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Evaluation of the Cook Islands Country Programme

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Further details about author

Adam Smith International (ASI) is an award-winning professional services business that delivers real impact, value and lasting change through projects supporting economic growth and government reform internationally. Our reputation as a global leader has been built on the positive results our projects have achieved in many of the world's most challenging environments. We provide high quality specialist expertise and intelligent programme management capability at all stages of the project cycle, from policy and strategy development, to design, implementation, monitoring and evaluation.

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Executive Summary

Purpose

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International to conduct an evaluation of its country programme in the Cook Islands. The evaluation assessed the quality of New Zealand's aid delivery, the results of its programme of assistance, and suggested ways New Zealand could better support the Cook Islands.

The evaluation adopted a mixed method approach. Field work was conducted in Wellington and the Cook Islands and 35 key informants were interviewed. Statistical techniques were also used to assess various aspects of New Zealand's development cooperation. In accordance with the Terms of Reference the evaluation also focused on issues associated with the provision of budget support.

Evaluation Questions

The *Key Evaluation Question* is:

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

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

Secondary Evaluation Question 1 is:

"To what extent is New Zealand's aid delivery to the Cook Islands of a high quality?"

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

Secondary Evaluation Question 2 is:

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

In the context of development evaluation, "results" are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. Sustainable results are those that are likely to persist into the future and are resilient to economic, environmental and social perturbations¹.

¹ Berkes, F. and C. Folke (1998) *Linking Social and Ecological Systems: Management Practices and Social Mechanisms for Building Resilience*, Cambridge University Press



Secondary Evaluation Question 3 is:

How can New Zealand better meet its obligations to the Cook Islands?

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

Findings

With regards to Secondary Evaluation Question 1 ("**quality of aid delivery**") the evaluation made the following principal findings:

- New Zealand's programme is relevant to the high level priorities and development challenges facing the Cook Islands, but the lack of an adequate country strategy framework that articulates how the sum of New Zealand's resources will be used to address development priorities limits the effectiveness of the programme and means that important structural issues may not be addressed.
- The Cook Islands government has strong ownership of its development agenda, at the strategy and policy levels, but is weak with regards to implementation, as a result New Zealand, has in some instances, adopted a hands-on approach that has improved efficiency but has not built important capacity.
- New Zealand's Sector Budget Support has been highly effective in education, tourism and health and there are minimal barriers to a move to general budget support. Strong government leadership and capability with these areas has been a key feature.
- New Zealand's Forward Aid Plans meet international best practice in providing medium term financial predictability and should be adopted as the standard by other donors.
- New Zealand's efforts in supporting harmonisation through delegated cooperation with Australia and its innovative partnership with China are important and representative of its role as the primary bilateral donor in the Cook Islands.
- New Zealand has also acted to consolidate the Cook Islands programme in line with its 'fewer, deeper, longer and more strategic' priority, and this has, and will continue to improve the efficiency of programme delivery.

With regards to Secondary Evaluation Question 2 ("**results**") the evaluation found that:

- New Zealand's aid has directly contributed to per capita economic growth in the Cook Islands.
- New Zealand's support for economic development has been effective and important, and has contributed directly to the significant increase in tourist numbers that has been evident over the last six years in particular. A number of structural issues must now be tackled to ensure the sector continues to contribute to economic growth.
- New Zealand's sector budget support in education has been very effective and has contributed to a number of significant achievements. The Realm state relationship



between the two countries enables the Cook Islands to deliver education services at a lower cost than would otherwise be expected, but government expenditure needs to continue to increase if the high levels of achievement are to continue.

- New Zealand's support for tertiary health care provides a level of service to citizens of the Cook Islands that would otherwise be unaffordable to the Cook Islands Government (CIG).
- New Zealand is embarking on a significant investment in sanitation. This investment transcends both economic and human development priorities as the natural capital of the lagoon environment is central to protecting the tourism industry, and public health.
- New Zealand's support for renewable energy has been fundamentally important for the residents of the Northern Group of islands. Their energy security has improved significantly and a host of human development benefits will also accrue from the provision of a 24-hour electricity supply.

With regards to Secondary Evaluation Question 3, the key changes required to "ensure that New Zealand's country programme is more relevant, efficient, effective, and contributes to sustained economic and human development outcomes" are outlined in "Recommendations" below.

Conclusion

New Zealand's development cooperation with the Cook Islands has been central to the rapid development of the country. With regards to economic development, New Zealand has contributed directly to per capita economic growth and its support for tourism has also contributed directly to significant growth in GDP. In the area of human development, it is clear that without support from New Zealand education achievements in the Cook Islands would be lower and the quality of education would be poorer. The same holds for the provision of tertiary health care services, which would be either be unavailable or prohibitively expensive in the absence of New Zealand aid. While these contributions have been important, it is clear that there remain a number of structural issues that must be addressed to ensure that further achievements in economic and human development can be attained. The enabling environment for private sector development is weak, both the CIG and New Zealand have not systematically addressed the constraints that continue to hinder private sector development. The same holds for government capability. Significant achievements have been made over time in areas like education and tourism, but incremental gains will require a more concerted and systematic effort to address the more intractable barriers to growth and development. Tackling these issues will help develop a more robust and dynamic economy, which in itself will help address depopulation by providing economic and human development opportunities for Cook Islanders.



Recommendations

1. **MFAT should formulate a new process for the development of country strategies that includes its whole-of-government partners.** This process should result in the development of country strategies that highlight the major constraints to economic and human development and articulate how the sum of New Zealand's resources will be used to address these issues. Associated with these high level plans should be a series of more in-depth Investment Plans that target key areas (i.e. Tourism and Non-Communicable Diseases).
2. **In order to improve coherence, the primary focus of Country Strategies should be the bilateral programme,** and other funding modalities should be deployed strategically in a way that supports the bilateral programme, to address constraints identified in the country strategy.
3. **MFAT should increase its human resource allocations in technical areas that will support quality policy dialogue, to augment the shift to higher order aid modalities in the Cook Islands.** In order to ensure this occurs, Country Strategies should be linked to business unit or operational plans which outline how programme level human resources will be deployed.
4. **In the area of human development, New Zealand should prioritise its approach to reducing Non-Communicable Diseases** in a systematic way, as this is the single most pressing development challenge in the Cook Islands, which aside from its impacts on human health could have significant impacts on the health budget, and ultimately on economic development.
5. **In the area of economic development, New Zealand should redouble efforts in the tourism** sector and help CIG to develop a strategic approach to improving the enabling environment for private sector development.
6. **New Zealand should consolidate its programme further through a progressive move to general budget support.** This should be accompanied by a team-based performance management programme that systematically addresses fiduciary and development risks in partnership with CIG; this can form the basis of New Zealand's ongoing support in government capacity building.



