
Ministry of Foreign Affairs and Trade

Opportunities to Improve New Zealand's Policy Coherence for Development

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Glossary

AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
CDI	Commitment to Development Index
DAC	Development Assistance Committee
DIA	Department of Internal Affairs
EFIC	Export Finance and Insurance Corporation's
EU	European Union
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FIC	Forum Island Country
GPFI	Global Partnership for Financial Inclusion
ITO	Industry Training Organisation
LDC	Less developed country
MALIAT	Multilateral Agreement on the Liberalization of International Air Transportation
MAWGs	Market Access Working Groups
MBIE	Ministry of Business, Innovation and Employment
MFAT	Ministry of Foreign Affairs and Trade
MoJ	Ministry of Justice
MoT	Ministry of Transport
MPI	Ministry of Primary Industries
MSD	Ministry of Social Development
NGO	Non-governmental organisation
NZAA	New Zealand Automobile Association
NZECO	New Zealand Export Credit Office
NZQA	New Zealand Qualifications Authority
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PACER	Pacific Agreement on Closer Economic Relations
PHAMA	Pacific Horticultural and Agricultural Market Access Program
PHARMAC	Pharmaceutical Management Agency
PIC	Pacific Island Country
PCD	Policy coherence for development

Realm Countries	Cook Islands, Niue and Tokelau
RSE	Recognised Seasonal Employer
SPC	Secretariat of the Pacific Community
SPTO	South Pacific Tourism Organisation
TA	Tourism Australia
TEC	Tertiary Education Commission
TNZ	Tourism New Zealand

Executive summary

Objective and scope

Policy coherence for development (PCD) is a widening of the analysis of the performance of Official Development Assistance (ODA) policy to also include other government policies that could affect development outcomes.

This study focuses on those other government policies and New Zealand's position in international forums on those policies. It does not include activities funded by the New Zealand Aid Programme or other agencies to improve development outcomes.

This report identifies good examples of known New Zealand PCD initiatives, assesses the potential to expand these, seeks to find new PCD areas, and assesses the willingness of other departments to consider PCD.

Method

Opportunities for improving PCD were checked against the strategic themes in the New Zealand Aid Programme Strategic Plan. The opportunities we identify fit primarily under the strategic themes of improved economic well-being and human development.

Main Findings

The key areas identified were in expanding the size and scope of labour mobility initiatives, shared procurement and training, safeguarding remittances to the Pacific Island Countries (PICs), enlarging pension portability, and further developing flexibility of risk underwriting for exports and services in the PICs.

A wide variety of other government policies were investigated for PCD opportunities but most were found to be reasonably well aligned with the strategic themes in the New Zealand Aid Programme Strategic Plan.

Recognised Seasonal Employer scheme

The Recognised Seasonal Employer (RSE) scheme is a PCD initiative that is working very effectively. It has built up skilled administrators with related infrastructure and systems in New Zealand and across the Pacific. Given the success and investment to date there would appear to be an opportunity to increase the material benefits to the Forum Island Countries (FICs) and New Zealand by developing it further. This development could involve:

- Increasing the existing RSE intake;
- Expanding the sectors that the RSE scheme covers;
- Including more short term on the job training or qualifications in the RSE scheme.
- Expanding the countries that can participate in the scheme.

We recommend reviewing the RSE cap in light of the interest in labour mobility in the current Pacific Agreement on Closer Economic Relations (PACER) Plus talks, the generally positive outlooks for the horticulture and viticulture sectors and the time since the last increase in the cap.

The RSE scheme could be used to widen the sectors in which FIC residents could work from horticulture and viticulture to include fisheries, forestry, tourism, agriculture, construction and the Christchurch rebuild, age care and meat processing.

We therefore recommend discussing broadening the RSE scheme into these 7 sectors with MBIE. This could include:

- Reviewing how the current temporary work visa system is operating and the potential for increasing temporary workers in the 7 sectors;
- Assessing whether there is more unfilled capacity in the New Zealand labour markets in these sectors that could be filled by temporary RSE workers; and
- Investigating the potential benefits of utilising the scale of the existing RSE scheme to lower search costs for employers and ensure suitability of employees.

Current immigration rules, such as the skill shortage lists, do not appear to be organised well for FIC semi-skilled labour coming to New Zealand for a combination of work and vocational training. There appears to be an opportunity to cater better for the development needs of these people by also allowing RSE workers to benefit from on the job training and short term qualifications.

We therefore recommend discussing with the relevant industry training organisations (ITOs) and MBIE the potential for training as part of the RSE scheme as well as assessing demand for work and training in the FICs in these 7 sectors including through discussions with FIC businesses in the relevant sector or similar sectors. We believe there is a reasonable likelihood of positive human development outcomes being achieved through changing the current policy.

We recommend inclusion of Timor-Leste within the RSE scheme be investigated further.

Procurement

Initiatives aimed at strengthening procurement practices in developing country aid partners could improve economic well-being and achieve more effective government spending. We understand this is not a focus currently. We therefore recommend further discussions with MBIE and assessment of whether there is interest in PIC officials attending procurement training, capability building or assessments of country procurement systems. In the longer term, the value and practicality of including PICs in all-of-government contracts could be explored. In addition, improving efficiencies in pharmaceutical pricing and distribution via the Pharmaceutical Management Agency (PHARMAC) may be an area where material improvements in health outcomes and human development are possible.

Anti-Money Laundering and Countering Financing of Terrorism

The implementation of the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009 appears to be causing difficulties for remittance of funds to the PICs. Given the importance of remittances to the PICs, and G8 and G20 objectives for remittances and financial inclusion, MFAT could initiate discussions with relevant agencies to gather more information, ensure that aid objectives are factored into AML/CFT policy, canvass whether the Act's supervisors could encourage financial institutions to implement the Act so as to continue to foster remittances and draw on best practice techniques from the Financial Action Task Force (FATF) to safeguard financial inclusion of PICs.

Pension portability

New Zealand's pension portability rules have PCD implications. There is a policy change in progress for the Cook Islands, Tokelau and Niue which will allow entitled people to apply for these pensions from those countries rather than from New Zealand as is required for other PICs. It may be wise to implement this change then review expanding these rules to the wider Pacific. While this is likely to impose extra costs on the New Zealand government, eligible people have contributed to their pensions via their New Zealand taxes and the money involved would improve economic well-being in the PICs.

Covering trade risk

MFAT and the New Zealand Export Credit Office (NZECO) could together explore the synergies that might be available should NZECO's mandate be broadened to include a restricted ability to lend to support exports of goods and services to the PICs. They could also jointly investigate introducing a national interest account to cover situations where the level of political risk makes covering transactions non-commercial. A wider mandate could be helpful when MFAT is pursuing aid goals particularly where there are peace and security challenges.

Openness to Considering PCD

We found most Government agencies with responsibilities over domestic policies which had PCD effects to be quite well attuned to the actual or potential flow on effects of these policies to New Zealand's developing country aid partners. We believe that this is mostly the result of the personal experience and backgrounds of the officials involved. Often we found officials to be quite knowledgeable about Pacific issues and development challenges.

Key agencies were receptive to further discussions of the PCD opportunities we have identified.

Opportunities to Improve NZ's Policy Coherence for Development

Introduction

Purpose of this document

1. This is the final report for the Ministry of Foreign Affairs and Trade (MFAT) on opportunities to improve New Zealand's policy coherence for development (PCD). It describes the key opportunities we have identified and explores the advantages and disadvantages of these. It includes high-level discussion of the relevant costs and benefits for each opportunity as well as recommendations for further investigation of the issues and, where appropriate, implementation of changes.

Background

2. New Zealand is seeking to ensure that its policies in areas such as trade, migration, investment and the environment are coherent with international development commitments and goals¹. Improving the coherence of New Zealand's policies could also lift New Zealand's performance in international rankings of PCD, for example that produced by the Centre for Global Development's Commitment to Development Index (CDI). New Zealand's open trading system, significant contributions to internationally-sanctioned peacekeeping and humanitarian interventions and our acceptance of a large number of immigrants mean that, on the whole, New Zealand has ranked well in the CDI index.
3. MFAT commissioned this research to enable it to develop a work programme with other government agencies on further PCD initiatives. It is seeking to prioritise its efforts on those initiatives most likely to succeed in delivering both development and domestic objectives. It could also potentially provide a New Zealand contribution to international thinking and experience on PCD when the next Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) review of New Zealand takes place in about 9 months.

¹ The New Zealand Aid Programme's objectives are set out in New Zealand Aid Programme International Development Policy Statement, Supporting Sustainable Development March 2011
http://www.aid.govt.nz/webfm_send/3

Objectives and scope

Objectives of the research project

4. In summary PCD is a widening of the analysis of the performance of international development policy to also include government policies going beyond aid funding that could affect development outcomes. It represents an attempt to ensure that other government policies help, or at least do not hinder, development in New Zealand's developing country aid partners².
5. In that context, this project sought to identify concrete opportunities for the improvement of PCD with a focus on changes that could be achieved within 12 to 24 months.
6. The specific objectives of the project were to:
 - Identify good examples of known PCD initiatives in New Zealand, and assess how these potentially could be expanded;
 - Find new areas where PCD could be improved;
 - Assess the extent to which other departments are currently considering development impacts in their policy formulation work, and to what extent they are willing to include development objectives in their considerations.

Scope of the research project

In scope

7. The scope of this project included opportunities to improve the coherence of other Government policies with the Government's overseas development goals. It also included policy positions of the New Zealand government, excluding those targeted specifically at development assistance, in international forums.

Out of scope

8. PCD for the purpose of this study was not considered to include programmes funded by the New Zealand Aid Programme and/or other state sector agencies designed to support developing countries to achieve improved development outcomes (e.g. investing in building capability within a development country partner's Ministry, aid for trade initiatives, funding for the Forum Fisheries Agency or for the Solomon Islands tax department).
9. In addition, PCD is often defined to include political commitment, policy statements and efforts to improve policy making processes. Building political support for PCD was also out of scope for this study. However, if process improvements were identified during research on other Government domestic policies that might affect the effectiveness of New Zealand's aid efforts, these could be included.

² Afghanistan, Cook Islands, Fiji, Indonesia, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu and Vanuatu, plus others via regional programmes (Myanmar, Viet Nam, Cambodia, Philippines, Laos).

Analysis of PCD Literature

10. In our review of PCD literature that formed part of our research plan we found that the interpretation, explanation and conceptualisation of PCD varied widely among jurisdictions currently investigating PCD goals. The approaches in the literature can be divided into four general approaches. The first two focus on ex ante efforts to induce new policies which are coherent for development. The latter two focus on ex post analysis to see whether existing policy is coherent with development.
- Several jurisdictions have constitutional or legislative requirements to insure that policy is coherent with development goals. Examples include:
 - Sweden, with their Government Bill 2002/03:122 “Shared Responsibility: Sweden’s Policy for Global Development”;
 - The EU with article 208 in the Treaty on the Functioning of the EU: “(...) *The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.*” In the EU since 2009 each new initiative taken within the EU must be accompanied with an impact assessment from the Directorate General including an analysis of their coherence with the objectives of EU development policy. (This contrasts with New Zealand, where cost benefit analysis only include the costs and benefits in New Zealand and not in other countries).
 - There is a major focus on institutional frameworks in policymaking intended to insure that the resulting policies are coherent with development goals. This is the approach that the OECD subscribes to, broken down in three building blocks:
 - Political commitment and policy statements;
 - Institutional policy coordination mechanisms in place; and
 - Monitoring, analysis and reporting systems.
 - Ex post analysis of existing policy to check for coherence with development: this also includes the results of the systems mentioned in the OECD’s third building block “monitoring, analysis and reporting systems.” For instance Norway has a PCD committee that produces ex post analysis reports biannually.
 - Ex post analysis to look for opportunities to improve coherence of existing policy with development goals. These are done by governmental agencies and committees, but also by non-governmental organisations with a focus on PCD.
11. Another conclusion we drew from the literature is that PCD interpretations differ on which policies are to be coherent with aid policy. For instance the Netherlands’s PCD analyses focus on the coherence between the Netherlands’ development policies on the one hand, and the local policies of the country receiving development aid. The OECD sees whole-of-government approaches as an important example of PCD. Both these interpretations differ materially from the definition we used in this project.
12. Given the direction and scope of this project, a large part of the existing literature on PCD was only marginally relevant to our analysis. The majority focuses on institutional frameworks to insure PCD, which was out of scope. Most of the value for our purposes came from the ex post analyses of other countries’ PCD e.g. Netherlands, Norway, Sweden, Ireland, and the EU. This provided suggestions and sometimes examples of potential areas to look for PCD improvement opportunities.

Research Approach and Methodology

Research Approach

13. We interviewed 63 people including officials from MFAT and other government departments as well as representatives of NGOs and the private sector as part of this project. A full list of those interviewed is attached as Appendix 1.
14. Sapere's earlier report "Research plan for policy coherence for development, 16 December 2013" contained a list of policy areas and potential people to interview for ideas about ways to improve New Zealand's PCD. In discussion with IDG it was suggested that some people and entities on the list were unlikely to provide many leads to improving PCD. In light of the time and budget available it was suggested that a more focused approach might be more productive. We followed this guidance so some parties listed in 16 December 2013 research plan were not interviewed.
15. In general we found New Zealand's policy making process was reasonably well attuned to the Government's international development objectives. As a result there were a number of interviews in which it was not possible to identify improvements to existing or new PCD initiatives. Many ideas for PCD improvements were raised by more than one person interviewed. This report is focused on the ideas. It does not seek to provide a record of all issues discussed in each interview.
16. The interviews were critical to this research project because finding areas of policy which might diverge from New Zealand's international development objectives often required identifying and discussing the pertinent issues with subject experts within each Government agency, NGO or private sector participant. Keeping discussions focused on areas within scope was important e.g. non-New Zealand Aid Programme policies that could be changed to improve PCD, rather than ideas for changes to the New Zealand Aid Programme which was out of scope.

Methodology

17. Ideas for improving PCD were checked against the strategic themes set out in the New Zealand Aid Programme Strategic Plan 2012 – 2015. The strategic themes were:
 - (a) Improve economic well-being
 - (b) Improve human development
 - (c) Improve resilience and recovery from emergencies
 - (d) Improve governance, security and conditions for peace (safe and secure communities)
 - (e) Build strategic development partnerships.
18. The strategic themes and expected outcomes are listed in Figure 1.

