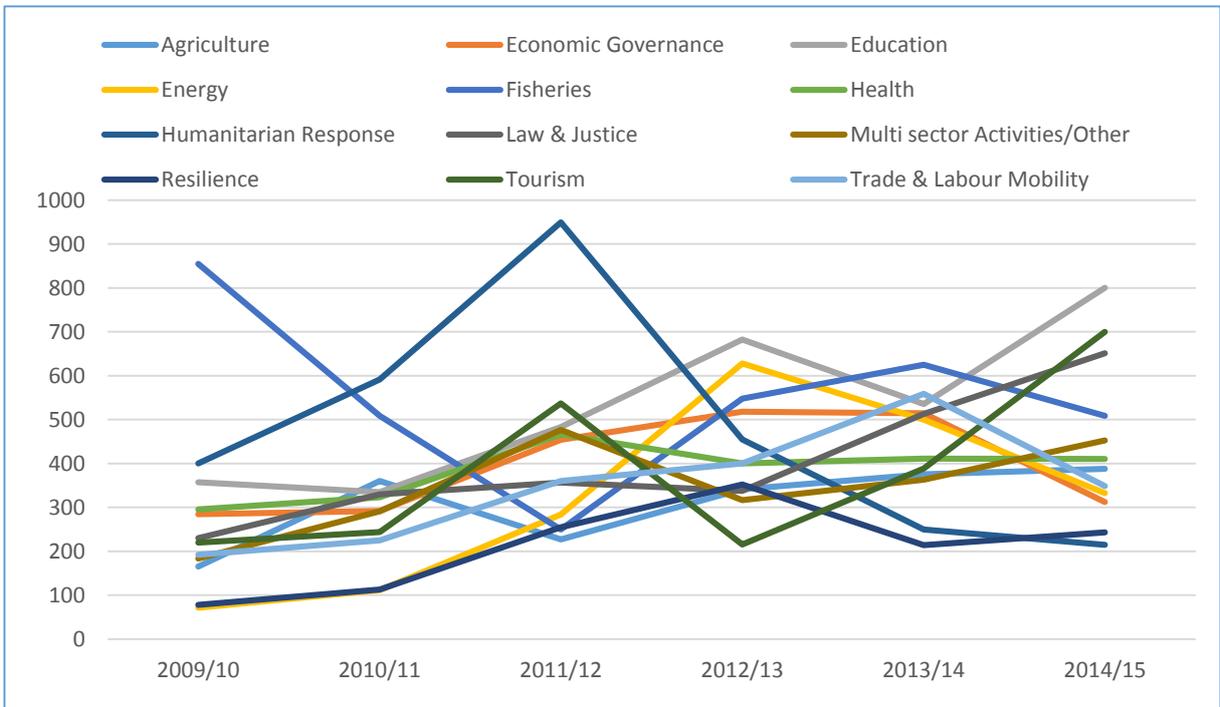


Figure 6: Median annual activity spend by investment priority (\$000)



Note: Excludes ICT due to data anomaly.

The data analysis and interviews with staff revealed a mixed picture regarding sectoral spread and focus. Table 1 shows the number of activities and investment priorities, with an annual spend of \$0.5m or more, for the bilateral programme and TCAF for Pacific countries in 2014/15. The bilateral investments focus on an average of 12 activities in 4.6 investment priorities per country. When TCAF is considered, this increases to an average of 18 activities in 5.1 investment priorities per country.

Table 1: Number of activities and investment priorities (IPs) by spend and country, 2014/15

| | Bilateral | | | TCAF | | |
|-----------------|----------------------|------------------------------|-------------|----------------------|------------------------------|-------------|
| | Number of activities | Number of IPs ^(a) | Value (\$m) | Number of activities | Number of IPs ^(a) | Value (\$m) |
| Cook Islands | 12 | 3 | 22 | 16 | 3 | 24 |
| Fiji | 12 | 6 | 9 | 23 | 7 | 12 |
| Indonesia | 12 | 5 | 6 | 18 | 6 | 14 |
| Kiribati | 18 | 5 | 16 | 21 | 5 | 21 |
| Niue | 10 | 3 | 15 | 11 | 3 | 15 |
| PNG | 10 | 3 | 15 | 19 | 5 | 25 |
| Samoa | 15 | 7 | 14 | 20 | 7 | 22 |
| Solomon Islands | 13 | 5 | 19 | 18 | 5 | 23 |
| Timor Leste | 10 | 6 | 11 | 14 | 6 | 15 |
| Tokelau | 6 | 3 | 21 | 6 | 3 | 21 |
| Tonga | 17 | 6 | 16 | 28 | 7 | 23 |
| Tuvalu | 8 | 3 | 11 | 9 | 4 | 12 |
| Vanuatu | 16 | 6 | 22 | 30 | 7 | 31 |

^(a) Where investment was \$0.5m or more in the 2014/15 year.