1. Background

1.1 The Activity

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International to conduct an evaluation of its country programme in the Cook Islands. The evaluation assessed New Zealand's contribution to economic and human development, to assist in improving the delivery of development cooperation, while identifying salient issues that affect programme strategy and implementation more broadly.

Section one of this report explains the purpose of the evaluation, presents the evaluation questions and briefly outlines the development context in the Cook Islands. Section Two presents the empirical findings that characterise the quality of aid delivery; Section Three presents the empirical findings regarding the results of New Zealand's aid to the Cook Islands; and Section Four focuses on how New Zealand can better support the Cook Islands. Section Five answers the Key Evaluation Question with reference to the previous sections, while a series of practical recommendations for the improvement of development cooperation are presented in Section Six.

1.2 Evaluation Purpose and Design

1.2.1 PURPOSE

The purpose of this evaluation is to assess New Zealand's aggregate contribution to economic and human development in the Cook Islands. The evaluation seeks to strike a balance between assessing the quality of New Zealand's aid delivery and determining the impact of its country programme on economic and human development.

1.2.2 SCOPE

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

1. Determining the impact of New Zealand's full spectrum of support to the Cook Islands, and the strategic coherence of that support.
2. Determining whether the intended results have been achieved in the Cook Islands, and the likely sustainability of these results.
3. Assessing the quality of aid delivery, including the relevance and coherence of the country programme, the cost effectiveness of programme delivery (efficiency), the quality of policy dialogue, and the general management of the development cooperation programme, including the management of relationships with counterparts and other stakeholders.
4. Learning lessons to improve the future design, direction and delivery of the country programme, including identifying forms of support that can lead to better development outcomes.

This evaluation considers total country aid flows, which includes all finance from New Zealand which comprises: its bilateral country programme allocation; the Pacific



Transformational Fund; the Partnerships Fund; and regional allocations. It considers all aid modalities including budget support, project finance, delegated cooperation, triangular partnership and government-to-government partnerships. Budget support is included as a focal point as requested specifically in the Terms of Reference. The evaluation focuses primarily on the period of the current Joint Commitment for Development (2011-2015) but extends beyond this when examining the economic impact of New Zealand's development cooperation over time.

1.2.3 QUESTIONS

The Key Evaluation Question is:

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

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

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

Secondary Evaluation Question 1 is:

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

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

Secondary Evaluation Question 2 is:

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

In the context of development evaluation, "results" are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. Sustainable results are those that are likely to persist into the future and are resilient to economic, environmental and social perturbations². The assessment of sustainability also takes into consideration the adoption of supportive policies, regulations, and financing; the building of appropriate human capital; and the building of organisational capability and capacity in the Cook Islands.

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



Secondary Evaluation Question 3 is:

How can New Zealand better meet its obligations to the Cook Islands?

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

1.2.4 DESIGN

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

Semi-structured interviews and focus group discussions were conducted with 35 key informants in the Cook Islands and New Zealand. Key informants were drawn from the New Zealand and Cook Islands governments, donor organisations, beneficiary groups, and the private sector. This evaluation team also reviewed over 120 documents to better understand the context of New Zealand's support and to assess aid quality and impact. Categories of documents available to the evaluation team included:

- Project and country programme-related documentation from the New Zealand Government (including: concept notes, activity design documents, activity monitoring assessments, grant funding agreements, activity completion assessments, annual programme reports, programme results frameworks, Joint Commitments for Development);
- Independent and joint evaluations at project, programme and thematic level;
- Policy and planning documents from New Zealand and partner governments (e.g. strategic plans, aid priorities, national development plans, development partnership agreements – and the various technical and analytical documents associated with these documents);
- Grey literature from development cooperation partners and others on topics germane to the evaluation; and
- Academic literature on issues such as: economic development, drivers of poverty reduction, aid effectiveness, and the constitutional relationship (with Realm states in general and the Cook Islands in particular) etc.

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



The qualitative research outlined above was complemented by various types of quantitative analysis. The methods included: assessing the quality and impact of budget support and the strength of the Cook Islands Public Financial Management (PFM) system, including absorptive capacity constraints; reviewing New Zealand aid flows over time; and assessing the coherence, proliferation and fragmentation of the programme.

1.3 Introduction to the Development Context

New Zealand has strong cultural, historical, economic and political ties to the Cook Islands. Since the adoption of the 1965 Cook Islands constitution, the country has been a self-governing state in free association with New Zealand. This means that while the Cook Islands makes its own laws and governs its own affairs, its citizens are New Zealand citizens who hold New Zealand passports. As noted in the Joint Centenary Declaration, New Zealand has some residual responsibility regarding external and defence issues but this infers no rights of control and can only be acted upon at the request of the Cook Islands Government⁴.

The Cook Islands is one of the three Realm states of New Zealand (along with Niue and Tokelau), but economically it is the least dependent of the three. Economic links between the Cook Islands and New Zealand are strong. Cook islanders use New Zealand currency, and total trade between the two countries is high (NZD98 million in 2013⁵), while New Zealanders are the main source of tourism numbers in this important sector, comprising 60% of arrivals in 2013⁶. The close links between the two countries also have other effects, for example, outward migration between the Cook Islands and New Zealand has been very high historically, and presently 62,000 Cook Islander Maori live in New Zealand⁷, compared to a resident population of 12,900 in the Cook Islands⁸. The Cook Islands continues to be characterised by a high level of outward migration which affects labour availability and economic growth potential. Due to its dependence on tourism, economic fluctuations in New Zealand and the world economy that impact on tourism can have significant effects on the economy of the Cook Islands. It is clear that the close links between the economies of the Cook Islands and New Zealand bring both benefits and costs.