Figure 1 MFAT Strategic Themes and Expected Outcomes

STRATEGIC THEMES	EXPECTED OUTCOMES
 Improved economic well-being	<ul style="list-style-type: none"> • Increased returns from sustainable agriculture • Increased returns from sustainable fisheries • Increased returns from sustainable tourism • Increased access to clean, efficient and affordable energy • Improved transport and infrastructure management services • Improved enabling environment for economic growth and private sector development
 Improved human development	<ul style="list-style-type: none"> • Improved education outcomes • Improved tertiary and skills training outcomes • Improved health outcomes • Improved living conditions
 Improved resilience and recovery from emergencies	<ul style="list-style-type: none"> • Disaster and climate resilience strengthened and risks reduced • Effective needs-based response to and recovery from emergencies
 Improved governance, security and conditions for peace (safe and secure communities)	<ul style="list-style-type: none"> • Strengthened democratic governance • Improved community safety and rule of law
 Strategic development partnerships	<ul style="list-style-type: none"> • Partnerships that leverage the strengths of others to support the NZ development assistance programme

Source: New Zealand Aid Programme Strategic Plan 2012-2015

19. We have structured this report to align as much as possible with the relevant strategic themes and expected outcomes. The opportunities we have identified for improving PCD fit primarily under the strategic themes of:

- (a) improved economic well-being; and
- (b) improved human development

20. However, there are flow on effects for other strategic themes and expected outcomes.

Improved Economic Well-Being

21. In this section we discuss PCD opportunities that are likely to provide improved economic well-being including:

- The Recognised Seasonal Employer (RSE) scheme;
- Fiscal policy;
- Trade;
- Export credit;
- Procurement.

22. These PCD opportunities contribute to other strategic themes and expected outcomes e.g. the RSE scheme contributes to improved human development through vocational training. However, we believe they are primarily initiatives with economic benefits.

Recognised Seasonal Employer Scheme

23. When the Recognised Seasonal Employer (RSE) category started in 2007 the Government of the time imposed an annual cap of 5,000 places per year on residents of the Forum Island Countries (FIC) (with the exception of Fiji) coming to New Zealand to work in the horticulture and viticulture sectors. This cap was to be reviewed by the Minister of Immigration depending on the capacity of the New Zealand labour market. In 2009, the Cabinet increased the annual limit to 8,000.
24. The RSE scheme is designed to encourage economic development in the Pacific so FIC citizens have been given preferential access to the scheme. New Zealand employers may be granted an approval to recruit overseas workers from outside the Pacific only if the Ministry of Business, Innovation and Employment (MBIE) is satisfied that:
- reasonable attempts to recruit in Forum Island Countries have not succeeded;
 - the employer already has relationships with workers of other countries; or
 - the employer can show that it is not feasible to recruit in FICs.
25. MFAT and MBIE have funding for five years from 1 October 2011 to bolster the RSE scheme using the Strengthening Pacific Partnerships programme. This will deliver technical assistance which may include training, workshops and secondments to New Zealand for FIC government officials and community leaders. The focus will be on information management, processes, knowledge, communication and marketing of RSE. This is intended to expand skill training in their home countries and extend the horticultural skills of RSE workers and enable other Pacific workers to gain horticultural skills through in-country, on and off-job training. The initiative will also investigate health, domestic labour requirements and social cohesion effects of the RSE scheme.
26. Our discussions with Matt Hoskin and other MBIE officials and the recent review of the RSE scheme³ suggest that the RSE scheme is a PCD initiative that is working very effectively and has built up skilled administrators with related infrastructure and systems in New Zealand and across the Pacific.
27. Given the success and investment to date in the RSE scheme there would appear to be an opportunity to increase the benefits to the FICs and New Zealand by developing it further. This development could involve:
- Increasing the existing RSE intake;
 - Expanding the sectors that the RSE scheme covers;
 - Including more short term on the job training or qualifications as part of the RSE scheme.
 - Expanding the countries that can participate in the scheme.

³ Mid-term evaluation of the Strengthening Pacific Partnerships project, Heather Nunns, Mathea Roorda, Charlotte Bedford, with Richard Bedford, May 2013

Increasing the existing RSE intake

28. Simply increasing the numbers permitted to enter New Zealand to work in horticulture and viticulture, as long as there is demand for places that cannot be effectively filled by New Zealanders, could increase benefits to New Zealand and FIC economies. Such a policy change would contribute to FIC economies and sustainable agriculture and increase the number of FIC residents deriving incomes and basic skills in horticulture and viticulture. We were not able to access data on the total benefit of the current RSE scheme as the data would be held by individual employers rather than centrally. However, it is possible to roughly estimate the total value given the numbers of RSE workers per annum and an estimate of their average earnings⁴.
29. Increasing the RSE cap would probably be lowest cost option of the four we investigate. This is because it would probably only involve some increase in the variable costs of the existing scheme as numbers increased so growing the work loads of RSE administrators both in the FICs and New Zealand. Existing fixed costs of the RSE scheme would not change.
30. However, there will be a limit to the positions that cannot be filled by New Zealanders and fluctuations in the economic fortunes of those sectors will affect the total number of positions available. There may also be limits to the numbers of suitable FIC residents who would benefit from the scheme with its current focus on horticulture and viticulture.
31. An assessment of raising the existing cap would require MBIE to look at demand within these sectors and try to estimate risk of a downturn that might cause demand from employers to dry up. Currently the forecasts for both sectors look positive so there may be room for increasing the RSE cap⁵. MFAT would need to assess demand from the FICs and development benefits to these countries of an increase in the annual RSE worker cap. If it hasn't been a focus to date, such an assessment could include identifying and discussing the labour and training needs of FIC firms in these or closely related sectors in the FICs.

Recommendation

32. We recommend reviewing the RSE cap in light of the interest of Samoa in particular in labour mobility in the current PACER Plus talks, the generally positive outlooks for the horticulture and viticulture sectors and the time since the last increase in the cap.

Expanding the sectors that the RSE scheme covers

33. Another way to build on the RSE scheme would be to widen the sectors covered by RSE workers. This could provide greater PCD benefits than simply increasing the existing cap because it may allow FIC residents to build their skills and earn incomes in other areas of importance to FIC economies e.g. fisheries, tourism and agriculture, where to date there has been only limited opportunity. This could materially increase the contribution by New Zealand to economic and human development objectives. In our discussions with NGOs, private sector parties and government officials about

⁴ MBIE advised that it did not have this data and but individual employer might have it. However, 8,000 workers x \$10,000 average earnings per season would provide \$NZD80m per annum.

⁵ See <http://www.mpi.govt.nz/Portals/0/Documents/about-maf/2013-sopi-report-web.pdf>

labour mobility various ideas were floated as to other sectors that could benefit from inclusion in the RSE scheme or similar scheme. These included:

- Fisheries;
 - Forestry;
 - Tourism;
 - Agriculture;
 - Construction and the Christchurch rebuild;
 - Age Care; and
 - Meat Processing.
34. Widening the ambit of the RSE scheme would incur costs in development resources reallocated from other activities to focus on scoping the opportunities that might exist in each of these new sectors. More RSE staff could be required both in the FICs and New Zealand. This would help to ensure that personnel selection standards and pre travel administration remain satisfactory. More staff could be needed in New Zealand to ensure employers meet the requirements of the scheme and to administer the scheme. There may be a need for additional training to allow existing staff to cover these new sectors and/or a need for new staff with relevant skills and experience in these sectors. However, these additional costs are likely to be variable while some portion of the initial set up and infrastructure costs of the RSE scheme will remain fixed. This potentially allows the RSE scheme to be developed far more cost effectively than launching one or more new but similar schemes to address each new sector.
35. We now look at each of these proposed new sectors in turn.

Fisheries

36. MBIE's Michael Hampl explained that expanding RSE into fishing is being explored with Sandford's and Tally's in the context of the PACER Plus negotiations. The discussions have looked at the possibility of FIC residents coming to Westport to complete some on the job training which could include 2 or 3 fishing voyages. For the fishing companies these training opportunities for FIC residents offer a way to provide differentiated value to the FICs as these fishing companies compete with other fishing companies bidding for FIC fishing licenses.
37. We also discussed the potential for FIC residents to come to New Zealand under the RSE scheme or some similar scheme to work and get on the job training in the fisheries sector with Blair Morgans from the Primary ITO. Blair explained that the fisheries sector is less clearly seasonal than horticulture and viticulture with demand for labour depending on whether fishing quotas were met and on the migration of various fish species. He explained that under current rules FIC residents with jobs in New Zealand were able to access on the job training that subsidised up to 70% of training costs with the employer paying at least 30%. Blair expressed interest in further discussions on expanding on the job training to FIC residents who might come to New Zealand under any expanded RSE scheme or similar scheme.

Fisheries : Commentary and Recommendations

38. Expanding RSE or similar scheme into fisheries would help to fulfill a number of economic and human development goals including contributing to increased returns from sustainable fisheries. The RSE scheme provides a selection process in the FICs

that could help to find the best prospects for employment and training. In addition, incentives exist to ensure that those selected are successful as this safeguards future employment and training opportunities for the FICs. These incentives would be further strengthened where there is good feedback on the performance of those selected. If a separate scheme were considered appropriate, it would be important to ensure these features of the RSE scheme were replicated in the new initiative.

39. Given the very good fit with development goals, we recommend exploring these opportunities further with New Zealand fishing companies. If there is enough interest, the possibility of work and training in fisheries should be discussed with FIC governments and appropriate organisations such as the Forum Fisheries Agency to assess the potential value to the FICs. It would also be necessary to ensure that any initiative in this area was coordinated with current fisheries training that takes place in the FICs.

Forestry

40. Michael Hampl commented that the forestry sector didn't appear to have a lack of New Zealand labour and there were current concerns about work place safety in the sector. MBIE's George Rarere thought that there might be some potential to widen the RSE scheme to include forestry, for example, in planting and high pruning on the East Coast in particular.

Forestry : Commentary and Recommendations

41. While there may not be an identified labour shortage in the sector there may be particular roles that are more difficult to fill and if particular training needs for FIC residents were identified, it may be possible to find temporary employment and on the job training with New Zealand companies. However, the numbers are likely to be limited. Competenz⁶ may provide a useful first point of contact to assess the potential in this sector.

Tourism

42. We briefly explained the RSE scheme to Kevin Bowler, CEO of Tourism New Zealand (TNZ), and the possibility of expanding its remit to include tourism, or using some similar model. He commented that there was potential to do more in the tourism sector particularly in the area of coaching, support and work experience. Kevin averred that in the summer peak season New Zealand employers are very keen to get quality semi-skilled people to work in accommodation, hospitality and tourism. He thought that a few 100 seasonal workers could potentially be supported in New Zealand though this would need to be researched.
43. We discussed this proposition with Service IQ. Service IQ is the ITO for Aviation; Tourism; Travel; Museums; Cafes, Bars and Restaurants; Accommodation; Catering; Quick Service Restaurants; Clubs; Retail and Wholesale. It is funded by the Tertiary Education Commission (TEC), an agency which is the responsibility of the Ministry of Education. Its role is to:

⁶ The Forest Industries Training and Education Council (FITTEC) was merged with the NZ Engineering, Food and Manufacturing ITO (Competenz) in 2013.

- Provide information about the sector's skill demand;
 - Define the national skill standards and qualifications the sector needs to ensure value and relevance of education and training for example national certificates and diplomas; and
 - Link individual workplace learning to national industry skill needs.
44. We met with Debbie Martindale, General Manager of Industry Engagement, Glen Keith, GM Strategic Engagement and Doris Kaua, Maori and Pasifika Engagement Manager. We discussed the RSE scheme and the 2012 Accor group initiative that involved combining on the job training and course based study for 5 Samoans⁷. The ServiceIQ team was interested in the possibility of using the RSE scheme or similar scheme to allow FIC residents to work and train in the tourism attraction and hospitality sector. They thought that ServiceIQ could act as a conduit with the sector to gauge interest from prospective employers. They also commented that the Primary ITO could be a helpful contact should the RSE scheme or similar scheme be expanded into new primary sectors or fisheries⁸.
45. ServiceIQ explained that New Zealand Qualifications Authority (NZQA) had recently approved a 40 credit, 4 month visitor experience tourism qualification which will have a practical orientation and therefore be more of an observational assessment rather than consist of theory and written work. Service IQ will develop the programme for the qualification over coming months and are aiming to release it around mid-year. The qualification will be funded under ITO funding through TEC. The industry will contribute to the cost of assessment or provide for its own workplace assessors.
46. Service IQ also pointed out that to access that funding learners must be employed, New Zealand residents, or be employed with a work permit that is longer than 4 months. In addition, employers need to agree to their staff taking part in the training.

Tourism : Commentary and Recommendations

47. We recommend that expansion of the RSE scheme or some similar scheme into employment and on the job training for FIC residents in the tourism and hospitality sector be explored further. Tourism is a key actual or potential comparative advantage in the PICs and because of this, increasing skills in this sector is likely to have a high likelihood of improving economic well-being in the PICs by increasing returns from sustainable tourism.
48. A key question would be whether the RSE scheme could help identify enough suitable candidates in the FICs. In the case of the 2012 Accor Group initiative, Accor itself appears to have identified the prospective students. More initiatives of this sort might be possible. However, other initiatives that worked more along the lines of the RSE scheme, where a sponsoring company is not a key part of the scheme in the FICs, could also be beneficial. This would involve people being identified that would be suitable for short term employment in New Zealand. These people could combine this work with

⁷ <http://www.aid.govt.nz/media-and-publications/development-stories/july-2012/samoan-students-selected-hospitality-training-n>

<http://www.savalinews.com/2012/07/09/new-zealand-government-provides-innovative-hospitality-training-for-samoa/>

⁸ <http://www.nzito.co.nz/home.cfm>

training for the national certificates and diplomas that are facilitated by Service IQ. The level of actual interest from employers in New Zealand as well as the extent to which any FIC workers/trainees would displace New Zealanders would need to be investigated further.

49. ServiceIQ were interested in discussing expansion of the RSE scheme into tourism and hospitality. It would provide useful links to the sector as well as potentially assisting in raising interest in the sector.

Agriculture

50. Jo Spratt, of New Zealand Aid and Development Dialogues, saw some potential to widen the RSE scheme to include targeted vocational training for FIC residents working in the agricultural sector.
51. There is currently at least some temporary work done in New Zealand by residents of developing countries, for example, Filipino workers are employed in the dairy sector. Often the Filipinos hold veterinary qualifications. They are favoured by some dairy companies as farm workers and enter New Zealand under temporary work visas granted under the immediate essential skills demand list⁹. These workers must meet the list's requirements that they hold foreign qualifications that are recognised by New Zealand.

Agriculture : Commentary and Recommendations

52. A combination of agricultural work experience and training would seem to fit well with the current RSE scheme, if gaps are identified in New Zealand's agriculture labour market that match demand by FIC residents for work and vocational training. Further discussions with the Primary ITO and MBIE could be very helpful in identifying potential New Zealand agricultural employers. There may also be potential to increase on the job training, and other short term qualifications, along with offering temporary work. Such an initiative would assist in achieving the New Zealand Aid Programme's strategic plan, with its expected outcome of increasing returns from sustainable agriculture as it could help to build skills in the FICs as well as provide earnings that could be remitted back to the FICs.
53. We therefore recommend investigating expanding the RSE scheme to cover demand for agricultural workers in New Zealand, the level of skills required by employers, whether existing processes are adequately meeting demand for different skill levels and the interest in the FICs to work in agriculture in New Zealand on a temporary basis.