TCAF in a few countries focused on a small number of sectors, with the most pertinent examples being Niue and Tokelau where there is a strong focus on two investment priorities in addition to (multi-sectoral) general budget support. In most countries, TCAF is focused on between 3 and 6 investment priorities. In four countries (Fiji, Samoa, Tonga and Vanuatu) TCAF is spread across 8 to 10 investment priorities but with significant expenditure on 6 to 8.

Table 2 shows the total spend in Niue in 2014/15 by investment priority. It shows investments in 6 priority sectors (11 activities in total), and the largest investment is for multi-sector activities

which is budget support. Over 90% of expenditure is in budget support and two sectors (Tourism and Law & Justice).

Table 2: Total spend by investment priority, Niue, 2014/15

| Investment priority | Spend (\$m) | Percentage |
|-------------------------------|-------------|--------------|
| Multi sector activities/Other | 9.3 | 61.3 |
| Tourism | 2.7 | 17.9 |
| Law & Justice | 1.9 | 12.4 |
| Health | 0.4 | 2.4 |
| Trade & Labour Mobility | 0.4 | 2.3 |
| Education | 0.3 | 2.1 |
| Energy | 0.3 | 1.7 |
| Total | 15.1 | 100.0 |

Table 3 shows the total spend in Vanuatu in 2014/15 by investment priority. It shows investments in 10 priority sectors (30 activities in total). In contrast to Niue where spend is focused in 2 sectors, in Vanuatu it is focused across 7 sectors.

Table 3: Total spend by investment priority, Vanuatu, 2014/15

| Investment priority | Spend (\$m) | Percentage |
|-------------------------|-------------|--------------|
| Trade & Labour Mobility | 9.2 | 31.3 |
| Education | 7.1 | 23.9 |
| Tourism | 4.6 | 15.6 |
| Law & Justice | 3.0 | 10.2 |
| Humanitarian Response | 2.2 | 7.6 |
| Agriculture | 1.5 | 4.9 |
| Health | 1.4 | 4.9 |
| Economic Governance | 0.4 | 1.3 |
| Energy | 0.1 | 0.2 |
| Resilience | 0.1 | 0.2 |
| Total | 29.5 | 100.0 |

Geographic spread

In terms of geographic spread, several patterns emerge and largely respond to the vastly different contexts in which the New Zealand Aid Programme works:

- In several country programmes New Zealand’s aid delivery is focused on a main island, such as Rarotonga in the Cooks Islands, with more limited engagement in outer islands.
- In other country programmes, especially where transport is poor between the islands exacerbating issues of equity in access, New Zealand’s aid delivery is spread across islands/atolls, such as in Tokelau.
- New Zealand’s aid programme in Indonesia theoretically targets East Indonesia; however, in reality the programme is spread across the country.
- The Africa programme has narrowed its focus to 6 countries as both a pragmatic approach but also in alignment to wider MFAT priorities.

Aid modality

There have not been any dramatic changes to the use of different aid modalities over the past two trienniums. Figure 7 shows a slight increase in the use of project and technical assistance modalities. What is most striking is the continued predominance of the project modality, used in 55% of all activities in 2014/15. Budget/sector support is currently limited to the Pacific.