From an economic and human development perspective, the Cook Islands is the highest performing small island state in the Pacific. The Cook Islands has a GDP per capita of NZD19,357⁹, which is the third highest in the region outside Australia and New Zealand. Real GDP per capita more than doubled in the 31 years between 1982 and 2013 (See Figure 1). As a result of this significant economic development achievement, the Cook Islands is expected to graduate from the OECD-DAC list of Official Development Assistance

4 Joint Centenary Declaration of the Principles of the Relationship Between New Zealand and the Cook Islands, 11th June 2001.

5 New Zealand Ministry of Foreign Affairs and Trade, <http://www.mfat.govt.nz/Countries/Pacific/Cook-Islands.php>, accessed on 14th May 2015

6 Ibid

7 Ibid

8 Cook Islands Ministry of Finance and Economic Management, Vital Statistics and Population Estimates, June Quarter 2015

9 Cook Islands Government, Ministry of Finance and Economic Management, Financial statistics



(ODA) recipients in 2017, but presently remains on that list¹⁰. The Cook Islands is also well on track to achieve its Millennium Development Goals (MDG), and has some of the best human development statistics in the region, particularly in areas like infant and child mortality, where rates have plummeted since 1990 (See Figure 2). While human development achievements have been very good in some areas, the Cook Islands faces a chronic threat from Non-Communicable Diseases, which has the potential to have significant adverse effects via reduced life expectancy, increased health costs and reduced economic productivity. The Cook Islands has some of the highest NCD-related biochemical and lifestyle risk factors in the world, and women in the Cook Islands have higher risk factors than men¹¹. The Cook Islands has the fifth highest level of diabetes prevalence in the world¹².

The Cook Islands also remains vulnerable to economic and environmental changes which could negatively affect its economic and human development achievements.

Economic growth is largely driven by public sector capital investment and this will decline markedly in the coming years due to tightening fiscal constraints, and decreases in aid funding, which remains important. As a result, nominal GDP growth is predicted to fall from 4.8% in 2014-15 to -2.8% in 2016-17¹³. Volatile fluctuations in GDP per capita growth have also been a common feature of the Cook Islands economy since the early 1980s (See Figure 3). Fluctuations in economic growth in the Cook Islands and in Pacific Island countries in general are driven by many factors, but in particular their vulnerability to external economic shocks including fluctuations in international commodity prices. As with many other Pacific islands, the country is susceptible to a range of natural disasters, which can have significant negative impacts on the economy and tourism numbers. For example, in 2005 the Cook Islands was subject to five severe cyclonic events in five weeks. Concerns regarding the sustainability of its water resources (both freshwater and lagoon)¹⁴ have also been raised, and this has the potential to affect the sustainability of the tourism industry over time as the lagoon environment in particular underpins the tourist experience in the Cook Islands.

10 See: OECD-DAC List of ODA Recipient to 2016 - <http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf>

11 SPC (2010) NCD Statistics for the Pacific Islands Countries and Territories, Public Health Division , Secretariat of the Pacific Community

12 <http://healthintelligence.drupalgardens.com/content/prevalence-diabetes-world-2013>

13 Cook Islands Government (2014) Half-Year Economic and Fiscal Update, December 2014

14 See: Parakoti, B and T Davie (2012) Diagnostic Report for Integrated Water Resource Management in the Cook islands, Landcare Research, New Zealand



Figure 1: Real per capita GDP, 1982 to 2013

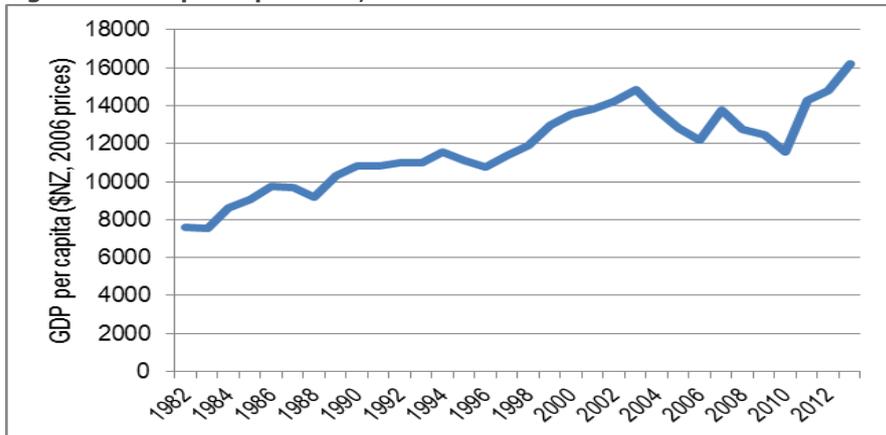


Figure 2: Falling mortality rates in the Cook Islands, 1990 to 2013

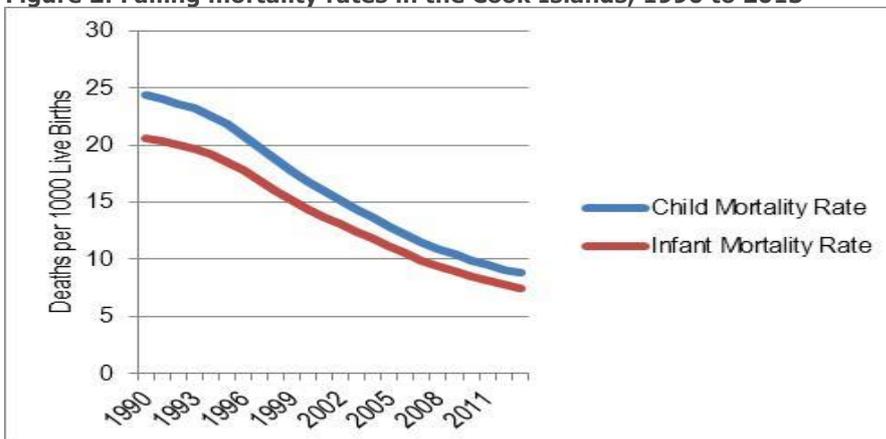
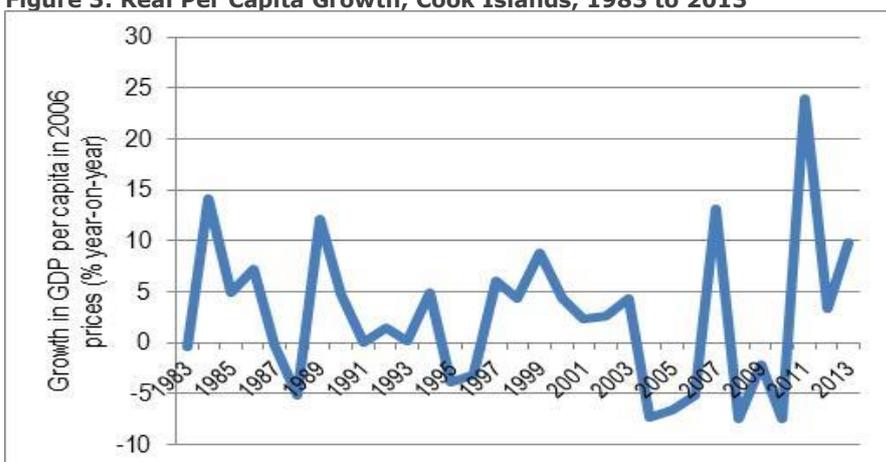