Construction and Christchurch rebuild

54. Skills needed for the Christchurch rebuild are currently part of the essential skills demand list. Generally these skills appear to be targeting those with formal qualifications in the trades construction and engineering. However, there may be only a few FIC residents that meet these criteria (e.g. FIC residents that hold Australian trades technical college certificates).

⁹

<http://www.immigration.govt.nz/migrant/stream/work/skilledmigrant/LinkAdministration/ToolboxLink/essentialskills.htm?level=1>

55. There may be potential for FIC residents to fill less skilled gaps in this market and receive some on the job training where these gaps cannot be reliably filled by New Zealanders. A recent example of a short term work and training initiative in this sector was the Fletcher Morobe construction awardees of 2012. This involved 6 Papua New Guineans coming to New Zealand to work and train in their trades. These awardees worked in New Zealand for between 6 to 12 months as carpenters, plumbers, joiner cabinet maker, mechanics, scaffolders and occupational health and safety. These people were sponsored by Fletcher Construction in PNG.

Christchurch Rebuild : Commentary and Recommendations

56. Using the RSE scheme or some similar scheme to allow PIC residents to work and train in New Zealand could improve development outcomes by contributing to improving infrastructure and living conditions. We therefore recommend investigating interest by FIC residents in trades work/training with an eye to filling any labour shortfalls that may arise as the Christchurch rebuild progresses.
57. Discussing the training needs of FIC residents working in construction for FIC based construction companies such as Fletcher Construction and other similar companies could help to identify people with the necessary basic training, who could be trained further with on the job experience in New Zealand. It may also be possible to work with the Building and Construction ITO¹⁰ to find suitable qualifications that could be integrated with short term work experience. It would be necessary to ensure that the length of any training period suited the length of stay in New Zealand. For example, the current Experience Recognition Process¹¹ which helps trainees in the sector achieve qualifications such as the National Certificate in Carpentry might be too lengthy to complete, but parts of it could be used for FIC residents to gain skills in this trade.

Age care

58. We discussed the potential for the RSE scheme to be expanded into the age care sector with Nicole Forster of Ryman Healthcare. Nicole explained that Ryman employs significant numbers of workers from overseas, both from the PICs and other countries. Ryman had difficulties filling positions with New Zealanders particularly for night shifts and weekend shifts. Ryman supported potential employees for residency and temporary work visas under the essential skills lists. Many of the overseas workers were trained as nurses and needed a NZQA level 3 or above qualification or some years of experience. The potential employees also needed to pass English language skills at level 7 for nurses and level 5 for those working in care. Three months of training also needed to be included within any temporary work period.

Age Care : Commentary and Recommendations

59. Judging by the discussion with Nicole Forster, the age care sector has difficulty filling all its positions with New Zealanders. Using the RSE scheme or similar scheme in the age care sector could also provide opportunities for FIC residents to get employment and on the job training and could contribute to human development outcomes. However, age care is not seasonal which may mean it is less amenable for inclusion in the RSE.

¹⁰ <http://www.bcito.org.nz/>

¹¹ <http://www.bcito.org.nz/employers-and-industry/industry/ERP>

60. We believe that there may be potential for expanding the RSE scheme into age care but it would need further investigation covering demand for age care workers in New Zealand, the level of skills required by employers, whether existing processes were adequately meeting demand for different skill levels and the interest in the FICs to work in age care in New Zealand on a temporary basis.

Meat processing

61. MBIE's George Rarere thought that there was potential in the meat processing sector but that it had not been possible to get unanimous industry support mainly due to concerns about confidentiality of company information. Blair Morgans from the Primary ITO commented that some companies in the meat processing sector, for example, ANZCO Canterbury Meat Packers of Ashburton, were employing numbers of Pacific Islanders on a short term basis
62. We discussed ANZCO's approach with Sharon Hoera of ANZCO's CMP Canterbury Seafield plant. She explained that around 30 people from the Pacific work at the plant on work visas. Some are New Zealand citizens from the Cook Islands. Others require ANZCO to support their work visa applications under the essential skills work category. This requires ANZCO to provide evidence that it has been unable to recruit New Zealanders for the positions. Unemployment is low in Canterbury so it is more possible to gain work visas for these people.
63. ANZCO has built up contacts in the Cook Islands and now regularly visits to arrange for potential employees. It is careful not to take people needed on Cook Islands infrastructure projects. Like RSE employers, ANZCO facilitates its Pacific workforce's employment by arranging accommodation, IRD numbers etc.
64. Sharon commented that should the RSE scheme or a similar scheme be expanded into the meat processing sector it would need to take account of the employers need to get a return from their investment in training. She explained that training can take up to 3 months before someone is signed off and in certain areas, such as the boning room, training can take longer. ANZCO usually tries to get 12 month work visas rather than 6 month visas because the meat processing season is usually 7 or 8 months. Employing good people in the next season was also important for ANZCO.

Meat Processing : Commentary and Recommendations

65. Expanding the RSE scheme into meat processing or using some similar scheme would appear to have potential. In areas with low unemployment like Canterbury the scheme could benefit employers and the FICs and train FIC residents in areas of potential value in their home countries.
66. We recommend that expansion of the RSE scheme or some similar scheme be explored further in the meat processing sector. The focus should be on the value of meat processing skills to the FICs. Discussions with meat or fish processing firms in the FICs could help identify people and training needs that a combination of work and on the job training in New Zealand could address.
67. It would also be important to try to identify areas of the country, like Canterbury, where there may be a lack of New Zealanders to fill positions as well as opportunities that were not already being adequately addressed through existing temporary work immigration rules. However, it is likely that using the RSE network would provide suitable New Zealand employers with a much wider range of potential employees and bring benefits to more FICs than is possible under existing temporary work rules.

ANZCO noted that its focus on the Realm countries because their residents' status in New Zealand law makes it easier for it to identify and employ suitable people.

Summary Recommendations about Expanding the Scope of the RSE Scheme

68. We recommend:

- Discussing broadening the RSE scheme into the 7 sectors we investigated with MBIE, this would include:
 - Reviewing how the current temporary work visa system is operating to assess how those involved are currently benefiting and the potential for increasing temporary workers in the 7 sectors;
 - Assessing whether there is more unfilled capacity in the New Zealand labour markets of these 7 sectors that could be filled by temporary workers under the RSE scheme.
 - Investigating the potential benefits of utilising the scale of the existing RSE scheme to lower search costs for employers and ensure suitability of employees.
- Discussing with the relevant ITOs the potential for training as part of any RSE employment
- Assessing demand for work and training in the FICs in these 7 sectors including through discussions with FIC businesses in the sector or similar sectors.

Opportunities to combine RSE work with more short term vocational training

69. The RSE scheme bars RSE workers from on the job training and qualifications (such as those provided and partially funded by New Zealand ITOs). However, it does allow up to 8,000 generally unskilled FIC residents to come to New Zealand each year to work. At the same time the New Zealand Aid scholarships programme is funding the study for 439 students from developing country aid partners per annum in 2014. As discussed below in the section covering Education and on the job training 130 of these entered New Zealand under that programme to undertake short term study (a year or less). The main focus of these scholarship students is education rather than work.
70. Prohibiting RSE workers from on-the-job-training provided by ITOs seems anomalous as it is a very effective way of increasing skills and experience in many professions and is a key focus of New Zealand's ITOs. However, this ban is a means of protecting ITO funding for New Zealanders only. Also under existing rules, as pointed out by Service IQ and discussed at paragraph 46, to access funding for on the job training non-residents must be employed with a work permit that is longer than 4 months. This means that non-residents can access this funding for training but they must have met existing rules such as applying for a position which is listed in the essential skills work category. As discussed earlier, the essential skills work category tends to target higher qualified people.
71. There would appear to be an opportunity to put more focus on combining on the job training and short term qualifications with short term work experience in New Zealand than is possible today under either the RSE scheme or temporary work rules. This could be achieved by amending the essential skills work category to include positions

that are attractive to FIC residents and suitable for their training and development needs. However, as a PCD initiative this would be an imprecise way to address this issue as it would capture any non-resident applicants who could fulfill the necessary vocational requirements.

72. We discussed earlier, in paragraph 34, the likelihood that using the existing RSE scheme to include other sectors would be more cost effective than launching new schemes. It therefore seems more appropriate to amend the rules of the RSE scheme to allow on the job training for PIC residents. However, the Government may wish to ensure that ITO funding from the TEC remains only available to New Zealand trainees. If this were the case, it may be necessary to reallocate New Zealand Aid Programme funding or bid for new funding designed to allow RSE workers to participate in on the job training and study for short term qualifications. If funding were reallocated, it is possible that the lower costs of on the job training and vocational qualifications compared to degree courses could result in greater numbers of PIC residents benefiting from this combination of work and training than currently benefit from degree courses.

Recommendation

73. We recommend that allowing RSE workers to benefit from on the job training and short term qualifications be investigated with MBIE and the ITOs. We believe there is a reasonable likelihood of positive human development outcomes being achieved through changing the current policy.

Inclusion of Non-FIC developing country aid partners

74. Given the likely development needs of non FIC developing country partners such as Timor-Leste we see potential in investigating including Timor-Leste within the RSE scheme. However this could present greater challenges than including many FICs because of potentially greater language barriers given that Portuguese is a key language in Timor-Leste as well as relatively high travel distances and costs.
75. Should Fiji return to democracy, inclusion of Fiji in the RSE could be considered, either by it rejoining the Forum or separately.

Recommendation

76. We recommend that inclusion of Timor-Leste within the RSE scheme be investigated further.

MBIE's comments on the idea of expanding the RSE scheme

77. MBIE's Matt Hoskin, Michael Hampl, Nick Montague and John Crompton made a number of comments about the prospect of an expansion of the RSE scheme. They noted that:
- RSE is employer-driven. Employers have to be willing and able to commit to obligations around pastoral care and the requirement to meet minimum employment standards;
 - While some industries have made calls for an RSE scheme in their industry, MBIE does not think there is currently very much industry interest;

- Seasonality is a core aspect of the current RSE scheme and some of the industries mooted have limited or no seasonality;
- Some of these industries (e.g. age care, other agriculture – dairy) already rely very heavily on migrants for their labour requirements;
- The ‘New Zealanders First’ policy expects employers to prove that the local labour market is not able to meet their requirements before approval is given to seek employees from overseas. Given the current number of unemployed beneficiaries, this policy requirement is important to some Ministers, and their ministries would be opposed to additional schemes (e.g. Ministry of Social Development (MSD));
- If there is a genuine need for workers that can’t be met by the local labour market, there are generic immigration policies that allow employers to source these workers overseas;
- MBIE notes that importing low skilled labour does not help industries to improve their labour utilisation through offering training; and
- The economic context requires careful consideration before introducing RSE type schemes. The economic cycle can adversely impact on migrant labour when there is a downturn.

Commentary on MBIE’s observations about expansion of the RSE Scheme

78. MBIE’s observations need to be addressed as part of further investigation of the potential to expand the RSE scheme in the ways we have outlined. Despite expressing the reservations above, MBIE signaled a willingness to discuss broadening the scope of the RSE scheme. We therefore recommend further discussions with MBIE, the relevant ITOs and a range of firms themselves to identify the extent of any further demand in the horticulture and viticulture sectors, other sectors discussed above and whether on the job training could be incorporated into the scheme.
79. While seasonal work has been the focus of the existing scheme, most of the additional sectors we have examined are seasonal or have some seasonality i.e. fisheries, forestry, tourism, agriculture and meat processing.
80. Some of these sectors do use non-resident labour under existing temporary work rules. However, our discussions suggest that there would appear to be demand in excess of existing levels in at least some sectors, e.g. age care, meat processing and tourism.
81. The introduction of additional sectors into the RSE scheme would allow greater flexibility for employment of FIC residents that may not meet the current essential skills categories. Instead of applying at the individual level for temporary work and potentially a student visa shortfall in the New Zealand labour market and development gain would be identified at a sector level. A key benefit of the RSE scheme is that it reduces search costs. It is easier for new horticultural employers to gain access to RSE workers than it is for companies outside the current RSE sectors, such as ANZCO, to start up their own schemes under existing rules.
82. It is possible that including some sectors in the RSE scheme could add a level of complexity over and above the savings that could come from reusing the fixed costs elements of the existing scheme. This would have to be assessed in more detailed work on the cost of expanding the scheme.
83. One of the advantages of the RSE scheme has been that it is probably displacing at least some illegal migration and work in New Zealand. Illegal migration and work tends to

expose workers to significantly higher risks of having their human rights abused or being exposed to unsafe work practices. This is even possible under existing rules if the potential for residency are misrepresented to non-residents by employers. It is difficult to gauge the extent of this effect but the RSE scheme was initiated in an environment of large scale illegal work schemes in some parts of the country. Providing a sanctioned scheme for FIC workers has filled the demand gap that spurred the illegal schemes. This effect could materially reduce the potential for abuse of illegal migrants in other sectors for example forestry.

Taxation of RSE Workers

84. We discussed the taxation of RSE workers with Carmel Peters, Graham Hunt, Charles Ngaki and Emma Grigg of IRD. IRD explained how RSE workers were taxed in New Zealand. RSE workers are non-resident for New Zealand tax purposes but pay tax on New Zealand income of under \$14,000 at a flat tax rate of 10.5%, along with 1.7% for accident compensation. If the RSE worker earns over \$14,000 they move into the next tax bracket, between \$14,000 and \$48,000, and should pay 17.5%. A minority of RSE workers reach this level of earnings.
85. RSE workers are not required to file a tax return or apply for rebates using a personal tax summary. RSE workers who earn less than \$14,000 would not receive any rebate under normal circumstances. Those that earn over \$14,000 would probably owe tax to IRD should they apply for a rebate. IRD explained that to simplify the tax administration of RSE workers they do not require RSE workers to file tax returns and do not pursue those who earn over \$14,000 for any unpaid tax. IRD thought that there may be scope to extend the principles of the RSE scheme (for tax purposes) to other sectors where there was a labour market shortage.
86. It would appear that our current approach to taxation of RSE workers is practical, keeps administration costs down and generally is to their advantage. We have not investigated whether there are valid arguments for RSE workers to be subject to a lower tax rate than New Zealand's first income tax step.

Other Tax Policy

87. We also discussed the potential to improve PCD through changes to other facets of New Zealand's tax policy with IRD. Carmel explained New Zealand's approach to international tax and our approach of taxing income on both a residency and a source basis¹².
88. Carmel said that in international forums New Zealand took positions designed to protect our tax base and that this was aligned well with what the PICs wanted to achieve. Steve Mack from Treasury, with whom we also discussed New Zealand's position on tax issues in international forums, emphasized that on issues such as Base Erosion and Profit Shifting (BEPS)¹³, New Zealand's and the PICs interests were

¹² Tax at source focuses on tax where the taxable income is generated. Tax on a residence basis depends on where the person or entity who receives the income is based.