Figure 7: Percentage of activities by aid modality

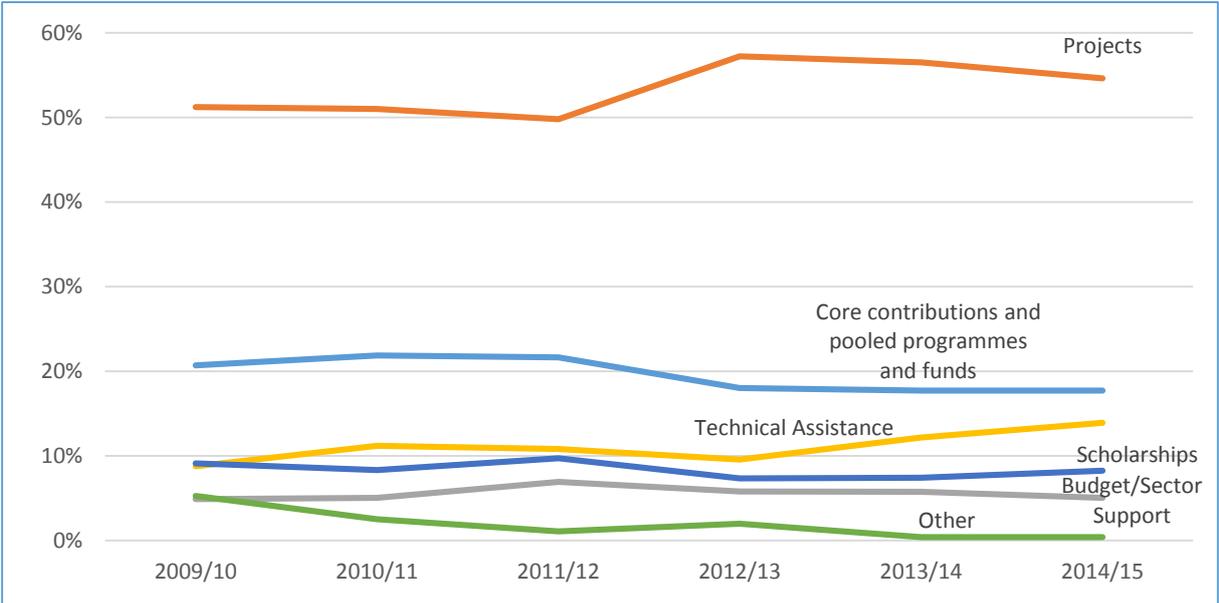
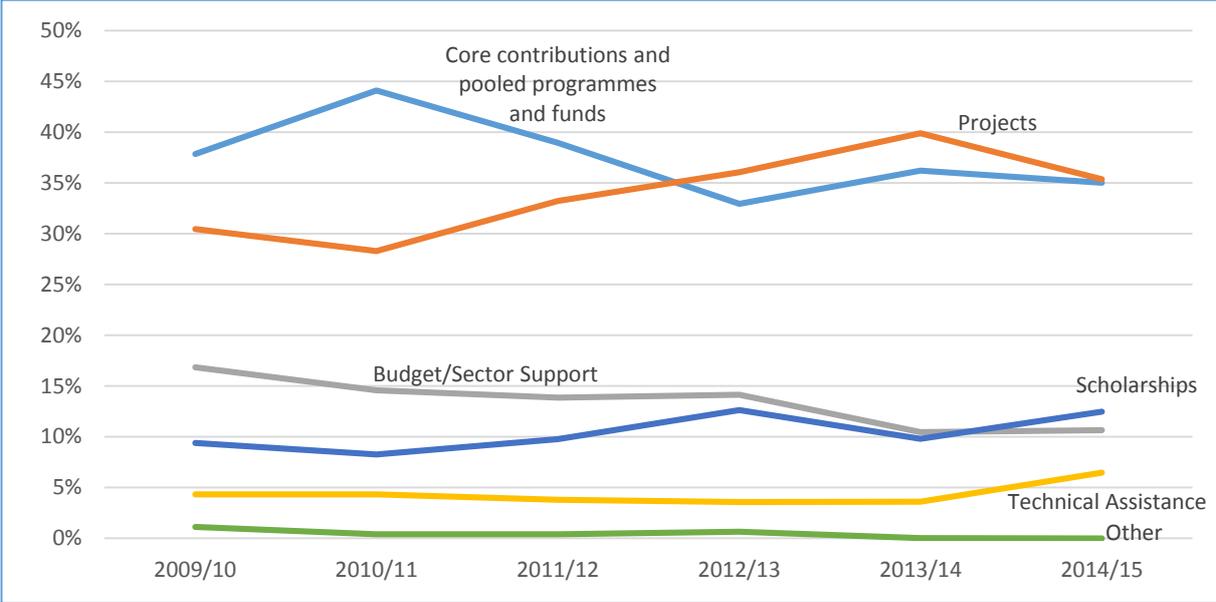


Figure 8 suggests that core contributions and budget/sector support modalities include, on the whole, bigger activities, as they account for a higher proportion of activity spend than of activity numbers (previous shown in Figure 7). Projects and technical assistance, on the other hand, account for a lower percentage of spend than their respective percentage of activities. There is no evidence that the BDFL agenda has directly contributed to a shift to the use of higher aid modalities. As a percentage of activity spend, the budget/sector support modality decreased from 17% to 11% over the two trienniums.

Figure 8: Percentage of activity spend by aid modality



3.2. Advantages and disadvantages of a focused aid programme

This section draws on staff perceptions and literature evidence to answer the research question: *What are the advantages and disadvantages of a focused aid programme?* It also identifies the critical dimensions of focus for an aid programme.

3.2.1. Development effectiveness

This research project was tasked with assessing the extent to which reorganising the New Zealand Aid Programme (by activity size/length profile, sectoral spread in a given country, and aid modality) would maximise development results. While this is an important question, the literature review revealed it to be somewhat naïve. A number of the articles reviewed called for more realism about the (exaggerated) profound changes intended to be brought about by aid in general, never mind trying to isolate the impact of different ways of organising aid activities.

Evidence from the literature review does however indicate that, to be effective as a development agency, there is a need to be less busy with the administration of aid money, in order to have time and space to engage with the broader forces and policies which influence development outcomes. Flowing from this, the literature review and staff interviews indicate that of all the dimension of focus in aid delivery, deeper engagement and having a long-term view (as opposed to longer activities *per se*) are most likely to enhance the achievement of development results.

Deeper engagement is characterised by a more fulsome understanding of the context of aid investments, better policy dialogue and higher level interactions with key stakeholders. Long and deep engagements can be effective at building credibility and trust. Depth and having a long-term view can also facilitate the scaling up of interventions. Successful scaling up requires comprehensive understanding at a systems level, including of the policy and institutional environment for interventions in a country. When done well, the scale up of successful interventions can improve or extend development outcomes. It is usually more credible to

attribute change to larger-scale interventions, thus scaling up can also support improved accountability.