Figure 3: Real Per Capita Growth, Cook Islands, 1983 to 2013

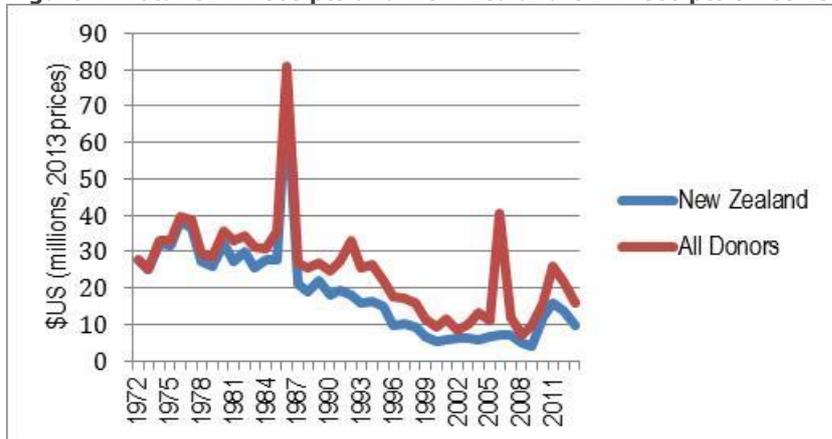


New Zealand has been the single most important donor to the Cook Islands over the course of its post-independence history (see Figure 4). Since the mid-to-late 1970's total aid and New Zealand's aid to the Cook Islands has been in constant decline, aside from intermittent



spikes associated with the response to natural disasters, such as the cyclones in 2005 (see Figure 4).

Figure 4: Total ODA receipts and New Zealand ODA receipts since 1972



There are only a small number of donors operating in the Cook Islands and New Zealand is the only traditional donor with a permanent presence in the capital, Rarotonga. New Zealand’s development strategy in the Cook Islands is based on the Ministry of Foreign Affairs and Trade’s Strategic Plan, which is used as the basis for the “Joint Commitment for Development” (JCfD), which is negotiated with the Cook Islands Government. This document formalises the mutual commitments of each party, highlights priority sectors, provides a framework for monitoring results, and discusses the context of New Zealand’s support. The bilateral programme has focused on promoting economic growth, improving human development, and strengthening governance, which has been delivered via key bilateral activities in water supply, waste and sanitation, renewable energy, tourism sector support, and education budget support. New Zealand also partners with Australia in the delivery of assistance to the Cook Islands through a delegated cooperation arrangement established in 2008, and is involved in an innovative triangular partnership with the Cook Islands Government (CIG) and China to deliver the Te Mata Vai Water Partnership project. New Zealand’s country programme allocation for the Cook Islands over the period 2012/13 to 2014-15 was NZD40.5 million. The analysis in Section Three will discuss the contribution of New Zealand’s development assistance to economic and human development, and the role ODA plays in addressing some of the challenges raised in the above discussion.



2. Findings – Aid Quality

This section presents the empirical findings that pertain to Secondary Evaluation Question 1, namely: “To what extent is New Zealand’s aid delivery in the Cook Islands of a high quality?” This section focuses specifically on the delivery of New Zealand’s development programme in the Cook Islands. In doing so it takes into account the local context for aid delivery, the institutional and policy context within the New Zealand Ministry of Foreign Affairs and Trade, and the nature of the relationship between the Cook Islands and New Zealand. The quality of aid delivery is discussed with reference to the following criteria: relevance and alignment, coherence, harmonisation, relationship management (including policy dialogue, ownership and mutual accountability) and efficiency (cost effectiveness)¹⁵.

2.1 Relevance and Alignment

Relevance is the extent to which development interventions are suited to the priorities and policies of the target group, partner and donor¹⁶. As noted in the Programme Evaluation Framework (PEF)¹⁷, New Zealand is interested in two issues with regards to relevance: the presence of a clear strategic framework to guide the country programme, and an assessment of how well this strategy aligns to the priorities of the New Zealand aid programme and the strategies and needs of the partner government, in this case the Cook Islands Government (CIG).

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

2.1.1 Relevance – The Strategic Framework for Assistance

New Zealand’s strategic framework for assistance is based on a suite of high level strategic and planning documents that inform the implementation of its country programmes – see Figure 5. Of particular importance is the International Development Group’s Strategic Plan, which for the period covering this evaluation is ‘Development that Delivers’. This overarching

15 See Appendix 1 for thorough definitions of these evaluation criteria

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

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



strategic document guides the development of the JCfD, which is the partnership agreement between New Zealand and each partner country. This document outlines the agreed priorities and mutual responsibilities of both the donor and the recipient and is typically based on the strategic plan of the partner country – in the case of the Cook Islands this is the National Sustainable Development Plan. These commitments are then operationalised into programming through annual plans and Forward Aid Plans (FAPs), which provide a three-year funding horizon for each of the priorities and associated activities outlined in the JCfD.