¹³ BEPS covers a wide variety of international tax issues including how current tax rules allow the allocation of taxable profits to locations different to those where business activity takes place. A political driver for BEPS is a view that governments are losing tax revenue where corporations are shifting profits to more favourable locations. States that are the source of income are complaining about the level of taxable income flowing to

aligned. Steve explained that any changes coming out of the OECD's work on BEPS were likely to be seen similarly from New Zealand and the PICs. Carmel noted that New Zealand often argued positions that sought to ensure that PIC interests were taken into account, for example, on tax information exchange programmes.

89. New Zealand had recently negotiated double tax agreements¹⁴ with PNG and Samoa. Often PICs did not fit within the standard criteria for negotiation of these agreements because they were small economies with limited aggregate potential economic gains for New Zealand. However, negotiation of these agreements had been pursued anyway due to a political judgment of New Zealand's wider interests in the region.
90. IRD explained that it provided policy advice to Ministers about charities that apply funds for overseas purposes which can accord with improved economic outcomes in the PICs. IRD sought Ministerial approval for legislation to add organisations to a list of donee organisations in the Income Tax Act 2007. Tax benefits were available to New Zealand donors that gave cash donations to their organisations. Individuals were entitled to a tax credit of one-third of all qualifying cash donations capped by the amount of their taxable income. Companies and Māori authorities were entitled to a tax deduction equal to the amount of their cash donation capped by their net income.
91. IRD explained that these organisations had to apply their funds for the relief of poverty, hunger, sickness or the ravages of war or natural disaster or the economy of developing countries (as recognised by the United Nations) or towards raising the educational standards of a developing country. An organisation formed for the purpose of fostering or administering any religion, cult or political creed was specifically excluded.
92. IRD stated that there were approximately 111 organisations on the charities list. Most of these were concerned with projects and activities across Asia (including South East Asia, India and Nepal) and Africa. The major international charities tended to focus their attention in the Pacific on an as-needs-basis, for example, emergency relief aid¹⁵.

Commentary on PCD in Taxation

93. There do not appear to be any specific changes in New Zealand's approach to BEPs, double tax agreements, or charities that would improve PCD outcomes. MFAT is specifically included on the list of organisations that are consulted when IRD receives an application to add a charitable organisation to Schedule 32 of the Income Tax Act. MFAT can therefore seek to ensure that where PCD improvements could occur as a result of a charity being added to Schedule 32 it has the opportunity to put its case forward. Explicitly including MFAT in this way may provide a useful precedent for other areas of New Zealand government policy making where a development outcomes are clearly important.

residence countries. It is unlikely that the PICs and New Zealand's interests would diverge should changes to the international tax system lead to more source taxation.

¹⁴ Income derived across an international border can be taxed twice by the two countries involved. New Zealand addresses this by granting New Zealanders credits for foreign tax paid on income up to the amount of New Zealand tax liability. New Zealand also has a network of double tax agreements (DTAs) with its main trading and investment partners which refine and supplement tax credits on income earned overseas. DTAs also reduce tax impediments to cross-border trade and investment and assist tax administration. For further information see : <http://taxpolicy.ird.govt.nz/tax-treaties/role-double-tax-agreements>

¹⁵ <http://www.ird.govt.nz/charitable-organisations/request-oseas-status/>

Trade

94. MFAT's website¹⁶ lists the key issues with trade with the Pacific as being:
- Increasing and improving trade opportunities with a key focus being developing sustainable industries and building trade capacity in areas of comparative advantage including fisheries, agriculture and tourism;
 - New Zealand's broad trade and economic relationship with FICs cover merchandise trade, services trade (including tourism), investment, labour mobility, remittances and official development assistance;
 - The goods trade imbalance between New Zealand and FICs e.g. New Zealand firms exported around NZ\$1 billion of goods to these countries in the year ended 2012 while merchandise imports were only NZ\$98 million;
 - The importance of tourism in partially redressing the trade imbalance with New Zealanders and Australians making up over half of tourist arrivals in the region and tourism providing the majority of foreign exchange earnings in the Cook Islands, Samoa, Fiji and Vanuatu; and
 - The significant contribution to economic development that labour mobility and remittances make in the FICs.

PACER Plus

95. The MFAT website also addresses the PACER Plus negotiations for a regional trade and economic integration agreement. It explained that these negotiations were launched by Pacific Islands Forum Leaders in August 2009 and now cover: regional labour mobility; development and economic cooperation; rules of origin; customs procedures; sanitary and phytosanitary measures; technical regulations, standards and conformity assessment procedures; trade in goods; trade in services; and investment. MFAT's website also notes that the New Zealand government views PACER Plus as a political agreement and that our overriding interest in the negotiations is to secure an outcome that advances the economic development of Forum Island Countries.

NGO critiques of PACER Plus

96. A number of NGOs representatives who we interviewed, particularly Barry Coates from Oxfam but also Wren Green from the Council for International Development, emphasized the risks NGOs saw should the outcome of PACER Plus negotiations be lowered FIC trade barriers. A 2009 Oxfam report "PACER Plus and its Alternatives: Which way for trade and development in the Pacific?" highlighted a 2007 study by Nathan Associates commissioned by the Pacific Islands Forum Secretariat which found that FIC exports to Australia and New Zealand were "*narrow and limited to a few key product areas*", and dominated by crude oil and gold exports from PNG¹⁷. That report also noted that "*limitations within many FICs [Forum Island Countries] make it improbable that trade alone will result in achieving the objectives of a PACER-Plus agreement.*"

¹⁶ As at 29 January 2014 <http://mfat.govt.nz/Foreign-Relations/Pacific/Trade/index.php>

¹⁷ Nathan Associates Inc, Pacific Regional Trade and Economic Cooperation: Joint Baseline and Gap Analysis, Pacific Islands Forum Secretariat, Suva, 2007, p.6.

97. The Oxfam report pointed to a variety of factors causing difficulties for FICs exporting to Australia and New Zealand including technical issues that could be resolved in a new or revised trade agreement (such as rules of origin), distance from markets, poor transport and other infrastructure, a lack of economies of scale, limited skills and experience in most manufacturing and services industries and a lack of existing supplier base among others. It also highlighted risks of PACER-Plus tying FICs to the World Trade Organisation's requirements to eliminate substantially all their import tariffs in a reasonable period of time, which among other things would reduce the ability of FIC governments to use various measures to reduce the importation of unhealthy foods such as mutton flaps and turkey tails, and potential loss of FIC tariff revenues.
98. The Oxfam report also emphasized that most of any increase in trade that could come from a new trade agreement would accrue to Australia and New Zealand as both countries already provide mostly duty-free access under South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) to FICs, while it would be the FICs who would be eliminating tariffs. It quoted a report by the Institute for International Trade of the University of Adelaide which noted that "... *the classic gains from trade (due to specialization) may be reduced for very small economies in an RTA [Regional Trade Agreement] because the opportunity for gain depends on regional liberalisation exposing a complementarity of the partners' economies. There is less prospect of two economies being 'complementary' if one is much smaller than the other, resource-constrained, and geographically isolated*"¹⁸

Commentary and Recommendations

99. While overall there should be benefits from trade liberalisation for the region as a whole, as noted in the Institute for International Trade report, the small size of many FIC economies, limited set of potential exports and comparative advantage does suggest some caution is warranted. A thorough investigation of the impact on various sectors of PIC economies that could be affected could be very important to reaching mutual agreement in these negotiations.
100. We are not aware of the content of the PACER Plus talks but New Zealand's stated approach to PACER Plus as a political agreement designed to advance the economic development of FICs appears to signal a pragmatic approach that would achieve PCD. In light of the information available to us, we do not see opportunities to improve New Zealand's PCD by changing our approach to trade issues in multilateral forums.

Technology Transfer

101. Article 66.2 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement states that "*Developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least developed country Members in order to enable them to create a sound and viable technological base*".
102. New Zealand interprets technology transfer broadly to include training, education and "know-how", along with any capital component and sees four key modes of technology transfer:

¹⁸ Institute for International Trade, Research Study on the Benefits, Challenges and Ways Forward for PACER Plus, University of Adelaide, Adelaide, 2008, p.53

- (a) physical objects or equipment;
 - (b) skills and human aspects of technology management and learning;
 - (c) designs and blueprints which constitute the document-embodied knowledge on information and technology; and
 - (d) production arrangement linkages within which technology is operated.
103. New Zealand encourages technology transfer by providing an economic environment that makes it easy for New Zealand entities to transfer technology; bilateral and regional development assistance programmes; encouraging trade in goods and services; and enabling a strong intellectual property environment.
104. The New Zealand Aid Programme's efforts to provide technology transfer focuses on agriculture, fisheries, and tourism as these are key productive sectors in New Zealand's developing country aid partners' economies and areas where New Zealand has some comparative advantage.
105. Despite this New Zealand scored 4.4 in the technology category, which gives it the 19th rank out of 27 in the CDI index¹⁹. Reasons for New Zealand's relatively low score are:
- Low Government spending on R&D and no tax subsidy for private R&D.
 - Allows patents on plant and animal varieties
 - Lack of ability to force patent holders to license to meet social needs.
106. New Zealand also achieves a mediocre score for extending intellectual property rights to bilateral trade treaties.
107. Oxfam and some of the other NGO representatives we talked with held views of technology transfer that aligned to some extent with the CDI index as they were critical of protection of intellectual property.
108. The CDI assessment of the effectiveness of countries' technology transfer programmes is debatable. Basing the score on the level of Government spending on R&D does not address the quality of that spending and tax subsidies on R&D can encourage poor investing behaviour. Allowing patents on plant and animal varieties could encourage investment in varieties that could significantly improve development outcomes while not allowing patents could discourage research. This is a matter of balancing incentives to invest in research, with rewards from the research and the benefits of any success of that research with the wider community. The CDI index makes judgments about that balance that may not accord with the best development outcomes.

Commentary and Recommendations

109. We have not found evidence that New Zealand Government policies on technology transfer provide any obvious opportunities for improved PCD. The appropriate balance between protecting intellectual property, and thereby encouraging investment in new technologies, and having lower protection regimes, to encourage dissemination of new technologies, would require an analysis of New Zealand's current approach that is beyond the scope of this project.

¹⁹ <http://international.cgdev.org/initiative/commitment-development-index/index>

Export Credit

110. We met with Chris Chapman Manager of the New Zealand Export Credit Office (NZECO) to discuss its activities and whether changes could assist with trade and investment to New Zealand's developing countries aid partners.
111. The NZECO sells Minister of Finance guarantees and credit insurances to exporters and/or financiers covering:
 - Political/country risks of the buyer's country;
 - Overseas buyer repayment risks; and
 - New Zealand exporter performance/repayment risks.
112. The NZECO's products are generally unavailable from the private sector. The primary objective of the NZECO is to guarantee the risk of non-payment of a credit, loan or bond. It does not provide the actual loan nor does it directly finance the credit. Exporters are expected to engage with their bank or financier to prepare the best solution to enable finance terms to be offered to their buyer.
113. The key potential change that could be made that may help NZECO broaden its services, which could also improve economic outcomes for the PICs and other smaller developing country aid partners such as Timor-Leste, is for NZECO to be allowed to lend in specific circumstances. UK Export Finance, the UK equivalent of the NZECO, is able to lend up to £50m to underwrite exporters but the exporter must have approached at least two banks to source finance, one of which must have a dedicated trade finance division, but was unsuccessful²⁰. Should the NZECO be provided with similar flexibility it could be of particular value for increasing trade and supporting investment with the PICs and Timor-Leste.
114. Currently NZECO does not have the ability to lend itself. This has resulted in a few transactions that have not been covered or where providing coverage has been difficult. This has exposed the New Zealand company involved to country risk. This has been caused by the sums involved in trade with these countries being too small to attract interest of the major banks. The small sums mean that the transactions are relatively high cost for the banks to assess and process compared to the fees that can be charged for them.
115. An ability for MFAT itself to be able to lend to facilitate development outcomes in our developing country aid partners was raised by some members of IDG. Such an approach may have advantages similar to those of a lending capability for the NZECO. However, it could also result in material risks. Given the expertise in the NZECO in assessing trade risk, any investigation of a policy change to allow MFAT a lending capability should seek to explore whether using NZECO services could be a more viable alternative approach.
116. The Australian Export Finance and Insurance Corporation's (EFIC) legislation provides two platforms for supporting Australian exports, the Commercial Account (under Part 4 of the EFIC Act) and the National Interest Account (under Part 5 of the EFIC Act). The NZECO does not have a national interest option.

²⁰ <https://www.gov.uk/government/publications/direct-lending-scheme/detailed-guide-direct-lending-scheme>

117. In Australia, risks underwritten under the Commercial Account are carried by EFIC as a corporation. In the case of the National Interest Account, the Australian Minister for Trade can direct EFIC to enter into a facility, or give approval for EFIC to enter into a facility - if the Minister believes that it is in the 'national interest' to do so. If a transaction is written on the National Interest Account, the Australian Government receives the net income from EFIC and must reimburse EFIC for any losses.
118. National interest transactions tend to involve financial commitments which are too large for EFIC's balance sheet; risks which EFIC considers are too high for it prudently to accept or transactions which would be commercially acceptable if EFIC did not already have significant exposures to a country or entity related to the transaction. It may be of value to investigate whether a national interest account, such as that available to the Australian government, would be appropriate in New Zealand.

Commentary and Recommendations

119. Providing NZECO greater flexibility to lend and the NZ Government the ability to cover national interest risks could benefit economic development in the PICs and other smaller developing country aid partners such as Timor-Leste. This would be by facilitating trade in goods and services which can sometimes underpin investments. (An example would be NZECO covering non-payment risk on an energy project in Fiji. The New Zealand company was therefore able to build the infrastructure. However, this may also have facilitated the investment in the infrastructure itself, depending on the level of equity finance). The ability to lend would provide NZECO with a backup option that could be pivotal to the ability to cover the risks on some transactions in the Pacific. The probability of needing such flexibility is likely to grow. The value of this initiative would depend on the size and number of transactions that may not occur under existing policy as well as their probability.
120. MFAT and NZECO could together explore the synergies that might be available to the New Zealand Aid Programme should NZECO's mandate be broadened. NZECO would be able to provide more detailed information to assess the value of pursuing this initiative. A wider mandate for the NZECO could provide NZ's Aid Programme more options when it is attempting to pursue aid objectives particularly in countries with peace and security challenges.

Procurement

121. The Government Procurement branch of the MBIE is responsible for improving procurement results across government and the Government procurement reform programme. The branch helps agencies to improve procurement through:
- capability reviews that help agencies identify/address their procurement needs;
 - growing the procurement profession via New Zealand Procurement Academy;
 - transforming government procurement policy and practice;
 - providing a pool of commercial experts who can help with high-risk, high-value and unusual procurements on a user-pays basis; and
 - all-of-government (AoG), common capability and syndicated contracts.
122. The aim of all-of-government contracts is to create a single supply agreement between the Government and approved suppliers of goods and services which should reduce costs, provide productivity gains and improve competition. Currently all-of-

government contracts cover a wide variety of goods and services including: office consumables; vehicles; desktop and laptop computers; printers; air travel; legal services; electricity; gas; mobile phone services; travel management; recruitment; rental vehicles; accommodation; accountancy and auditing; building materials; and financial services.