Sectoral and, to a lesser extent, geographic spread are closely related to deeper engagement and therefore to optimal focus. Conversely, bigger or fewer activities do not necessarily correlate with focus. Having fewer activities may however indirectly facilitate greater depth to the extent that it frees up time formerly spent on transactional activity management (see 3.2.2 below).

The use of high order aid modalities and partner systems are useful components of a focused programme, but not essential. The 2011 evaluation of the Paris Declaration concluded that no single modality will automatically produce better development results, and that a wide range of programme-based approaches (PBAs, which share some similarities with high order modalities) had been adapted and applied in countries, with mixed results. There is, however, evidence to suggest that high order modalities and using partner systems result in “institutional development of central government ministries, especially in improving the allocation and operational efficiency of public expenditure as well as the quality of public financial management”⁵.

Limited public sector capacity to absorb an increase in aid flow and to support deeper engagement is a particular constraint for scaling up⁶. Given this, strengthened institutional capacity arising from use of partner systems is not only a worthy development outcome in its own right, but also an enabler of focus for donors. This all points to the fact that New Zealand should retain its commitment to using partner systems where relevant. Nonetheless, New Zealand can achieve a higher degree of focus in country aid programmes without substantially shifting away from its current dependence on projects.

Activity size and length

As discussed, staff considered that length of *engagement* was important to building credibility and trust and that this contributed to development effectiveness. Length of activity, on the other hand, was not considered as important; although large and long activities do tend to facilitate long engagements. Several staff defended the value of shorter activities and stated that these are by definition not worse for development outcomes. Some shorter projects have in fact been more effective than longer ones, and staff provided examples of small, short-term investments that had been used to unlock specific system bottlenecks to great (cost-) effect. Small activities can also provide opportunities to be responsive, innovate and learn.

In addition, behind statistics and small activity budget lines may lie strategically important activities such as policy initiatives, or feasibility studies, which may subsequently lead to more expanded activities. Long activities can also have the perverse outcome in that they lock in activity design documents for up to 5 years, which could make MFAT more rigid than nimble.

On the other hand, some small activities genuinely distract from achieving a focused aid programme. For example, the evaluation of New Zealand’s police support work in the Pacific found issues with one-off short-term TA deployments, which included a tendency to substitute for local staff without a clear exit strategy and imperfect skill matches⁷.

The key message is that rather than getting fixed on short or long activities, what matters is having a long-term view and understanding the strategic intent of a given activity. This means that it may be designed as a short activity as a first step, but with the intention of building up into a longer or

⁵ CIDA (2010). *Synthesis Report: CIDA’s Review of Program-Based Approaches*.

⁶ International Monetary Fund. *Fiscal Management of Scaled-Up Aid*.

⁷ New Zealand Aid Programme (2013). *New Zealand’s Police Support in Developing Countries*.

deeper endeavour, either by extending the same activity or by using it to inform a suite of follow-on interventions.

Some staff did argue for the advantages of longer activities, for example reporting that a lack of longer activities led to being in a constant planning and design phase. No one argued directly against the advantages of long-term activities *per se* and it is important not to downplay the importance of large and long activities.

The advantages of taking a long-term view are supported by findings of the evaluation of New Zealand's police support, which recommended a more strategic and context-specific model of engagement, embedding policing in the broader security and justice sector and a stronger focus on capacity development and longer deployments⁸. The evaluation of New Zealand's fisheries support emphasises this long-term approach as well. It holds that the value for money of institutional strengthening programmes could be enhanced by providing support at a lower intensity but over a longer time period, to ensure support is within the absorptive 'bandwidth' of the country, to minimise the gaps that open up when the support ends and to provide plenty of time for the benefits to be realised⁹.

3.2.2. Management efficiencies, the nature of IDG work and staff satisfaction

Conceptually, fragmented aid has been considered inefficient as it incurs high transaction costs on donors and recipients. For donors, these costs are largely administrative and derive from the need to keep track of many activities in many countries with many partners. For aid recipients, the burden appears to be even bigger and associated with limited absorptive capacity, added transaction costs, reduced transparency, corruption, misallocation and wasting of resources¹⁰.

It has not been possible to fully assess the efficiency of small activities through this research, and compare this with larger activities, as departmental resourcing requirements are not currently included in an activity's business case (PAA). It is possible that small activities do currently incur a greater management overhead than larger activities. If there is an administration efficiency dividend from larger activities, this would free up time for the more strategic engagement that characterises focused delivery.

However, the literature review did not find any firm evidence to support the assumption that a more focused aid programme (either in terms of the number of activities or sectors) would reduce transaction costs as such. The evaluation of the Paris Declaration summarised a mixed picture on efficiency gains and reported that they were "so far disappointing in relation to the original hopes of rapidly reducing burdens in managing aid"¹¹. The literature review did find, however, that the nature of work may change for IDG staff as a result of increased focus. For example:

- Fewer activities means less 'keeping track of things'.
- Budget/sector support and other high order modalities imply an increase in policy dialogue and strategic engagement which require specialist expertise.

⁸ New Zealand Aid Programme (2013). *New Zealand's Police Support in Developing Countries*.

⁹ New Zealand Aid Programme (2013). *Evaluation of New Zealand's Fisheries Support in the Pacific*.