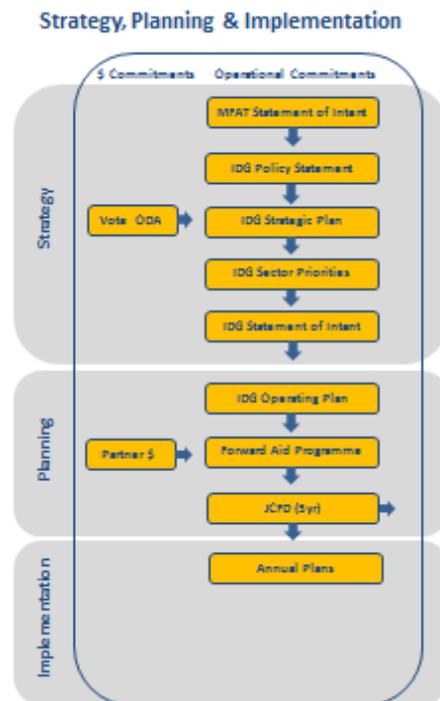


Figure 5: MFAT Strategic, Planning and Implementation schematic

New Zealand’s JCfD in the Cook Islands took effect on the 14th of July 2011¹⁸. This document outlines the mutual commitments of each party, the agreed aid priority sectors (economic growth, governance, human development and New Zealand Partnerships), and New Zealand’s ongoing financial commitments in each sector over the period of the JCfD. It also outlines the various policies that will inform New Zealand’s aid delivery, provides an indicative profile of aid flows, and presents a results framework. Together, the JCfD and the results framework comprise New Zealand’s Programme Strategy Framework for the Cook Islands. In the case of the Cook Islands, the JCfD also encompasses New Zealand’s delegated cooperation arrangement with Australia. The implementation and monitoring of the country programme is supported by annual programme plans and reports, which provide an update on the performance of the country programme through a discussion of programme results and programme management issues.

18 MFAT (2011) New Zealand – Cook Islands Joint Commitment for Development (Cook Islands – New Zealand – Australia Harmonised Aid Programme), updated 21st February 2014, see: http://www.aid.govt.nz/webfm_send/686



The overarching strategic document guiding New Zealand's aid investments across its entire portfolio is *Development that Delivers*¹⁹. This document provides high level guidance on the strategic priorities of the aid programme for the period 2012-2015. It outlines the strategic focus of the programme (improved economic well-being, human development, resilience, governance and strategic partnerships), discusses important operational and organisation priorities, and determines the geographical focus of New Zealand's aid programme. This document is supported by sector strategies and by the programme strategies and results frameworks developed for each country, which are supposed to reference the higher level strategies articulated in *Development that Delivers*. The document flags two very important strategic directions for the aid programme over the 2012-2015 period: 1) greater strategic prioritisation and focus through 'fewer, larger, deeper and more strategic contributions' and 2) a 'whole-of-New Zealand approach to development'²⁰ led and enabled by MFAT. To operationalise the 'fewer, larger, deeper' priority, MFAT have embarked on the '5 Plus' agenda, which involves the development of more programmes over NZD5 million in value over a five year period.

As noted in Figure 5, strategic direction at the country level is also guided by the sectoral priorities articulated in the *New Zealand Aid Programme Sector Priorities 2012 – 2015*²¹ document. This document outlines the key drivers of growth (Agriculture, Fisheries and Tourism) and the key enablers of growth (renewable energy, transport and communications, private sector development, education and training, health, water supply and sanitation, and safe and secure communities). These priorities are not necessarily addressed in each and every country but they inform the negotiations around the JCfD's. Aside from these two documents, the strategic framework for assistance is also guided by 'Pacific Focus Areas', which provides further detail of New Zealand's focus in the Pacific, noting the development challenges facing small island states.

This complex array of strategic documentation provides high level guidance on strategic direction, but there exists no adequate strategic guidance on the operationalisation of strategy at the country level. The JCfD provides a clear and directed course of action in that it identifies mutual commitments, sectoral priorities and concomitant financial commitments, and provides a results framework. However, the extent to which the JCfD can be considered 'strategic' is debateable, it only very lightly addresses the broader implementation context and the challenges this context presents, i.e. the 'strategic' context for implementation.

Further, the strategic framework for assistance does not sufficiently articulate how the sum of New Zealand's financial and human resources are deployed to address the constraints to human and economic development in the Cook Islands. This requires a thorough country level assessment of the drivers of economic growth and human development in the Cook Islands, the challenges that shape and constrain the delivery of effective aid, an articulation of the assumptions underpinning this analysis, and a theory of how New Zealand, through its

19 MFAT (2013) *Development that Delivers: New Zealand Aid Programme Strategic Plan, 2012-2015*, see: http://www.aid.govt.nz/webfm_send/448

20 See Page 5 of 'Development that Delivers'

21 See: http://www.aid.govt.nz/webfm_send/509



various programmes will support change in the country. The 'risk management' section of the annual plan and report discusses risks to the programme, and identifies consequences and strategies to address risks that emerge, but this is relatively light; it is this type of approach that could be expanded upon further in a more strategic document.

The lack of an overarching programme-level country strategy reduces the probability that the full suite of New Zealand's resources, including Partnership and Multilateral funds, can be used strategically and synergistically, a point that was made by the OECD-DAC in the recent New Zealand Peer Review²². For example, while there is reference to 'New Zealand Partnerships' in the JCfD, and a goal to 'strengthen partnerships that leverage New Zealand expertise and resources for the benefit of the Cook Islands', there is very little information about how that will be done, or which agencies within the New Zealand government will attend to the various constraints and challenges, which as noted above, have also not been articulated clearly. Further, the activities of New Zealand agencies operating in the Cook Islands typically reference the JCfD but fail to position their own programmes very well within the broader efforts of the New Zealand programme or the priorities articulated in *Development that Delivers*, which is anomalous considering that MFAT is, in the words of that strategy "leading with knowledge and expertise" across the New Zealand programme²³. As noted in the OECD-DAC review, the lack of whole-of-government strategic planning exposes New Zealand to risks with regards to the non-alignment of effort to national priorities²⁴.