123. We approached the Government Procurement branch of MBIE to investigate whether procurement programmes could achieve greater scale from including developing country aid partners while at the same time providing better prices and quality for goods and services purchased. We also explored whether there was potential to include developing country aid partners in training or capability building.

Capability building and training

124. Grant Lyons and Karen English of the Government Procurement branch thought that there could be potential to involve interested developing countries in capability building and training. The branch recently hosted a delegation from Singapore's Ministry of Finance and Public Service Division for a two day study tour. The Singaporeans were starting a programme to build procurement capability and were keen to hear about New Zealand's experiences.
125. Karen commented that much of what the branch had achieved over recent years could be of value to developing countries as the branch had managed an extensive change management programme, developed a raft of guidelines and templates and carried out significant training and education programmes to build procurement capability across the New Zealand Government. For further information see <http://www.business.govt.nz/procurement/for-agencies/>

Commentary and Recommendations

126. There are likely to be a variety of approaches to procurement across the PICs and other LDCs. However, a May 2012 report by the Australian Agency for International Development "Review of Government of the Cook Island's Procurement System" found some major weaknesses including gaps in manuals and poor practices with little apparent planning. This report also noted use of inappropriate evaluation criteria, changing evaluation criteria mid-process, allowing an evaluation team member with a conflict of interest to serve on the evaluation committee and no debriefings for unsuccessful tenderers etc. It is possible that similar weaknesses exist in other PICs.
127. According to Karen English there are currently no procurement initiatives involving developing country aid partners or students from these countries involved in training. On this basis there would appear to be a new development assistance opportunity which could lever off the experience of the MBIE Government Procurement Branch. This could potentially include:
 - Providing assessments of the procurement systems of PICs or other developing country aid partners should they want such assessments. These assessments could include action plans for improvements as well as post implementation reviews.
 - Engaging with PIC or other developing country aid partner governments on whether there is interest in their officials attending the range of procurement training that the Academy offers.
 - Seeing whether other developing country aid partners could be interested in the procurement guidelines and templates that MBIE has developed.
 - Supplier training for developing country aid partners suppliers to New Zealand

- Procurement portal development, such as New Zealand's GETS system, should there be interest in such an approach (this may only be possible in the larger PICs).
128. The New Zealand Procurement Academy²¹ offers a range of courses including internationally recognised procurement qualifications to public and private sector procurement generalists and practitioners. Courses range from non-assessed training courses to advanced level courses and are generally run in a virtual learning environment along the lines of correspondence education. With MBIE support the Academy offers subsidised study for public sector procurers towards Chartered Institute of Purchasing & Supply qualifications. Developing countries could fund their residents to study at the Academy in their own right or it could be considered for subsidization by MFAT as part of its aid programme.
129. Initiatives aimed at strengthening procurement practices in developing country aid partners could be very beneficial as they could improve economic well-being by helping to achieve more effective government spending. We would recommend that the initial steps include scoping the current extent of World Bank or Asian Development Bank initiatives on procurement in the PICs. This could be followed by testing whether there is interest in officials attending procurement training or capability building or in assessments of developing country aid partner procurement systems. If these ideas progressed, other possibilities outlined above could also be explored.

All-of-Government Contracts

130. Karen did not believe that the branch's work on all-of-government contracts was as amenable to cooperation with developing countries. This is because these contracts generally required significant input from purchasing agencies prior to negotiation to ensure that all buyer requirements were fully understood and incorporated before tendering. She also noted that cross country contracts would introduce various complexities for example, exchange rates, terms of supply etc. that would need to be worked through.
131. She thought that it was theoretically possible for developing country aid partners to participate in some all-of-government contracts in the future, for example, on expiry of current contracts and as part of the retendering process. Some of the goods and services currently covered by all-of-government contracts could conceivably be tendered across countries for example; computers, office supplies and printers while others like electricity and mobile services would not be amenable to this approach.

Commentary and Recommendations

132. All-of-government contracts may represent a long term opportunity for developing country aid partners to access lower prices and better quality goods and services but it may be necessary to change the Government Procurement branch's mandate. If there was interest from developing country aid partner governments in capability building and training this could build up a coterie of procurement skills in developing country aid partners. When current New Zealand all-of-government contracts are re-tendered this group of trained officials could provide an avenue for their respective governments to explore the potential of joining in on New Zealand Government procurement efforts.

²¹ For more information see: <http://www.business.govt.nz/procurement/for-agencies/nz-procurement-academy>

133. This could involve identifying whether material cost savings were possible for developing country aid partners while MBIE could identify whether including these countries would add material costs to the procurement process.
134. Karen English and Grant Lyons noted that discussions about greater involvement by PIC residents in New Zealand procurement programmes were initial ideas only. They would require substantial additional analysis and prioritisation before any further action was taken.

Increased returns from sustainable agriculture

Biosecurity

135. PICs find it difficult to manage the regulatory processes for gaining and maintaining access to markets and this has been identified as a major inhibitor of their development. NGOs such as Oxfam have criticized this and stated *“These are a particular problem for agricultural and wood-based exports as most PICs do not have suitable treatment facilities to ensure products are pest-free, laboratory and research facilities to prove the safety of produce, or sufficient bureaucratic efficiency to fulfill administrative requirements.”*²²
136. Oxfam have suggested that *“However, there are a number of initiatives that could be taken, such as providing resources for PICs to meet those standards (for example pre-shipment treatment facilities), providing additional technical advice and assistance to exporters (above the existing assistance provided, for instance, through NZAID), prioritising Pacific products for quarantine risk analysis and streamlining documentation requirements.”*²³
137. To assess these biosecurity and market access issues we met with Peter Thomson, Director of Plant Food and Environment at MPI. He explained that New Zealand had realized some years ago that biosecurity could be a barrier to exports from the PICs. He said biosecurity rules were based on proving to the New Zealand authorities that a product was clear of biosecurity threats. He also pointed out that it is challenging for PIC exports to get priority to have their requests processed given their small size relative to other exporters to New Zealand.
138. As a result of this, MFAT funded two people in MPI to facilitate trade access from the PICs which had led to most products from the PICs now being covered by operative protocols. (Many recent access requests were for products that have already been granted market access and prospective exporters were unaware of this). Despite this, meeting New Zealand’s biosecurity requirements was still demanding for the PICs, for example, exporting cooked breadfruit from Fiji to New Zealand requires processes, heat treatment and secure storage which are often not easy for exporters to arrange.
139. One of the two MFAT funded staff spent a lot of time in the PICs advising their officials and looking at how the PICs can meet New Zealand’s requirements. There was also regular contact with senior officials from the PICs. Another key part of New Zealand’s biosecurity relationship with the PICs was the training of PIC bio-

²² 2009 Oxfam report “PACER Plus and its Alternatives: Which way for trade and development in the Pacific?” Page 23

²³ Ibid page 25.

security inspectors in New Zealand. PIC governments funded travel and accommodation while the New Zealand Aid Programme funded the course. There were often 4 or 5 places available for PIC trainees.

140. Peter explained the work currently being done on the sea container hygiene system (SCHS) in the Solomon Islands and Tonga. This involved ensuring that containers are kept on hard surfaces and away from bio-security hazards. This gave the New Zealand authorities confidence that these containers could be expedited through New Zealand's ports. This effort had been beneficial for shipping companies, saving them a lot of time and money. The effects on the economies of the countries involved had not been measured or recorded, but the time saving was assumed to be positive.
141. Steve Gilbert, MPI's Director Border Clearance characterized the biosecurity relationship with the PICs as marked by a real thirst for information about how to comply with New Zealand standards. This included supermarket standards as well as New Zealand biosecurity standards. He described an initiative to provide PICs with greater feedback on their biosecurity performance, for example, by providing photographs of containers that did not meet New Zealand's standards so that PIC officials could take action to avoid future problems. He also spoke about a recent visit by MPI officials to Samoa to provide technical advice on the standards that would have to be met to allow taro imports from Samoa. He believed that a more integrated approach could improve the effectiveness of such technical visits by potentially involving people from the whole value chain from field to supermarket shelf.
142. We enquired as to MPI's views of the Pacific Horticultural and Agricultural Market Access Program (PHAMA). PHAMA is an AusAID-funded initiative designed to address market entry requirements by providing practical and targeted assistance. The major emphasis is on quarantine requirements but the programme also provides assistance across other regulatory areas, such as compliance with international food safety standards. While new export products are the primary focus for PHAMA, it also helps with front-end market research and market development.
143. PHAMA has established Market Access Working Groups (MAWGs) in each PIC. Typically, these MAWGs have 8-10 members, including representatives from relevant government agencies (e.g. Quarantine, Trade and Agriculture) and the private sector (exporters and producer groups).
144. The MAWGs are responsible for prioritising the market access issues where PHAMA provides assistance and for overseeing these activities. Each MAWG is supported by a small country office, staffed by a full-time national market access coordinator. These coordinators form a critical link in the program management structure and provide the main in-country contact points.
145. MPI believed that PHAMA's funding and expertise had been a positive development for PICs. However, MPI believed that PHAMA could have learned more from consulting with the Secretariat of the Pacific Community (SPC) and Food and Agriculture Organisation (FAO) before embarking on its work. MPI also had concerns about the longevity of PHAMA's programme in the PICs. MPI commented that PHAMA tended to be consultant and "fastest result" driven which did not always build the capability in the PICs as well as it could. PHAMA had sometimes tried to almost take over the role of the local PIC government in its efforts to gain access for products.
146. Steve Gilbert also commented that there were different philosophies driving the Australian biosecurity effort compared to New Zealand. Australia was making cut backs to front line staff while New Zealand was strengthening its efforts in some areas.

Australia had greater emphasis on managing biosecurity risk offshore than New Zealand and had some differences of approach, for example, to fruit fly.

Commentary and Recommendations

147. There appear to be a number of similarities between the PHAMA scheme and New Zealand's Recognised Seasonal Employer (RSE) scheme. Both have a strong presence in their relevant countries and are based on building relationships with key officials and relevant communities. Both have a significant information and education role in that they provide appropriate information where it is needed whether it is technical information about effective biosecurity measures or information about RSE scheme expectations of RSE workers. Both seek to overcome the inefficiency and the scale problems of trying to deal with biosecurity or labour mobility via standard bilateral processes so provide more than has been traditionally provided through standard policies. The PHAMA scheme seeks to facilitate exports from the PICs to Australia and New Zealand while the RSE scheme deals only with labour mobility to New Zealand although Australia has its own labour mobility scheme.
148. There would seem to be possible benefits investigating greater harmonization of Australia's and New Zealand's market access efforts in the PICs. Given MPI's concerns with some aspects of the PHAMA programme there may need to be some discussions about whether the PHAMA scheme could have more focus on building PIC expertise over the long run and ensuring appropriate scope. New Zealand's PIC market access staff could benefit from greater involvement in PHAMA's efforts. Perhaps there would be value in MPI representatives being involved in PHAMA MAWGs or interacting more with PHAMA national market access coordinators.
149. We would recommend a MFAT and DFAT investigation of possible synergies from greater harmonization as there would appear to be an opportunity to improve the effectiveness of both countries' market access facilitation efforts. It would represent a greater emphasis on coordination with Australia than currently but would depend on Australia being receptive to greater harmonization and perhaps some changes to their current approach. However, this could improve economic outcomes in the PICs through increasing returns to the PIC agricultural sectors as well as provide benefits to New Zealand's and Australia's biosecurity operations.

Increased returns from sustainable fisheries

Fishing

150. The 2011-2015 New Zealand International Fisheries Strategy states that New Zealand's goal on Pacific fisheries issues is "*To maximise the economic and developmental benefits to Pacific Island countries, including New Zealand, from the sustainable management of Pacific fisheries resources*". Achieving this is challenging as there are competing interests, development priorities and regional and sub-regional pressures. Balancing the goal of ensuring sustainable fishing with pressure for shorter term economic gains is a key issue.
151. New Zealand's goal is explicit about maximizing benefits to PICs and the New Zealand Government, and in particular MFAT, MPI and the New Zealand Defence Force work closely together and liaise with New Zealand's fishing industry and NGOs. There would therefore appear to be little opportunity to find PCD gains in the fisheries sector.

152. However, the 2012 report of the Ministerial Inquiry into the use and operation of Foreign Charter Vessels recommended that New Zealand charter parties and the foreign owners of foreign charter vessels must ensure safe workplaces and fair and equitable employment practices on their vessels. The rationale for this decision was to protect the image of the seafood industry and New Zealand's reputation for safe and sustainable food production. The inquiry therefore found that foreign charter vessels should be required to meet the same minimum standards, and adhere to the same rules, as domestic vessels. The Government is in the process of implementing many of the recommendations of the Ministerial Inquiry.

Commentary and Recommendations

153. This tightening of rules on foreign charter vessels and improvements of terms and conditions of employment could provide an opportunity to increase employment and training of suitably skilled PIC residents on fishing boats chartered to New Zealand companies. The increased emphasis on monitoring could also provide greater opportunities to increase training in this key area for PIC residents. This could potentially be facilitated through the RSE programme as discussed above, if its mandate were expanded.

Increased returns from sustainable tourism

Tourism

154. There may be potential to develop the links between the New Zealand and PIC tourism sectors. Tourism is a very important component of a number of PIC economies and increasing skills and investment in the sector could bring material benefits. We investigated opportunities to improve PCD through:

- Efforts to coordinate regional tourism; and
- A wider ambit for Qualmark to include PICs.

Efforts to Coordinate Regional Tourism

155. According to Kevin Bowler, Tourism NZ currently does not coordinate regional tourism with PICs. Over the last decade there have been some joint efforts and meetings with the Cook Islands Tourism Corporation. There have also been a few PIC nationals who have completed work experience with TNZ but not recently.

156. Kevin did not see much potential for joint promotion of the PICs along with New Zealand and Australia. He commented that there were often difficult issues of national focus which made it challenging to get joint efforts going. He cited attempts to increase cooperation between Tourism Australia (TA) and TNZ which have been problematic due to pressures on TA, often from state governments, to focus all its advertising resources on Australia. There has, however, been some successful cooperation between TNZ and TA exhibiting at international travel shows together.

157. Kevin explained that tourism operators do jointly market the PICs for example during the shoulder season. At these times US wholesalers and travel agents will commonly create itineraries with packages of travel to NZ which include a South Pacific stop over. This activity was driven by commercial opportunity rather than any cooperation effort.

158. We also discussed this issue with Ross Corbett of TRC Tourism. He suggested that the role and focus of the South Pacific Tourism Organisation, which is funded by the EU, could be strengthened. There may also be potential for greater coordination between TNZ and the South Pacific Tourism Organisation (SPTO).