¹⁰ Schulpen, Loman and Kinsbergen (2011). *Worse Than Expected? A Comparative Analysis of Donor Proliferation and Aid Fragmentation*.

¹¹ Wood, Betts, Etta, Gayfer, Kabell, Ngwira, Sagasti and Samaranayake (2011). *The Evaluation of the Paris Declaration, Final Report*.

- Budget/sector support and other high order modalities ideally mean more delegation to staff at Post and shifting administrative responsibility to recipient partners.

An overall shift away from transactional relationships to more strategic ones, therefore, may not in itself produce management efficiencies. However, as the evaluation of the Paris Declaration points out, the status quo or even an observed increase in management overhead may be justified as the shift to more strategic relationships has led to practices that allow for better overview of donor and recipient aid, thereby more transparent partnerships and a focus on strategically important matters. In other words, reduced administrative burden has been offset by additional work in analytical tasks, dialogue and policy.

Staff largely concurred with the findings from the literature and were positive towards this potential opportunity to change their day-to-day work. The research discovered a general feeling among staff that a lack of focus in aid delivery meant that the nature of their work was being “sprinkled everywhere” and “fighting fires”, and that this was unfulfilling. In the most extreme of cases, Activity Managers are managing up to 25 activities each. With that volume, they found it almost impossible to have time to add value and described the activity management as “superficial”. Staff expressed that their jobs would be more satisfying if they had less things to juggle and more time to reflect. There was a strong interest in moving from more transactional relationships to more strategic ones.

3.2.3. Accountability

The literature review found some evidence that fragmentation decreases donors’ accountability for development outcomes, partly because they become too consumed with administration to focus on the strategic context.¹² Some staff interviewed commented that the lack of an integrated programming approach meant that internal MFAT accountability sat with the respective programme (e.g. bilateral, regional, Partnerships Programme) which sent the wrong incentive to staff to work across TCAF.

The research also found that scale can have advantages in terms of accountability; not driven by donors having more skin in the game, but by increasing the reliability of attribution of results (as noted in section 3.2.1).

Finally, the use of high order modalities such as budget support, as one dimension of focus in aid delivery, can help to improve transparency and accountability in partner countries through strengthening recipients’ public financial management systems.

3.2.4. Donor profile

The research did not find any evidence relating focus in aid delivery to donor profile. In addition, some staff were not clear on how important profile-raising was as a driver for the aid programme, noting that it is rarely included in activity results frameworks. One staff member considered that the more important issue was how MFAT uses the profile it achieves as a donor, and how MFAT could establish a profile not for the money it spends but for the results it achieves.

¹² Schulpen, Loman and Kinsbergen (2011). *Worse Than Expected? A Comparative Analysis of Donor Proliferation and Aid Fragmentation*.

3.3. Enablers and constraints to the achievement of optimal focus

This section draws on staff perceptions and literature evidence to answer the research question: *What factors enable and constrain the achievement of optimal focus?* It also considers ways that barriers may be overcome.

3.3.1. Coordination and the need for better strategy

Lack of coordination across the aid investments, and to a lesser extent between aid and foreign policy, constrain the achievement of optimal focus in any given country.

The matrix model and multiplicity of funding windows

While interviews revealed most bilateral programmes thought that they were focused, when they added the TCAF – regional, multi-country and Partnership Fund activities – bilateral programme staff felt their overall country programmes to be fragmented and too extensive. As was shown in Table 1, these views about focus were not always well-supported by the data. Nevertheless, better coordination between regional and bilateral programmes would help to enhance focus. The ‘matrix model’ currently in operation in IDG has resulted in regional and multi-country programmes with the mandate to pursue each of the 12 investment priorities in a relatively unconstrained way. It has also led to a multiplicity of funding windows. There is a lack of clarity about the role and strategic intent of regional and multi-country programmes in general, and their ideal relationship with bilateral investments.

Interviews with many regional programme staff in SED and GLO, and with bilateral staff, revealed they were strong advocates for a stronger country-led focus. These staff were also of the view that while there is a place for regional and multi-country funding, more could be shifted to the bilateral level (where a bilateral programme existed). The case for regional programmes was however strong for the Scholarships Programme, where it was felt that centralisation had enabled specialism which had brought greater depth and sophistication (and efficiency) and this, in turn, was enabling the programme to be more closely aligned with country programmes (e.g. through matching scholarships to investment priorities in specific countries). Staff also expressed particular support for the funding of regional institutions such as ASEAN and the Council of Regional Organisations in the Pacific (CROP) agencies.