Strategic engagement between MFAT and other New Zealand government agencies operating in the Cook Islands could be improved. This was a view shared by MFAT staff interviewed for this evaluation and by some of their colleagues in other New Zealand agencies and NGOs. These key informants highlighted a number of issues that underlie the lack of strategic engagement across New Zealand Inc. First, there seems to be a lack of knowledge of the full suite of activities undertaken by New Zealand agencies in the Cook Islands outside of the aid budget, as one key informant said "we are always surprised by what is going on outside the aid budget, we need to do more to coordinate this better"²⁵. While it is expected that the High Commission in Rarotonga will act as a focal point for New Zealand's whole of government engagement, not all New Zealand agencies visit Post upon arrival in-country, and not all update the High Commission on their activities, and this causes difficulties with regards to coordination. Human resource constraints at Post also affect the amount of whole-of-government coordination that can be undertaken; multiple uncoordinated visits also put pressure on CIG officials as they are pulled away from their programme management and implementation roles. Second, there are multiple modalities through which New Zealand government and non-government agencies engage with counterparts in the Cook Islands, these include through the Partnerships and Funds Programme and its various funds (contestable and strategic), and directly with the use of agency funds, for ad hoc, short term or long term technical assistance programmes. Third,

22 OECD-DAC (2015) Development Cooperation Peer Review – New Zealand 2015, OECD Publishing, Paris

23 See Page 5 of 'Development that Delivers'

24 OECD-DAC (2015)

25 Key Informant 21 Pers comm, 17 March 2015



the manner in which New Zealand expertise can be sourced also varies, in some cases it comes through the abovementioned Partnership and Funds modality, in others requests are made by the CIG direct to New Zealand agencies that have long term partnerships with counterparts in the CIG; in other cases the requests may be made to the High Commissioner to assist with identifying support in a particular area identified by the CIG. These multiple channels and pathways lead to a situation that is reactive and opportunistic in nature as opposed to one that is proactive and strategic. While each activity may be important in its own right (and many do support each other as the discussion under 'coherence' below suggests) the need for more strategic relationship between the respective New Zealand agencies operating in the Cook Islands is clear.

There were other issues relating to the presence or otherwise of a 'clear strategic framework' that emerged during the course of the evaluation. For example, a number of senior Cook Islands officials commented on the strategic disjunction they perceived between the messaging from MFAT programme staff based in the Cook islands, who tended, in their view, to focus on transactional issues, and that of senior staff from Wellington who adopted a more strategic approach, which reflected the high level issues articulated in Development that Delivers – particularly the 'fewer, larger, deeper' strategy. The focus on transactional issues at Post and higher level strategy at Headquarters is not atypical in an aid agency. Interviews with key informants within MFAT suggested that there is now clearly a move towards a higher level of strategic engagement, and this is being operationalised through the design of higher order aid modalities, something that has recently been requested by the CIG.

With regards to alignment to Cook Islands priorities, the JCfD is informed by the Cook Islands National Sustainable Development Plan (NSDP), and its various sector plans, ODA policy and budget priorities²⁶. The Cook Islands National Sustainable Development Plan²⁷ outlines how the Cook Islands will achieve its National Vision and 2020 development outcomes by identifying medium term objectives, presenting national and sector level strategies, proposing outcomes indicators, identifying medium term actions and presenting a framework for implementation, monitoring and evaluation. The Plan identifies eight priority areas: economic development, infrastructure, energy, social development, resilience, ecological sustainability, governance and law and order. This is a very general and high level plan, which provides some visionary guidance for the CIG, but as noted in the recent Forum Compact Review it "fails to identify big picture priorities and structural impediments"²⁸, and as such its utility as a strategic document, which could address key issues such as migration, public debt, tax reform, or public sector reform is limited. While the document does highlight key sectors and suggest key activities in each sector, it does not prioritise these activities, or provide a medium term budgeting framework and implementation plan that may enable these activities to be carried out. This is a critical shortfall as the budgeting process does not seem to consider the aspirations outlined in the NSDP – this issue is discussed further under

26 Page 3 JCfD

27 Te Kaveinga Nui – The Cook Islands National Sustainable Development Plan , 2011 -2015, see: <http://www.mfem.gov.ck/mfemdocs/amd/472-nsdp-2011-2015/file>

28 Pacific Islands Forum Secretariat (2014) The Cook Islands: Forum Compact Peer Review Report, 31st January 2014, pg. 8



'Mutual Accountability' below. So while there is some level of nominal alignment between the JCfD and the NSDP, in that headline priorities align, there is very little strategic alignment between the two documents, as the major impediments to the achievement of development outcomes in the Cook Islands have not been identified by either party in any explicit document and therefore there is no clear strategic framework for addressing those priorities.

2.1.2 Policy Alignment

New Zealand has taken a number of important steps to ensure that its policies and planning processes better align with those of the CIG and these have been developed with the express purpose of improving aid effectiveness. A particularly important example is the adoption of Forward Aid Plans (FAPs). The importance of FAPs was also acknowledged in the recent OECD-DAC New Zealand peer review²⁹. These plans outline a medium-term budget envelope that provides details of all activities from all funds under each of the high level strategic priorities over the course of the JCfD. They focus on bilateral expenditure and are a tool for forecasting and managing that expenditure, but they also map regional and multilateral ODA and therefore include total country aid flows. High level extracts of the FAP are shared with CIG officials for planning purposes and this provides a level of predictability for Cook Islands counterparts with regards to aid flows and is a very useful planning tool for MFAT and the CIG. This is best practice in medium term aid budgeting in the evaluation team's view. FAPs provide the foundations to enable proper Medium Term Expenditure Frameworks to be developed, where forward estimates reflect the costs of existing policies, allowing fiscal space to be calculated and fiscal priorities reviewed and set annually. It is recommended that MFAT lobby for FAPs to be introduced as a new 'Donor Practice' in the upgraded Public Expenditure Financial Accountability (PEFA) – while lobbying to ensure that 'Donor Practices' do not get dropped in the upgraded PEFA. It is a potential 'New Global Standard for a Medium Term Perspective in Donor Practices'. For ideal practice, FAPs could be strengthened if forward year estimates could be split by economic (G&S and Capital) and function (COFOG) classification standards.

29 OECD-DAC (2015)



2.1.3 Systems Alignment and Budget Support

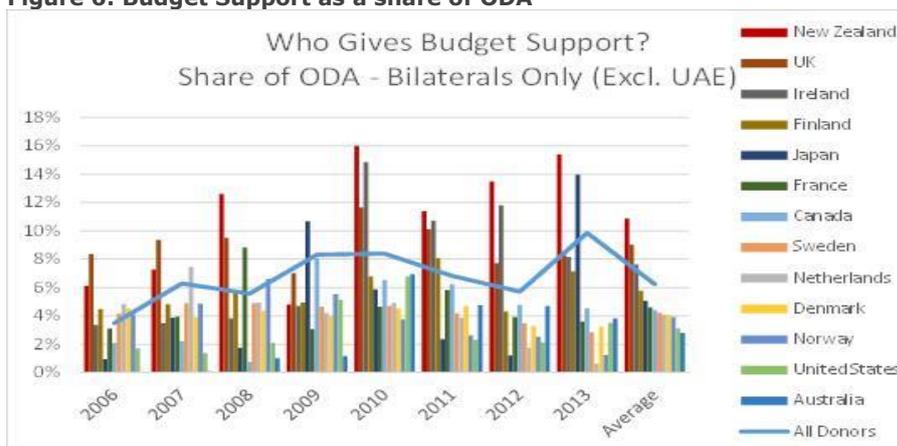
Systems alignment is a measure of the extent to which a donor has worked with and through partner government systems and sought to strengthen those systems.