Commentary and Recommendations

159. While there may not be too much potential to jointly market the South Pacific region, it may be possible for PICs on the main air routes to improve their visibility to New Zealand operators selling these shoulder season packages into the US market. In addition, greater coordination between TNZ and the SPTO could be tested with TNZ to see if there was an appetite to pursue this idea. If there were, it could be raised with the SPTO and the EU. However, these initiatives are relatively minor.

Qualmark to include PICs

160. Qualmark is New Zealand tourism's official quality assurance organisation. It provides a star grading system for accommodation providers and venues, and a quality endorsement programme for other tourism businesses. It is designed to make it easy for travellers to select high quality places to stay, activities and transport options.
161. Qualmark is jointly owned by TNZ and the New Zealand Automobile Association (NZAA), and backed by leading industry organisations. Its programme is run as a service to the New Zealand tourism industry on a not-for-profit basis. About 2,100 tourism businesses carry a Qualmark which helps improve business practices and build capability as well as offering the credibility and visibility offered of Qualmark logos.

Commentary and Recommendations

162. According to Ross Corbett, PIC tourism businesses have struggled to get standards schemes up and running. It may therefore be worth considering whether Qualmark's remit could be expanded to include the PICs. Kevin Bowler thought that this was a possibility. He commented that Qualmark was self-funding so interested PIC firms would have to pay, as New Zealand operators do, to be part of the scheme or alternatively some subsidy provided. He noted that Qualmark is a mixed blessing as although standards are useful, telling operators that they've slipped in the rankings can be challenging. We believe that this option could be explored further with TNZ and NZAA. However, this may be difficult to complete and may not yield much of a return on effort.

Increased access to clean, efficient and affordable energy

163. The New Zealand Aid Programme already incorporates significant effort to provide clean, efficient and affordable energy options for developing country aid partners. Investigating how this is implemented was not part of the scope of this project. Other government energy policies that could be changed to get better development assistance outcomes were in scope. However, we were not able to identify any issues.

Improved transport and infrastructure management services

164. New Zealand's developing country aid partners are very dependent on transport for the economic development of their trade and services sectors. We talked to the Ministry of Transport (MoT) about aviation access and maritime transport to try to identify if there were any domestic New Zealand policies or positions in international forums that could be changed to provide better development outcomes.

Aviation Access

165. New Zealand's approach to aviation service agreements supports liberalization in both bilateral negotiations and multilateral forums. New Zealand was an original party to Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) which was originally negotiated under the auspices of APEC. This agreement includes:

- an open route schedule;
- open traffic rights including seventh freedom cargo services;
- open capacity;
- airline investment provisions which focus on effective control and principal place of business, but protect against flag of convenience carriers;
- multiple airline designation;
- third-country code-sharing; and
- a minimal tariff filing regime.

166. The PICs have a range of approaches to aviation service agreements ranging from Tonga, Samoa and the Cook Islands being parties to MALIAT to others like PNG whose approach is more oriented to the interests of their national airline. Our discussions with the Ministry of Transport's (MoT) Sonya Van Der Geer and Ross Corbett of TRC Tourism centred on the importance of Fiji as a regional hub point. Fiji's approach in the past has been similar to PNG's approach. Sonya noted that the current air services agreement between New Zealand and Fiji dated from 1994. In addition, some New Zealand PIC bilateral agreements were negotiated even earlier e.g. Nauru 1980 and the Solomon Islands in 1990. These may have elements that are now obsolete.

Maritime transport

167. We talked to Roger Brown about maritime transport PCD opportunities. He explained the role of MoT and focus maritime legislation being on facilitating competition, security, ship registration and pollution. Maritime New Zealand can provide assistance with education and advice to PICs from time to time.

Commentary and Recommendations

168. There does not seem to be much potential to change New Zealand's approach to aviation service agreements or domestic maritime legislation or activities or our stance in international fora on aviation or maritime transport to improve the outcomes of New Zealand aid to LDC partner countries. However, there may be value in engaging with Fiji to potentially get a more liberal air services agreement which, while potentially

penalizing Air Fiji, could lead to greater flight options and higher tourist numbers which could be of greater benefit to the Fijian economy as well as other PIC economies. In the context of our wider relationship with Fiji, the stance of Fiji on air services could be explored to assess whether there was appetite to move towards greater flexibility and improved air freedoms which could unlock greater tourism potential around the region.

Improved enabling environment for economic growth & private sector development

Remittances to the Pacific and the Anti-Money Laundering and Countering Financing of Terrorism Act

169. Over recent years there has been global pressure to address money laundering and financing of terrorism which has involved a significant increase in regulations governing financial transactions particularly in developed countries. One of the consequences of this has been increased concern about the impact of these initiatives on the ability of socially and economically vulnerable people to access financial services.
170. New Zealand passed its Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act in 2009. It seeks to detect and deter money laundering and terrorism financing, maintain confidence in the financial system, and bring it into line with international AML/CFT standards as recommended by the Financial Action Task Force²⁴ (FATF). As is the case in other countries, the implementation of AML/CFT has raised concerns about its impact on socially and economically vulnerable people such as those remitting funds home to their families in the Pacific.
171. In 2012 remittances accounted for 18.3% of Samoa's GDP and 15.8% of Tonga's GDP²⁵. They are therefore clearly an important factor in improving the economic well-being of many of New Zealand's Pacific developing country aid partners. If implementation of AML/CFT policy is affecting remittances to New Zealand's aid partners then it is within the scope of this research project. It was not possible to obtain data on remittances from New Zealand to the PICs or trends in that data. This would have allowed us to assess better the costs and benefits of policy options in this area. Given this lack of data, we explored the potential value of this PCD issue by conferring with government agencies and industry participants.
172. We discussed this issue with Don Abel, ex Deputy Governor and Head of Operations at the Reserve Bank, Robert Walls, Regional Director, Australia & Oceania and his compliance managers from MoneyGram International, the New Zealand Bankers Association, the Reserve Bank (RB), Treasury, Ministry of Justice (MoJ) and the Department of Internal Affairs (DIA).

²⁴ The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its founding member states. It currently has 36 members and its mandate includes examining and developing measures to combat money laundering and terrorist financing.

²⁵ Sending Money Home to Asia. 2013 by the International Fund for Agricultural Development (IFAD) The World Bank.

AML/CFT and Government Agency Responsibilities

173. The AML/CFT Act provides:

- for supervision, monitoring and enforcement with new civil and criminal offences;
- requirements for reporting entities (e.g. customer due diligence, account monitoring and suspicious transaction reporting); and
- a framework to detect and deter money laundering and terrorist financing.

174. The Act makes the supplier of the financial services, such as money transfers, responsible for assessing if a customer is laundering money or financing terrorism.

175. The RB, the Financial Markets Authority (FMA) and the DIA are responsible for supervising the various sectors subject to the Act. Each has a focus on different financial institutions:

- The RB covers banks, life insurers and non-bank deposit takers;
- The FMA supervises issuers of securities, trustee companies, futures dealers, collective investment schemes, brokers and financial advisers; and
- The DIA supervises casinos, non-deposit taking lenders and money transfer operators (MTOs), among others.

176. The MoJ is responsible for policy and administration of the Act. The Ministry also handles exemptions from the Act. The AML/CFT regulatory system is coordinated by a national co-ordination committee, which is chaired by the MoJ. The New Zealand Police financial intelligence unit receives and analyses suspicious transaction reports. It also issues guidance and data on money laundering and terrorism trends and methods.

177. Currently the AML/CFT Act 2009 is under review. The FMA has been consulting on changes to the Act designed to add more certainty about key terms and reduce potential duplication of effort for reporting entities. However, the consultation paper suggested that money remitters could be prohibited from using the simpler customer due diligence that has been proposed. This proposal would make compliance with the AML/CFT easier for banks but not for MTOs.

G8 and G20 5x5 and Financial Inclusion Initiatives

178. Remittances have been a focus at the G8 and G20 in recent years due to the very high cost of transferring funds across borders. At the 2009 L'Aquila summit the G8 set an objective of lowering the average total cost of migrant remittances to 5 percent in 5 years. As at December 2013 the average total cost was 8.58 percent. The World Bank estimates that should this objective be achieved, it could save migrants up to \$16 billion a year. While remittances are a major component of the some Pacific economies they are also of great significance to a number of other developing countries for example, Filipinos working in the Gulf States of Kuwait, Qatar and the UAE were estimated to remit \$US 1.7 billion back to the Philippines in 2012. Remittances of Indians in the Gulf States were estimated to be \$US 20.9 billion in the same year²⁶.

²⁶ National Geographic, January 2014, Page 80.

179. In 2010, the G20 committed to a “significant reduction in the cost of remittances” and established a Development Action for Remittances²⁷. The G20 has also expressed a common objective on financial inclusion. The G20 St Petersburg Summit leaders declaration in September 2013 stated under the heading of financial inclusion that *“enhanced coherence with the G20 finance track through the Global Partnership for Financial Inclusion (GPFI) to pursue efforts to strengthen financial inclusion including work to further reduce the global average cost of transferring remittances to 5 percent including through innovative result-based mechanisms.”* The Global Partnership for Financial Inclusion (GPFI) was established by the G20 as the main implementing mechanism.
180. Australia, which is hosting the G20 Leaders Summit meeting in November this year, has played a key role in G20’s resilience agenda, which includes work on remittances. It has also contributed to the G20’s work on access to financial services. Australia recently proposed that *“each G20 member commit to take at least one action internationally or domestically to help reduce the global average cost of transferring remittances.”*²⁸ Australia listed ways governments could help reduce remittance costs such as increasing competition by adapting their rules to make it easier for institutions other than banks to handle remittances. Australia also encouraged G20 governments to support technological innovations in fields like mobile and online payments.
181. The FATF has since provided guidance on implementation of AML/CFT initiatives while continuing to provide for financial inclusion²⁹. This guidance includes advice on how other countries have implemented AML/CFT risk assessment methodologies as well as examples of the criteria used by MTOs to deal with AML/CFT risk³⁰. It has also offered advice on effective initiatives to identify customers in developing countries citing an initiative in Fiji³¹.

Effects of New Zealand’s AML/CFT Act 2009

182. A consequence of the AML/CFT Act 2009 appears to be increased difficulties and restricted competition in the remittance of funds to PICs. According to Don Abel the Act has tended to be applied by financial institutions in a “one size fits all” approach. Banks are naturally risk averse in light of sanctions of major banking institutions in recent years for money laundering activities. But this has tended to result in suppliers of remittance services applying the same compliance procedures across all customers irrespective of their size and probable risk. According to Mr Abel, this has thwarted competition and the introduction of new, low cost, remittance products. In some instances the accounts of smaller MTOs have been closed by banks on the grounds that the financial returns are not worth the risk.
183. Robert Wall of MoneyGram International and his team echoed Mr Abel’s points and explained that their company had been on the point of entering the New Zealand remittance market but bank concerns about AML/CFT risks had stopped this.

²⁷ Source : <http://remittanceprices.worldbank.org/> and Remittance Prices World Wide, Issue No. 8, December 2013

²⁸ See http://www.ifad.org/newsletter/remittances/2_full.htm

²⁹ See Financial Action Task Force (FATF) Guidance : Anti-money laundering and terrorist financing measures and financial inclusion June 2011

³⁰ Ibid, Annex 1 and page 42

³¹ Ibid, page 29

184. Mr Abel also raised the issue of anti-competitive behaviour in the money transfer market. One unintended effect of the AML/CFT Act is that it has made competition in the sector more difficult. He also said that practices such as exclusive agreements with distribution networks, dominance in foreign exchange operations, opaque pricing structures and denial of service to small money transfer operators took place.

Commentary and Recommendations

185. Given the importance of remittances to many PICs, and the G8 and G20 objectives for remittances, MFAT could initiate discussions with the AML/CFT national co-ordination committee (MoJ, RB, FMA and DIA) and the New Zealand Bankers Association to:

- Gather more information on the impacts of AML/CFT on remittances;
- Ensure that aid objectives are factored into AML/CFT policy;
- Canvass whether the Act's supervisors, particularly the RB and DIA, could encourage financial institutions to implement the Act in a manner which, while effectively managing AML/CFT risks, could continue to foster effective remittance services to the PICs; and
- Encourage the Act's supervisors to draw on best practice techniques from the FATF to safeguard financial inclusion in the Pacific region.

Pension Portability

186. New Zealand's pension portability rules constitute a domestic policy that has implications for New Zealand's developing country aid partners, particularly those in the Pacific and it is not part of New Zealand's Aid Programme. Allowing people eligible for New Zealand superannuation or a veteran's pension to retire to the PICs enables economic growth & private sector development by providing additional income to the PICs and demand for goods and services.

Retirement Policy to New Zealand's Pacific Aid Partners

187. The special portability arrangement for Pacific countries allows retirees and veterans to live in 22 Pacific countries and receive New Zealand superannuation or a veteran's pension that is based on their New Zealand residence since the age of 20. The legislation stipulates that people residing in New Zealand for 10 years since the age of 20 receive 50% of New Zealand superannuation or a veteran's pension. People residing in New Zealand for 10-20 years since the age of 20 years are entitled to an additional 5% of New Zealand superannuation or a veteran's pension for each year of residence over 10 years which means that 20 years of residence in New Zealand allows them to receive 100% of their New Zealand superannuation or a veteran's pension. At the date of application at age 65, they must be both resident and present in New Zealand and intending to live in one of the specified Pacific countries for 52 weeks or more.

188. Pacific countries covered by the arrangement are: American Samoa, the Cook Islands, the Federated States of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Nauru, New Caledonia, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Island, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, and Wallis and Futuna. The current breakdown of retirees benefiting from the special portability arrangement to the PICs is set out below. The total number has grown from 539 as at 31 June 2008 to 641 as at 31 December 2013.

Figure 2 Special Portability Arrangement to the Pacific

Country	Total
Cook Islands	296
Fiji	60
French Polynesia	1
Guam	2
Kiribati	4
Niue	34
Papua New Guinea	4
Pitcairn	2
Samoa- American	7
Samoa- Western	184
Solomon Islands	2
Tokelau	5
Tonga	33
Vanuatu	7
Grand Total	641

Source: Ministry of Social Development

189. The growth rate between 2008 and 2013 is only around 3.5 percent per annum which does not seem high. Fifty two percent of the total is from the Cook Islands, Niue and Tokelau with the next main group being Western Samoans with nearly 29 percent. Fijians and Tongans account for 9 percent and 5 percent respectively. The rest of the Pacific provides very few retirees.

Retirement Policy to the Cook Islands, Niue and Tokelau

190. On 9 August 2013 the Government announced its intention to improve pension portability to the Cook Islands, Niue and Tokelau from New Zealand. In an improvement on the special portability regime, eligible residents will be allowed to apply for New Zealand superannuation or veteran’s pension from these countries rather than only from New Zealand. To qualify retirees must have been resident and present in New Zealand for more than 10 years since the age of 20, including five years since the age of 50. This means that they will be able to depart New Zealand to live in one of these countries after the age of 55 and apply for their New Zealand superannuation or veteran’s pension once they turn 65. To be implemented this policy requires legislation to be passed. It is expected to apply from 1 July 2015.