This research has found conclusive evidence from staff interviews and the literature review that strategic planning at the country level is inadequate but yet essential to focus optimally and bring coherence and integration at the TCAF level. The suite of recent MFAT country evaluations similarly found that aid quality could be improved with better strategic guidance and analysis at the country level. It advises:

“Analysis-based country strategies that consider the implementation context, the challenges this context represents, the priorities of New Zealand’s aid programme within this context, and how the sum of New Zealand’s financial and human resources will be deployed to address the constraints to human and economic development over the medium to long-term are required.”¹³

This research draws the same conclusion. A clear country strategy process is needed to provide the unifying vision for all of MFAT’s development engagement in a given country, and which

¹³ New Zealand Aid Programme (2015). *Evaluation of New Zealand’s Support to Cook Islands*.

reflects and supports New Zealand's wider foreign policy ambitions and national interests. Such a strategy would demand clarity of purpose, and the process of developing it would surface coordination 'rub points' and force resolution. This should speed up decision-making relating to programme and activity implementation under the agreed vision.

Beyond the Pacific, where MFAT's connections, knowledge and experience are not so strong, it is especially important that the focus of the aid programme reflects wider New Zealand interests and expertise, including in specific sectors or on specific issues. It is only through a coherent strategic focus that New Zealand can expect to have an impact in these larger economies. In large countries or regions, this may extend to the geographic focus of the aid programme as well.

An effective country strategy process would ensure that the number of sectors or issues New Zealand is engaged in reflects MFAT's capacity to engage meaningfully in them and a country's capacity to deliver development outcomes across multiple sectors. It would also provide an opportunity to prioritise sectoral engagements where necessary, including contracting out of activity management (via Management Service Contractors or similar) where MFAT capacity is stretched and engagements are deemed lower priority.

The evaluation of fisheries support points out the various historical drivers for different activities within a sector that appear to have been reactive and not as a result of a strategic selection process within the sector programme¹⁴. The same evaluation concluded that lack of coordinated sector programme management across multiple funding windows results in investment decisions made in an ad hoc fashion, across different MFAT divisions. Similar conclusions were drawn in the taxation reform evaluation, according to which a systemic approach to the sector was called for in order to create coherence, addressing key bottlenecks and for long-lasting change¹⁵.

Donor coordination

Donor coordination, at a country level, is a facilitator of focus, scale and depth, consolidation and harmonisation. The degree of donor coordination varies between countries. There are positive examples, such as the Cook Islands, where New Zealand has taken a coordination lead and has a delegated cooperation arrangement with Australia and an innovative partnership with China. The evaluation of the Cook Islands country programme concluded that New Zealand's lead has been important for focus and fits its role as the primary bilateral donor in the country.¹⁶ Yet, in many cases there are unsatisfactory coordination mechanisms in place, and this presents an opportunity for New Zealand to take initiative to strengthen coordination processes in countries where it is a major player. Outside of the Pacific, where New Zealand plays more of a niche role, donor coordination is not considered an MFAT priority.

3.3.2. Full expenditure and fast results

The drive for fast results and a need to "get the money out the door" is a reality of ODA. Longer term investments were seen by some staff to be incompatible with the desire for fast results, even though staff frequently reported that real change came through long-term engagement focused on changing attitudes, policies, regulations or laws which tended to be slower both in terms of spend and the production of demonstrable results. This points to the need to determine the right balance of a given portfolio (country as well as whole-of-aid-programme level) to satisfy different interests with a combination of high/low spend and fast/slow delivery. It also suggests that much

¹⁴ New Zealand Aid Programme (2013). *Evaluation of New Zealand's Fisheries Support in the Pacific*.

¹⁵ New Zealand Aid Programme (2014). *Evaluation of Taxation Reform in the Pacific*.

¹⁶ New Zealand Aid Programme (2015). *Evaluation of New Zealand's Support to Cook Islands*.

greater attention needs to be paid to activity pipeline management, to guard against expenditure pressures giving rise to unfocused investments at the end of the financial year.

3.3.3. Capacity and capability

This research was not able to determine whether or not the achievement of optimal focus is constrained by the current skill set of IDG staff. As reported above, staff are generally very positive about the opportunity for deeper engagements and the change in their work that would flow from it. Bilateral programmes did report that a move to greater use of high order modalities and partner systems was constrained by MFAT's limited capacity to engage in conversations about partner's public financial management or other key systems weaknesses.

3.3.4. Exiting sectors and activities

There is resistance (from MFAT and recipients) to dropping sectors/investment priorities, exiting activities or saying no to new activities. This is a constraint to achieving optimal focus but could be overcome by enhanced long-term strategic planning.

Lack of exit strategies means that attempts to consolidate a programme may prove difficult, due to previous commitments and a vacuum that will surface if New Zealand exits a particular sector and/or activity.

The strategic evaluation of New Zealand's fisheries support highlights the issue with lack of planning for ongoing sustainability, including donor exit strategy, and provides potential solutions for another approach to exit¹⁷. For example, the institutional reforms of the fisheries support appear to have been more successful and delivered better value for money in the Solomon Islands than in the other beneficiary countries. The reasons reported for this were the long-term 'residential' approach adopted. Support for institutional strengthening that is provided at a lower intensity but over a longer time period (to ensure support can be absorbed by the recipient institution) is recommended, and is considered better value for money.

3.3.5. Responsive and open

In addition to the challenge of saying no, the need for the aid programme to be responsive and open to the needs of MFAT's partners is a constraint on establishing a (too) tightly focused or prescriptive programme. This is particularly the case for the Partnerships Fund, which was established as a particular way of responding to needs identified outside of the government sector. Staff commented that a number of NGOs perceive the fund to be too prescriptive already, and narrowly focused on economic development.