One of the principal mechanisms through which systems alignment is achieved is through the provision of budget support, wherein ODA funds are disbursed into recipient government bank accounts and reflected as grant revenue in annual budgets for expenditure through recipient government financial systems in accordance with budget allocations. As noted below, Budget Support is a specific focus of this evaluation, as requested in the Terms of Reference. This evaluation considers the types of budget support provided to the Cook Islands, the strategic and risk issues associated with its provision, and whether a move towards increasing levels of direct budget support in the Cook Islands is prudent.

2.1.4 Overview of Budget Support

New Zealand is highly familiar with budget support; indeed as Figure 6 reveals, at 11%, New Zealand provides the most budget support of any bilateral donor in terms of ODA share of donor government total ODA. New Zealand is followed by the UK (9%), Ireland (8%) and Finland (6%). New Zealand's budget support share of ODA is almost double the donor average of 6%.

Figure 6: Budget Support as a share of ODA



Up until September 2015, New Zealand had not provided general budget support to the Cook Islands, but it does provide Sector Budget Support (SBS)³⁰. The New Zealand Minister of Foreign Affairs has recently approved a consolidated grant funding arrangement, which consolidates support to health, education, tourism, social and public sector spending under one umbrella. This support will represent an average of NZD10 million per year, or 66% of the bilateral spend.

³⁰ The New Zealand Minister for Foreign Affairs and Trade recently approved a 'consolidated grant funding arrangement', which will be the first General Budget Support arrangement to the Cook Islands by New Zealand. Funding triggers cover health, education, tourism, public sector strengthening and social sectors. This represents an average of NZD10 million/year over the triennium, or 66% of the bilateral spend. This information was not available at the time of the evaluation.



New Zealand started providing SBS in a significant way in 2010. SBS represented approximately 40% of all New Zealand ODA in 2010, and New Zealand was also the dominant SBS donor (88%) in that year, later becoming the sole SBS donor between 2011 and 2013 (See Figures 7 and 8 for SBS statistics). SBS was provided initially in four sectors: education and agriculture, forestry and fishing. In 2011, tourism replaced agriculture, forestry and fishing and some SBS was introduced for social infrastructure in 2013. The largest flows have been to the education sector (62% of all SBS over the period), followed by tourism (36%). This trend has continued beyond 2012/13, with medium-term expenditure between 2013/14 and 2015/16 in these sectors estimated at NZD10 million in Education and NZD7.9 million in Tourism³¹. In 2013/14 SBS to Tourism and Education was 33% of the Bilateral Programme budget³².

Both the Cook Islands Tourism Corporation and the Cook Islands Education Department are high functioning agencies with sophisticated financial management and reporting procedures. Both agencies have strong leadership, are able to develop strategies and business plans, effectively use budget bids and implement their operations effectively. Tourism sector budget support provided by New Zealand appears to have been effectively utilised. It has played a key role in the growth and stability of tourism numbers over time, which has contributed significantly to economic development in the Cook Islands (as highlighted in Section 3). New Zealand's assistance to the education sector has also supported key educational priorities and helped increase financing levels for the sector – being the dominant source for discretionary non-salary expenditures. Cost-effectiveness analysis of the education sector reveals that the education system appears cost-effective in the Cook Islands, with low costs and relatively good learning results and teaching quality.

New Zealand has followed an effective approach to sector budget support. It adopts a clear results focus, with earmarking of sectoral resources through soft budget approval mechanisms, supported by soft conditionalities around mutually agreed results. Such an approach can support policy dialogue on inputs and outputs, helping to drive a shared understanding between the budget support donor and the implementing agency on what is actually required to achieve desired results. This is a departure from the European Union (EU) and World Bank model of budget support, where funds are not necessarily earmarked to the sector, nor are they linked to the costs of attaining conditions and objectives of the SBS arrangement³³.