Retirement Policy to New Zealand’s Other Aid Partners

191. If New Zealanders retire or receive a veteran’s pension in other aid partner countries, such as Indonesia, they also are able to apply for New Zealand superannuation or the veteran’s benefit under the general portability scheme. They must apply while resident and present in New Zealand e.g. at age 65 will receive 50% of their entitlement if they have been in New Zealand over 22.5 years. This entitlement scales up to 100% of their entitlement if they have spent 45 years in New Zealand. However, this does not apply if they are living in a country that has a social security agreement with New Zealand³².

³² Currently New Zealand has social security agreements with Australia, the UK, the Netherlands, Ireland, Greece, Canada, Denmark and Jersey and Guernsey

Commentary and Recommendations

192. The key advantage of the new provisions intended for retirement to the Cook Islands, Niue and Tokelau is that people can apply for their New Zealand superannuation and veteran's pension while outside New Zealand as long as they have met the time span eligibility criteria. This more flexible approach to eligibility for New Zealand superannuation and veteran's pension could benefit other PIC economies by lifting the number of people who can retire to them and thereby the amount of money being spent in their economies. It may also provide the PICs with experienced people in the 55 to 65 age group who could work and contribute to these economies.
193. Given the breakdown of the special portability category shown in Figure 2 above, it could be expected that any expansion of the new provisions intended for retirement to the Cook Islands, Niue and Tokelau to the rest of the Pacific would benefit Western Samoa the most, followed by Fiji and Tonga.
194. This is likely to impose extra costs on the New Zealand government with more eligible people receiving their superannuation and veteran's pension. However, these people are likely to have contributed via their New Zealand taxes to their pensions. We understand that the cost of such an expansion to New Zealand, benefit to Western Samoa etc, has been estimated and would be material. A possible disadvantage of this policy is that it could potentially increase long term health costs being borne by the PICs given the high proportion of health expenditure on people in the last years of their lives.
195. We understand from Maxine Fleming of the MSD that the practical issues of verifying applications for superannuation and veteran's pension made from the Cook Islands, Niue and Tokelau is being worked through by officials. In light of this we recommend that it may be wise to implement this change with these countries and test the necessary verification processes before considering expanding these new superannuation and veteran's pension rules to the Pacific special portability arrangement. However, once administrative arrangements are functioning smoothly we believe that it would be a PCD improvement to extend the Cook Islands, Niue and Tokelau scheme to the rest of the Pacific.

Improved Human Development

196. We discuss PCD opportunities in education and health under this New Zealand Aid Programme Strategic Plan theme.

Improved Education Outcomes, Improved Tertiary & Skills Training Outcomes

Education and on the job training

197. International students on a student visa are now allowed to work up to 20 hours a week and full time during scheduled vacation periods. This applies to all international student visas, regardless of country of origin. For students from developing countries this lowers the financial barrier to come and study in New Zealand. Masters and PhD students have unlimited work rights during their education. It is unclear whether or not this policy change could negatively affect study results.

198. University tuition fees for international students are higher than those for New Zealand citizens (by a factor of about 4). It was suggested by Frances Kelly (Principal Development Manager, Education, IDG) that charging domestic fees for students from PICs would lower these financial barriers even further. However, this would limit the income of universities.
199. While visitors holding visitor's visas can't work, they can undertake courses of study or training in New Zealand for up to 3 months on a visitor's visa without holding a student visa³³. However, for longer periods of study a student visa is required which involves providing evidence of an offer of a place at an educational institution, enrollment and sufficient funds to support the study.
200. Currently if temporary work is also part of the focus then a temporary work visa is required. A work visa is possible if the type of work intended is on one of the skill shortage lists³⁴, which tend to target qualified or highly experienced people, or an employer proves that they have been unable to fill the position with a New Zealander. However, the immigration web site notes that "*The focus of the lists is to identify skilled occupations where there is a genuine shortage of New Zealand workers. The lists are not designed for lower-skilled or seasonal labour shortages, or to cover shortages caused by recruitment and retention problems.*" Another option exists for students who need to fulfill a course requirement by undertaking practical work in New Zealand that is directly related to their course.
201. The skill shortage lists do not appear to cater well for FIC semi-skilled labour under current immigration rules. Should PCD benefits be seen in expanding the RSE scheme or a similar scheme it would provide more opportunities for these people to gain work experience and qualifications in New Zealand.
202. Currently around 130 PIC residents come to New Zealand per year to undertake short term training. Although these students can take advantage of the work rules for holders of student visas e.g. 20 hours a week and full time during scheduled vacation periods, the majority only involve study and do not involve any full time employer either in New Zealand or in the PICs.
203. A public private partnership between MFAT and Accor hotels and Fletcher Construction (referred to in the section on expanding the RSE scheme) provided an example of where a full time employer was central to the short term study. These two businesses provided training and up keep for people from PICs to learn skills. MFAT provided scholarships or short term training awards and the flights. After the training, the trainees went back to their country of origin and continued employment with the company involved. The benefit for the companies is that they get help to increase the skills of their local staff in the PICs. The local staff can provide important language skills and local knowledge but are trained in the skills the companies need to be more effective in the PICs.

³³ 3 months per 12 months in New Zealand if their visitor's visa allows them to stay for at least 24 months

³⁴ <http://www.immigration.govt.nz/migrant/stream/work/skilledmigrant/LinkAdministration/ToolboxLinks/essentialskills.htm?level=1>

Commentary and Recommendations

204. There would appear to be some potential for greater use of a combination of work and vocational training and identifying employers in the PICs who could find suitable people and employers in New Zealand that may have difficulty filling positions. In light of the current combination of visitor, student and work rules, the RSE scheme appears to provide the best opportunity to provide work and training for semi-skilled PIC residents because the skill shortage lists on the whole require higher level qualifications and/or experience in the relevant occupation. This is discussed in more detail from paragraph 69.

Improved health outcomes

205. We discussed the potential for improvements in human development through better health outcomes with Sumi Subramaniam, Principal Development Manager Health, Sustainable Economic Development Division. Our discussion underlined that the Ministry of Health's approach to the health workforce, prevention and treatment was well aligned with achieving better health outcomes in our developing country aid partners and that there was a review of medical treatment guidelines currently underway. We also canvassed the issues of scholarship rules requiring students to return to home countries to work and assessed that it was difficult to judge whether changing these would be a benefit to PICs.

206. Obesity is a health challenge in many PICs and some NGOs argue that there is no coherence in policy because trade liberalisation has allowed imports of fatty foods such as mutton flaps and turkey tails. However, there may be other ways in which New Zealand could assist PICs to address public health issues such as obesity including assisting in analysis and design of public health programmes which are compliant with international trade rules.

Commentary and Recommendations

207. There did not appear to be opportunities to alter existing Government health policies that are not part of the New Zealand Aid Programme to affect better health outcomes. However, there may be value in providing assistance in analysis of public health issues and in scoping options for public health interventions should these be required.

Pharmaceutical procurement

208. The Pharmaceutical Management Agency (PHARMAC) is the New Zealand Government agency that decides, on behalf of District Health Boards, which medicines and related products are subsidised for use in the community and, in some cases, funded in public hospitals. PHARMAC works to try to ensure that the public's growing demand for new medicines is within budget. PHARMAC estimates that from 2000 to 2013 it has saved District Health Boards a total of more than \$NZ 5 billion. In addition, over this period the number of new medicines and patients receiving them increased.

209. PHARMAC has 5 main activities:

- Managing the pharmaceutical schedule of about 1800 Government-subsidised community pharmaceuticals (medicines and related devices);
- Promoting the responsible use of medicines;
- Managing funding of medicines and some medical devices used in public hospitals;

- Managing the named patient pharmaceutical assessment policy and other special access programmes; and
 - Research when necessary.
210. We approached PHARMAC on the basis that there could be some synergies between PHARMAC's activities and pharmaceutical demands on PIC governments.
211. PHARMAC's Rachel Melrose explained that in 2013 PHARMAC had been involved in a review of the pharmaceutical prices paid, needs and processes of the Cook Islands after its Minister of Health approached New Zealand for advice. As part of this work PHARMAC had checked New Zealand's pharmaceutical schedule against those used in the Cook Islands. It found that the prices the Cook Islands paid for its pharmaceuticals were on the whole reasonable with slightly higher pricing reflecting greater distribution and transport costs. It found a few pharmaceuticals where savings could be made by buying generic product and a number of gaps in usage. PHARMAC looked at these gaps and found that when these were tested against PHARMAC's own criteria for subsidies, there would be significant health benefits for the Cook Islands. In addition, there was potential for any additional expenditure on these pharmaceuticals to prevent more expensive medical care if it forestalled worse medical conditions that could require subsidised treatment in New Zealand.
212. PHARMAC identified that a more challenging problem in the Cook Islands was distribution, storage and stock management of pharmaceuticals. These areas were not well developed. In an effort to assist with improving these processes PHARMAC suggested the Cook Islands consider building a relationship with Pharmacy Brands (a listed New Zealand pharmaceutical retailer). This, it was thought, might also provide a little more competition in the wholesale supply of pharmaceuticals to the Cook Islands.

Commentary and Recommendations

213. While PHARMAC's work showed that the Cook Islands wasn't at too much of a pricing disadvantage for its pharmaceutical supplies, this may not be the case for other developing country aid partners. We recommend investigating interest in this issue with some other PIC governments. As PHARMAC has undertaken the Cook Islands study recently it could make repeating the exercise for other PICs easier.
214. The challenges identified in the Cook Islands distribution, storage and stock management of pharmaceuticals may also be prevalent in other PIC health systems. If this was found to be the case, it could provide a significant opportunity to improve health outcomes by using the capacity building and training expertise built up in MBIE on procurement over recent years as well as the sector skills of PHARMAC.
215. A World Bank study³⁵ suggests that improving both any price disadvantages in pharmaceuticals and distribution, storage and stock management of pharmaceuticals could be of value. That study estimated total pharmaceutical expenditure across the 5 Pacific countries in the study at US\$41 million per annum in the mid-2000s.

³⁵ Review of Pharmaceutical Financing and Expenditures in Selected Pacific Island Countries (PNG, Fiji, Samoa, Cook Islands & Tonga) WHO Western Pacific Region 2009

216. We recommend that improving efficiencies in pharmaceutical pricing and distribution be investigated further with MBIE and PHARMAC as there could be material improvements in health outcomes and human development possible.

Improved living conditions

217. The improved living conditions expected outcome in the New Zealand Aid Programme Strategic Plan 2012-2015 is focused on:

- Improved solid waste management practices to safeguard the environment;
- Improved access to safe, reliable and affordable water and sanitation to protect public health and the environment; and
- Urban communities and housing development that provides safe, affordable and appropriate living conditions.

218. These are areas that are firmly within the mandate of the New Zealand Aid Programme and we were not able to identify any other New Zealand Government policies that could be changed to be more coherent with this development outcome.

Other Strategic Themes

219. We did not identify any areas that warranted further investigation in the strategic themes of :

- Improved resilience and recovery from emergencies;
- Improved governance, security and conditions for peace (safe and secure communities); and
- Improved development outcomes through strategic partnerships with others

220. From our discussions with MFAT officials we believe that New Zealand's Aid Programme incorporates improved preparedness for disasters and improved resilience to the adverse impacts of disaster risk, climate variability and climate change as standard practice, for example in design and construction of New Zealand Aid Programme funded infrastructure. Likewise, efforts to improve governance security and conditions for peace through programmes involving policing and judicial assistance also appear to be a common feature of the New Zealand Aid Programme. We therefore did not pursue these strategic themes for PCD improvements.

221. Some NGOs such as Oxfam, New Zealand Aid & Development Dialogues and the Council for International Development were critical of the New Zealand Government's domestic approach to climate change and positions in international forums. Their argument was that New Zealand was not doing enough and that that would worsen climate change outcomes for low lying PICs given predicted rises in sea level. We are not convinced that a more staunch policy on climate change would necessarily assist low lying PICs. Tougher climate change targets could cause a loss of economic activity and lower emissions in New Zealand that is replaced with higher economic activity and higher emissions in another country (e.g. those with higher emitting electricity generation) with the net result that global emissions of greenhouse gases rise.

222. Some NGOs also raised the issue of the level of support for civil society organisations, for example those in Fiji. However, a decision to support these groups, or not, is one

that the New Zealand Government would make with advice on the foreign policy and New Zealand Aid Programme implications of the decision. As no non-New Zealand Aid Programme related Government policy is involved, we did not believe this was within the scope of this research project.

223. We believe that the PCD opportunities we have identified under the strategic themes of 1) improved economic well-being and 2) improved human development have the potential to contribute to maintaining the long term peace and security in the Pacific region. This is especially the case with the possible expansion of the RSE scheme which could provide long term income, remittances, and skills development for the PICs and thereby provide a stronger foundation for peace and security in the region. Although the contribution of this sort of benefit is very difficult to identify, over the long term it could help to avert civil unrest and conflict in the region and avoid higher defense and security costs for New Zealand.
224. Should the opportunities for improved PCD be pursued there could be implications for efforts to improve development outcomes through strategic partnerships. MFAT may need to deepen its strategic partnerships with a number of Government agencies to effectively implement some of these opportunities.

Openness to Considering PCD

225. The third specific objective of this project was to assess the extent to which other departments are currently considering development impacts in their policy formulation work, and to what extent they are willing to include development objectives in their considerations.
226. We found most Government agencies with responsibilities over domestic policies which had PCD effects to be quite well attuned to the actual or potential flow on effects of these policies to New Zealand's developing country aid partners. We also found New Zealand's policy making process to be reasonably well aligned to the Government's international development objectives. We believe that this is mostly the result of the personal experience and backgrounds of the officials involved. Often we found officials to be quite knowledgeable about Pacific issues and the development challenges that the PICs face.
227. The officials of Government agencies with whom we discussed PCD issues who had a high level of PCD awareness were IRD, MPI, Treasury, NZECO, PHARMAC, Tourism New Zealand and MoT. The discussions with MBIE, the Reserve Bank, DIA, MoJ covered more sensitive topics at times. These officials also had a good understanding of PIC development challenges but the focus of our discussions, e.g. the RSE scheme or the AML/CFT Act often involve difficult judgments about New Zealand's domestic interests compared to its development assistance objectives. These agencies appeared at times to be wary of the potential for PCD objectives to cloud their role in overseeing policies within their spheres of responsibility.
228. Government decision making process improvements that could have PCD benefits were out of scope for this project but if improvements were identified during our research, these could be included. We did discuss the possibility of including PCD analysis as part of the standard check list for policy formation like Treaty of Waitangi or human rights implications with some parties. Based on some of these we believe that it could be worth investigating whether the benefits and costs of including a PCD check as part of policy formation. Benefits could be greater visibility of the issue and greater

clarity about how some policies could affect development outcomes. However, including a PCD check would add an extra step in the process and have the potential to slow policy work down.