This challenge points to the need for the country strategy process to be widely owned and defensible, and to design investments to retain some flexibility in the context of deep and long engagements.

3.3.6. High order modalities

High order modalities are a potential enabler of optimal focus in a number of ways:

- As previously discussed, they help to achieve country ownership which arguably contributes to the sustainability of development outcomes (section 3.2.1), and where

¹⁷ New Zealand Aid Programme (2013). *Evaluation of New Zealand's Fisheries Support in the Pacific*.

coupled with upskilling and capacity strengthening enable deeper engagement with recipient partners (section 3.3.1).

- By helping to shift ownership to the recipient government, budget/sector support can enable MFAT to rationalise the number of sectors within its direct focus (the Niue case as previously discussed is a good example of this).
- By shifting responsibility for administrative tasks to partner countries, budget/sector support in particular can free up MFAT resources from activity management which can be re-allocated to deeper engagement through strategic relationship management and policy dialogue.
- Higher aid modalities may require fewer contracts for MFAT to manage for a given quantum of expenditure. There is not strong evidence, however, that fewer contracts reduced the administrative burden of work.

3.4. Defining optimal focus

This section draws on staff perceptions, literature evidence and the AMS data analysis to answer the research question: *How should optimal focus be described, monitored and reported?* It suggests principles to guide decision-making on optimal focus at a country level.

3.4.1. Numerical targets for driving focus

The literature review and interviews with staff did not reveal any evidence to support target setting for focusing aid delivery on the basis of activity duration or spend (such as the ‘at least 5 years, at least \$5 million’ target). Bigger or longer activities do not always point to better development effectiveness or management efficiencies. It would also be unrealistic to find a target that was relevant across all contexts.

Targets based around the number of activities or sectors (e.g. X% of all country-focused expenditure in Y sectors) also seems ill-advised. This research has found that sectors within a country have their own local characteristics and historical legacy, and institutional strengths and weaknesses. What might be appropriate and achievable in one country context may not be relevant in another.

Numerical targets would result in too many justifiable exceptions which would need to be supported by alternative principles and processes, creating complexity and inefficiency.

Targets may also incentivise the wrong behaviour, such as incorrect coding of activity sector or artificial grouping of activities. It may motivate staff to focus on easily quantifiable measures or interventions, which do not contribute to focus or development effectiveness.

3.4.2. Principles-based approach

In light of the limitations of a numerical target, the case for a principles-based approach seems strong.

The staff interviews and analysis of AMS data point to some themes which could be used in building principle-based guidance on focusing aid delivery. A principles-based approach is recommended over a more specific decision making framework (such as a decision tree), which runs the risk of being too rigid and universal to be applicable to the specific country context.

Potential principles should include:

- Focus should be determined through a credible country strategic planning process that drives coherence across all New Zealand Aid Programme investments to meet development and New Zealand national interests.
- In determining focus, consideration needs to be given to MFAT's capacity to engage meaningfully in a country, sector or issue.
- Focus should reflect an assessment of a partner country's capacity to deliver development outcomes in proposed sectors.
- Using high order modalities and partner systems are useful components of a focused programme, but a mixed portfolio of modalities is likely to be appropriate in many country contexts.
- The New Zealand Aid Programme should seek to leverage off existing investments to add depth and scale, and in support of taking a long-term view. This requires looking up and down the value chain of existing investments and targeting system bottlenecks. It may also mean 'coupling' investments, for example investments in infrastructure builds could be delivered hand-in-hand with support for establishing more functional policy and regulatory environments to support the operation of the infrastructure.
- There are benefits in retaining the ability to be nimble and responsive, within the context of deep and long-term engagement in a given sector. This includes retaining some ability to respond outside of the chosen sectors. Otherwise, IDG risks becoming too rigid, too narrow and closed to new opportunities.
- Similarly, there is a need for the focus of programmes to evolve over time on the basis of ongoing understanding and learning from successes and failures, and analysis of emerging gaps and needs. The country strategy should provide long-term stability, but with some flexibility to change course where circumstances demand it.
- Focused aid delivery works best with strong donor coordination by the partner country. If this is absent, MFAT should look to take a lead to help bring this about in countries where New Zealand is a significant aid partner.
- Any reduction in sector engagement in order to achieve optimal focus needs to be supported by clear messaging to manage any potential partner government misunderstanding or concern.

3.4.3. Monitoring and reporting optimal focus

The principles outlined above recommend that optimal focus be defined at a country level and on the basis of a country strategy process. Monitoring and reporting optimal focus should be integrated into country strategy monitoring and reporting processes. In this way, what is monitored and reported needs to be aligned with the performance measures of that specific strategy and its overall intent. The country strategies should identify what focus means for a particular country, which dimensions are relevant and the ambition and scope for improved focus. Monitoring and reporting should primarily take place at sectoral or cross-sector issue level, and be able to demonstrate how it proposes to achieve the increased focus within the specific sector/country.