Appendix 1 Interview List

1. MFAT
 - Carolyn Nimmo
 - Andrew Jenks
 - Andrea Stewart
 - Sumi Subramaniam
 - Matthew Gibbs
 - Paul Wallis
 - Roger Dungan
 - Garth Atkinson
 - Kat Paton
 - Frances Kelly
 - Nathan Glassey
 - Melissa Haydon Clarke
 - Vinny Nagaraj
 - Kathryn McBryde
 - Deighton Conder
 - Nicci Simmonds
 - Raylene Liufalani
2. MBIE
 - Matthew Hoskin
 - Michael Hampl
 - George Rarere
 - John Crompton
 - Grant Lyons
 - Karen English
3. MPI
 - Peter Thomson
 - Steve Gilbert
4. MSD
 - Maxine Fleming
5. Treasury

- Colin Hall
 - Mark Blackmore
 - Tim Ng
 - Steve Mack
6. New Zealand Export Credit Office
- Chris Chapman
7. Reserve Bank
- Rob Edwards
8. Ministry of Justice
- Dolon Sarkar
9. DIA
- Kate Reid
10. IRD
- Carmel Peters
 - Emma Grigg
 - Charles Ngaki
 - Graeme Hunt
11. PHARMAC
- Sarah Fitt
 - Rachel Melrose
12. Tourism New Zealand
- Kevin Bowler
13. MoT
- Sonya van der Geer
 - Roger Brown
14. TRC Tourism
- Ross Corbett
15. Primary Industry Training Organisation
- Blair Morgans
 - Daniel Edmonds
16. Service IQ
- Debbie Martindale
 - Glen Keith

- Doris Kaua
- 17. Ryman Healthcare
 - Nicole Forster
- 18. ANZCO
 - Sharon Hoera
- 19. Oxfam
 - Barry Coates
- 20. New Zealand Aid & Development Dialogues
 - Jo Spratt
 - Terence Wood
- 21. Council for International Development
 - Wren Green
- 22. Others
 - Don Abel
 - Neil Walter
 - Jonathan Boston
 - Andrew Ladley
 - Peter Kiely
- 23. Money Gram International
 - Robert Walls
- 24. New Zealand Bankers Association
 - Karen Scott-Howman

Appendix 2 : Terms of Reference



Terms of Reference for Policy Coherence Research Project

25 October 2013

Prepared by: *Kate Lee-Gleisner,*

Development Manager (IDG,DSE)

About this document

This document specifies the terms of reference (TOR) for the Policy Coherence Research Project for the New Zealand Ministry of Foreign Affairs and Trade (MFAT). This TOR has been developed to tender our requirements for the selection of a suitably qualified researcher/s. The final description of services that will be contracted may change through negotiation with the successful contractor/s.

Goal of the Research

This research project will identify and describe specific substantive opportunities to improve the New Zealand Government's policy coherence for development (PCD). We are particularly interested in opportunities that could be implemented over the next 12-24 months.

Introduction

Aid is a necessary, but not sufficient, driver of development. The concept of policy coherence for development (PCD) aims to exploit positive synergies across public policies to foster global development. According to the OECD (2005), policy coherence for development can be defined as "...working to ensure that the objectives and results of a government's development policies are not undermined by other policies of that government which impact on developing countries, and that these other policies support development objectives, where feasible." A concern for policy coherence therefore raises questions such as: 'Do our trade policies reinforce or undermine our development cooperation policies?', or 'Could our migration policies, such as in the health sector, potentially undermine the achievement of health-related MDGs in sending countries?' (OECD, 2012)

In 2008, New Zealand joined other OECD Ministers in issuing a Ministerial Declaration on PCD which encourages continuing best practices and guidance on PCD promotion, as well as improved methods for assessing its results.

New Zealand already has a good record on policy coherence for development, as evidenced by the fact that we score very highly on the Centre for Global Development's Commitment to Development Index, due to our open trading system, significant contributions to internationally-sanctioned peacekeeping and humanitarian interventions and our acceptance of a large number of immigrants. Notable existing initiatives include our Recognised Seasonal Employer (RSE) scheme, our work on international fisheries management and the recently-announced pension portability programme for the Pacific.

The Ministry of Foreign Affairs and Trade is commissioning this research to enable us to develop a work programme with other government agencies on further policy coherence for development initiatives. We will want to prioritise our efforts on those initiatives most likely to succeed in delivering both development and domestic objectives.

Scope of the Research

The purpose of this research project is to generate and test ideas about improving the New Zealand government's policy coherence for development. We are looking for specific, substantive and achievable opportunities to adapt current policy settings in ways that will make the biggest difference to the development aspirations of our country partners in the Pacific and Asia. It is our intention to use these specific opportunities as a basis for engagement with New Zealand agencies on domestic action on PCD. Establishing broader institutional coordination mechanisms or macro-level monitoring and reporting of policy coherence activities and outcomes are beyond the scope of this project.

The project is focused on policy coherence within New Zealand, i.e. how broader New Zealand government policies impact on development. It is not intended to consider coherence between New Zealand and other aid donors, or between the New Zealand Government and developing country partner governments. Working with the New Zealand private sector is also not a primary focus for this research, but some consultation with private sector representatives may be necessary to elicit ideas about policy settings that could be adjusted to promote greater private sector investment in developing countries.

Ideally, the policy coherence opportunities identified through the course of this research should be able to be feasibly implemented within the next 12-24 months. However, if there are particularly big gains to be had from changes to policy settings that require longer lead-in times these should also be considered.

Throughout the research, consideration should be given to the focus, themes and approaches of the New Zealand Aid Programme, as articulated in MFAT's current International Development Policy Statement. This includes consideration of cross-cutting development issues, in particular gender, human rights and environmental issues.

Who will use research findings

The research is primarily for the Ministry of Foreign Affairs and Trade but will also be used by other New Zealand government departments.

A proposed approach to the research

MFAT expects this research to be completed in four phases:

Phase One: Scoping exercise to confirm research plan

The researcher/s will need to review available literature to assess experience in implementing PCD, both internationally and in New Zealand. The researcher will then identify information gaps and confirm key informants. We anticipate this project will be desk-based, with limited (if any) physical consultation outside of Wellington. As a result of this scoping exercise, a research plan will be finalised and agreed with MFAT before commencing subsequent phases of the research.

Phase Two: Iterative analysis and consultation

We anticipate that PCD opportunities will be identified both through a review of literature and from discussions with relevant stakeholders across the New Zealand Government. As ideas are generated, they will need to be analysed (including in particular for feasibility) and refined through further reading and consultations. It is likely this will be an iterative process.

MFAT will work collaboratively with the researcher/s as necessary to meet the information requirements for Phase Two.

Phase Three: Preparation of final report

The final research report will draw on the key findings of the previous phases. Its overall purpose is to identify and describe specific substantive opportunities to improve the New Zealand Government's policy coherence for development. At a minimum, for each opportunity the report should describe the rationale, the action needing to be taken, the likely benefits and costs (to New Zealand and relevant developing partner countries), key stakeholders and their current level of interest, and a general assessment of the likely ease or difficulty of achieving the change. The report will be used as a basis for the creation of the New Zealand Aid Programme's PCD work plan.

Phase Four: Dissemination

Dissemination activities, including any other related outputs (e.g. presentations and knowledge notes) will be agreed during finalisation of the research plan. The dissemination strategy will ensure that information from the research is used effectively.

The business owner will respond to the findings and conclusions and will report back to the MFAT Evaluation and Research Board on the follow-up to these six months later.

Key deliverables and Anticipated Delivery Dates

MFAT expects the research services to be delivered on time and to meet MFAT’s required quality standards. The deliverables (with anticipated delivery dates) will include the following:

Phase	Deliverable	Description	Dates
1. Scoping	Research plan	The research plan (electronic copy only) will include the overall method, design, and tools to deliver the analysis, the research report and subsequent dissemination activities. Delivery date includes final research plan delivered and agreed.	16 Dec 2013
2. Preparation of final report	Final research report	A final research report (electronic copy plus three hard copies). It is expected that the content and format of the report will be discussed and agreed with MFAT in advance. Delivery date includes final report submitted and accepted.	28 Feb 2013

In addition, progress reports (frequency and format to be agreed with the researcher/s) may be required, including regular reporting during the scoping and analysis phases, as well as progress/performance against high priority areas, issues, changes and/or achievements.

Quality of the research project outputs

It is expected that all research outputs should be clear, concise and readable. The body (i.e. excluding appendices) of the final research report should be no more than thirty pages in length.

Governance and management

Delivery of the research will be the responsibility of the New Zealand Aid Programme’s Evaluation and Research Team, in the Development Strategy and Effectiveness Division. The Business Owner is the Principal Development Manager, Policy.

Ownership of information and data/Reference checks/Due diligence

All the key deliverables and the data/information collected will become the property of MFAT.

MFAT may carry out reference checks to determine that the preferred provider can demonstrate it can provide the proposed solution to MFAT. The reference check process has the following objectives:

Confirm that the provider has successfully performed comparable services - in both size and complexity

- Verify that the provider has established and developed professional and effective working relationships
- Determine that the provider can deliver MFAT's requirements.

The response to the RFQ will be treated as approval for MFAT to make whatever searches and investigations MFAT deems necessary in order to confirm the provider's capability to provide the services.

Service specification

The provider/s will undertake independent research services to MFAT that will:

- Provide research services that will identify and describe specific substantive opportunities to improve the New Zealand Government's policy coherence for development
- Use the best method, approach and tools to meet the research's key objectives and needs
- Be effective, efficient and provide value for money for MFAT.

The proposal

General information

The following information should be taken into consideration when preparing your RFQ Response:

MFAT is happy to consider applications from individuals or a small team (or a partnership/s between different individuals/agencies) to deliver this research.

All proposals must include the information outlined below. This information will form the basis upon which MFAT will evaluate the responses from potential providers.

Overall methodology, design and tools

RFQ responses **must** include the following information:

- A demonstration of the provider/s understanding of MFAT's research requirements for this assignment
- A proposed (high-level) research plan that will meet MFAT's research purpose, which will include a brief description of your recommended methodology, design and tools to provide findings and conclusions for the research.

It is anticipated that the provider's final research plan will identify how the information needs can be met through current documentation (including undertaking documentary analysis), and what information gaps will need to be filled. Information gathering to fill any gaps may require a range of data collection methods, for example, interviews (structured and semi-structured) and case studies.

- The proposal should also identify key data and information sources.
- These descriptions should include reasons why your recommended methodology, approach and tools are the best to meet the objectives of MFAT's research needs. Please also identify any limitations to your proposed method and tools in these descriptions.
- Any key assumptions made should also be identified.

Financial information

RFQ responses **must** provide a fixed price for delivering this research project.

An overall cost estimate breakdown for the research is required. The more detail provided in your cost estimate, the more MFAT will be able to establish the value provided by your tender.

Where applicable, specify the total overall price and a breakdown of the cost estimate for each of the following:

- Finalisation of the research plan
- Consultations and literature review
- Analysis and Reporting
- Dissemination activities
- Project management
- Disbursements - please identify key disbursements and expenses, if any.

All assumptions made in providing the budget should be clearly identified.

Daily rates for each member of any team-based proposals are to be included within the budget template.

Skills and experience

Relevant skills and experience

RFQ response **must** include the following information:

- **Background:** Evidence of your/the team/agency's relevant background experience and qualifications (for example, activities, experience or credentials) in undertaking research work of a similar nature - in scope, scale and value.
- **Experience/Qualifications:** Evidence of the experience and qualifications of your/the team/agency in undertaking work using different research methodologies, approaches and tools.
- **Personnel:** A description of the personnel who will be working on this project and their relevant qualifications and specific experience, including identifying their level of expertise. Please clearly indicate the role and responsibilities of each team member in relation to research.
- **References:** The contact details of three referees for whom you/your team members/agency has carried out work of a similar nature - in scope and scale.
- **Reporting Standards:** Three samples of your standard reporting and any additional relevant reports that best illustrate your work.

Relevant knowledge and experience

- **Policy knowledge:** Evidence of your/the team's relevant policy expertise. This should include a sound knowledge of current New Zealand government policy settings across a range of sectors, and a proven ability to analyse the domestic and international costs and benefits of policy positions. Ideally, the researcher/s will also be well connected across a range of influential New Zealand Government departments.
- **Development knowledge:** Evidence of your/the team's knowledge of development challenges in the Pacific and Asia.

Research management

RFQ responses **must** include the following information:

- A proposed timeframe identifying key phases and deliverables for all phases of this research.
- Identification of any risks to the delivery of the research and your risk mitigation strategies to overcome these.
- Demonstrated ability to manage/commit sufficient resources to manage and undertake the research ensuring quality of outputs and ability to meet timelines.

- An overview of the contingency plans, for example, in the event of losing access to key personnel.

Quality assurance processes and conflict of interest

RFQ responses **must** include the following information:

- Evidence of excellent communication skills, including written and verbal
- A description of the quality assurance processes that will be implemented across the different stages of the research.
- A statement of professional associations and codes of ethics that you/your team/agency adhere to.
- Relevant risks and appropriate risk mitigation strategies, if any
- Comments on any conflicts of interest and proposed mechanisms for dealing with them.

Appendix 1: Quality Standards for Research

New Zealand Aid Programme-funded research projects should meet the following quality standards:

Required documentation

Documentation	Standards
Terms of Reference	Terms of Reference (TOR) are appended to all key deliverables.
Research plan	The research plan describes an appropriate design, key stakeholders and informants, and constraints/limitations. The Research Plan must be appended to the final research report.
Research report/s (Initial Findings and Final Report)	Meets the standards outlined below.

Research report checklist

Standard	Description
Meets the TOR	The research is undertaken as specified in the TOR.
Describes purpose and scope of the research	These are clearly described in the research report.
Clearly describes the methodology	Methodology as described in the research plan is summarised in the research report, and any variance from the plan explained. The way in which risks, limitations and/or constraints to the research were managed is explained.
Describes ethical considerations	Ethical considerations described in the research plan are implemented during the research. Names of participants do not appear anywhere in the report (including in the appendices) unless permission has been given and this is noted in the report. Cultural/gender sensitivity is evident, and conflicts of interest or any disagreement on findings within the research team are declared.
Has evidence supported findings	Findings address the research goal, are supported by evidence (with the source of the evidence clear), and are separated from opinion and judgments.
Has clear lines of evidence	There is a clear flow from evidence-supported findings to conclusions.
Is useful and relevant	Research is timely, useful and targeted at appropriate people/organisations. Lessons learned are relevant and useful.
Is reported well	Report flows logically, style/tone and length of report is appropriate. Any gaps in information are reported. Report is readable. Executive summary is well written, stands alone and provides a good summary of the research.