In addition, including departmental costs in the activity business case for approval will allow for better monitoring over time of the true cost of activities, particularly smaller ones.

MFAT's wider evaluation system will also need to be cognisant of 'optimal focus' and its potential implications in terms of effectiveness and efficiency. This might include, for example:

- Ensuring country programme evaluations consider progress towards achieving optimal focus.
- Considering whether there are other (than size) dimensions of optimal focus that might trigger an activity evaluation, such as length of activity.
- Ensuring activity evaluations include assessment against relevant dimensions of focus, such as integration or depth of engagement.

4. CONCLUSIONS

The New Zealand Aid Programme has pursued a greater focus in aid delivery in the hope that this would help to bring about development effectiveness and management efficiencies. This research concludes that:

- Depth of engagement and having a long-term view (as opposed to longer activities *per se*) lead to changes in aid programming that could reasonably be expected to promote development effectiveness.
- There is no conclusive evidence that focusing aid delivery leads to overall management efficiencies.

The research found strong staff support for a focused aid programme and a degree of success in achieving greater focus. However, sector focus in a given country, which staff considered to be a strong driver of deeper engagement, was variable with TCAF focused in as few as 3 sectors in some countries but 7 or 8 in others. The degree of sectoral focus increased marginally at a programme level.

A lack of coordination across TCAF funding windows was found to be the greatest constraint to focusing aid delivery. This constraint was found to be exacerbated by the lack of a clear country strategy to provide the unifying vision and coherence for all MFAT's engagements in a given country.

A key input into a country strategy process is a set of principles (rather than numerical targets) to guide the determination of optimal focus in a given country context. These principles should include consideration of MFAT's capacity to engage meaningfully in a country, sector or issue; consideration of a partner country's capacity to deliver development outcomes in proposed sectors; and the use of high order modalities and partner systems within a mixed portfolio of modalities.

The global development landscape is changing. Partner country governments expect donors to shift to a more enabling role, providing vital finance, but in support of government-led sector programmes, and delivering more and better technical and policy support¹⁸. This will change the nature of work required by MFAT. This research found strong interest from staff in moving from more transactional relationships to deeper and more strategic ones.

¹⁸ Davies and Pickering (2015). *Making Development Cooperation Fit for the Future: A Survey of Partner Countries*.

5. RECOMMENDATIONS

The recommendations from this research fall into two areas: recommendations for achieving optimal focus at the whole-of-aid-programme level; and recommendations for achieving optimal focus at a country level.

Whole-of-aid-programme level

To support the achievement of optimal focus, IDG should:

1. **Strengthen approaches for country focus across TCAF** which brings improved integration and coherence across programmes, and whereby non-bilateral programmes support bilateral programmes to address needs identified in country strategies (see country-specific recommendation below). This requires clarity on the role and strategic intent of each non-bilateral programme. Some (such as the humanitarian programme) should intentionally remain outside the country focus.
2. **Retain commitment to use of high order modalities and partner systems** as part of a mixed portfolio of modalities. High order modalities and use of partner systems can help to strengthen recipients' public institutions; increase the efficiency and quality of expenditure; and support deeper engagement through strategic relationship management and policy dialogue.
3. **Upskill staff to support deeper engagement** in development programming. Staff need to be able to engage effectively with country partner governments in areas such as strategic policy dialogue, strategic relationship management and around governance processes. This includes staff at Post. Technical or principal development managers could play a leadership role in this area.
4. **Take a principles-based rather than target-based approach to defining optimal focus.** The principles should be applied to defining optimal focus at a country level.
5. **Develop a system to monitor and assess the true cost (Crown and departmental) of aid activities** so that administrative costs can be factored in to decisions to improve management efficiency.
6. **Monitor and evaluate the impact of focusing aid delivery** against the objectives of improved development effectiveness and management efficiency. This will involve regular monitoring of progress towards achieving optimal focus (as defined in the country strategy – see below), further identifying and testing assumptions relating to focus, and ensuring IDG's monitoring and evaluation system considers issues of aid focus more generally.

Country level¹⁹

To support the achievement of optimal focus:

7. **Develop country strategies that support the achievement of optimal focus** and that:

¹⁹ A different process will be required for non-bilateral partners such as Africa, the Caribbean and some ASEAN countries. However, the process should still be driven by New Zealand's collective interests in a country. Where the depth or overall strategic intent of New Zealand's relationship with a country is more about trade than aid, the strategy process may be better led elsewhere in MFAT (i.e. outside of IDG).

- a. Respond to identified country needs, including partner's development strategy, in those areas where New Zealand is best placed to assist.
- b. Take a long-term view.
- c. Are bilaterally-led.
- d. Direct TCAF into an integrated and coherent country portfolio.
- e. Consider and prioritise the optimal number and mix of modalities, funding windows, investment priorities and activities recognising the recipient country's capacity and capability, IDG's capacity and capability, existing investments (including the opportunity to scale-up), and that support an appropriate balance of activity management and deeper engagement.
- f. Provide for opportunities to strengthen recipient country's capacity and systems.

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