31 See MFAT Cook Islands Forward Assistance Plan (FAP)

32 See FAP

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



Figure 7: Sector Budget Support, Cook Islands, 2002 to 2013

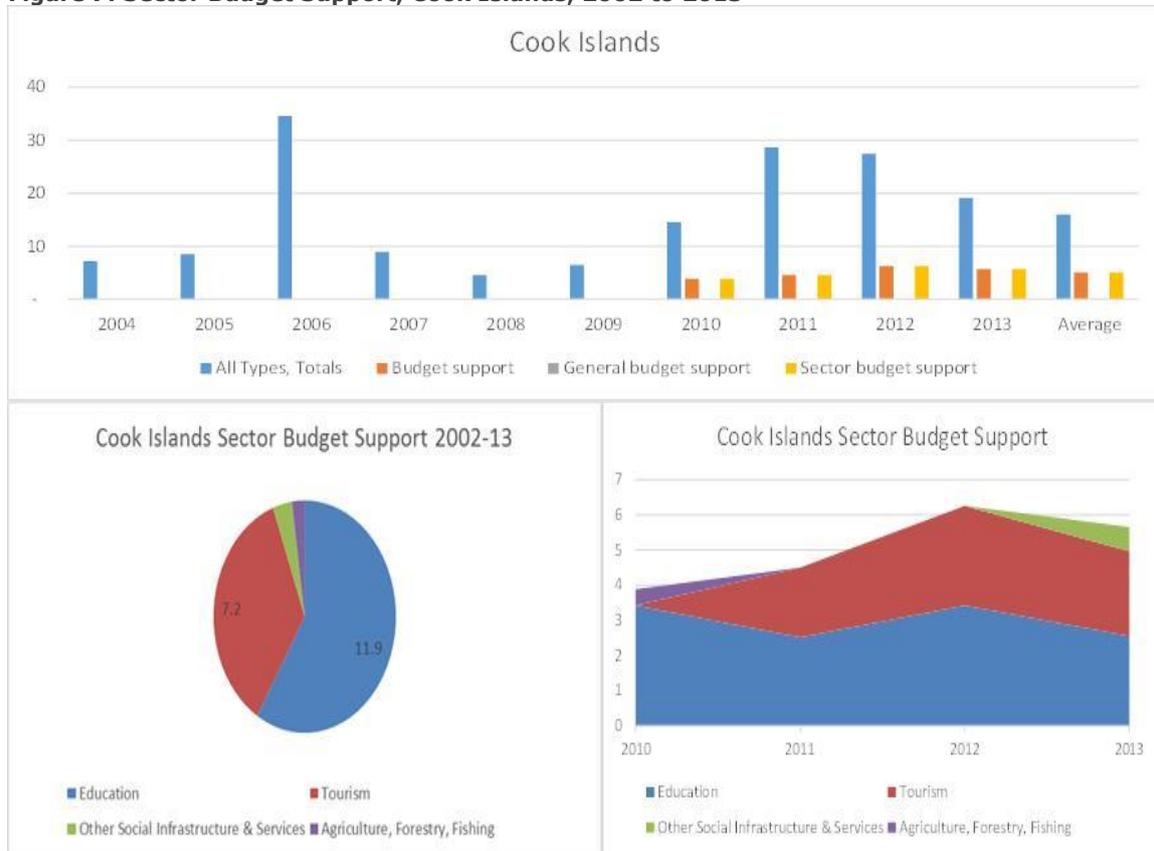
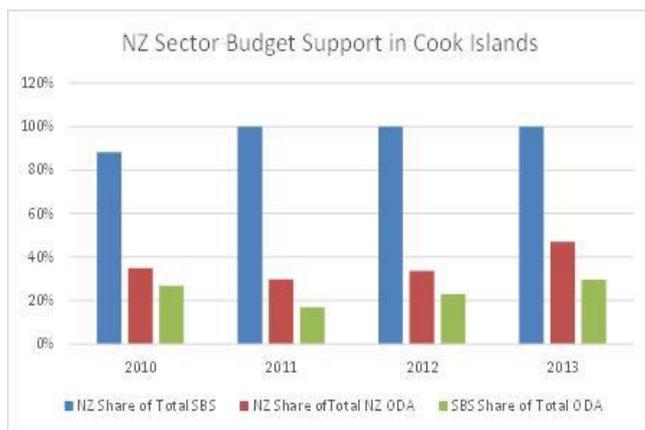


Figure 8: New Zealand’s Sector Budget Support Disbursements to Cook Islands



2.1.5 Moving towards General Budget Support

Over time there have been ongoing discussions between MFAT and the Cook Islands regarding the provision of general budget support and higher order aid modalities more generally. This has been the focus of very recent high level policy dialogue between senior officials from MFAT and the CIG. Senior finance officials from the CIG interviewed for this evaluation expressed a preference for a higher proportion of New Zealand aid delivered as direct budget support in a similar fashion to that delivered by the EU, who now provides



EUR1 million in direct³⁴ budget support to the Cook Islands each year. In accordance with EU guidelines, there are no sectoral floors or ceilings applied to the provision of these funds. 20% of the general budget support funds are fixed on an annual basis and 80% are variable based on macro-economic and governance performance. In accordance with EU budget support guidance, the focus of policy dialogue is on issues such as: maintaining democracy, sound macro-economic policies, appropriate budgeting and planning and sector level improvements.

As noted above, New Zealand has moved to a cross sectoral focused general budget support programme. The program envisages steady, long term sector support (e.g. tourism, education, health, and public sector strengthening) rolled up into a general budget support arrangement, the new budget support modality will be performance-based and will have an increased focus on assisting the CIG with public sector reform including improving financial management issues. It is important that a flexible approach be adopted that allows earmarking of at risk sector resource allocations based on strategic policy. There are essentially two ways to do this through budget support mechanisms:

- **Set an appropriate balance between general and sector budget support** in accordance with strategic policy priorities; and/or
- **Set conditions for annual and medium-term funding floors and ceilings** – with funding floors for sectors or areas where there is risk of too little funding being allocated and spent, and funding ceilings for sectors or areas where there is risk of too much funding being allocated and spent.

Our analysis suggests that the risks associated with a move to direct general budget support are minimal and so the decision taken by MFAT is the right one. The risk associated with sectoral funding misallocations are addressed above. The CIG has sufficient fiscal controls, it has managed to deliver a budget surplus in recent years, and it has introduced sound macro-economic policies. Moving forward, we believe it will be important to continue to support fiscal management performance improvements through the budget support arrangement, and that this should ideally be through some sort of delegated cooperation arrangement with the EU³⁵ to help deliver joint reviews and single plans and reporting.

The analysis in the following section suggests that the Cook Islands is ready for a move to a coordinated approach to direct general budget support and that the fiduciary risks associated with its provision are relatively low, with high probability of delivering increasing development benefits if linked to team-based performance management (see Section Five for a discussion of this approach). It also provides a foundation to assist with strengthening fiscal performance improvement plans.

34 "Direct" budget support means that foreign currency denominated ODA is converted to the local currency using government systems (i.e. by the recipient government banker). Not relevant for New Zealand ODA but relevant for EU budget support.

35 Assuming the EU will continue to support Cook Island's given their graduation to high income country status.



2.1.6 Fiduciary and Development Risk Analysis

In order to make prudent judgements about its budget support operations in the Cook Islands, it is important for New Zealand to understand the fiduciary and development risks (see Box 1) associated with the Cook Islands' PFM system – this is the focus of this section. A focus on fiduciary risk is critically important as there are claims of strong links between levels of perceived fiduciary risk and a donor's willingness to provide budget support. It is also important as reducing exposure to fiduciary risks during budget support operations can and should be incorporated into the conditionalities of the operation.

Box 1. Defining Fiduciary and Development Risk

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

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

See Shand, 2005

There are different ways to measure systemic fiduciary risks emerging as a result of weaknesses in PFM systems. One way is a simple expert opinion of PEFA results. Another way is to weigh PEFA scores for fiduciary risk factors, in recognition that some PEFA indicators are more important for fiduciary risk than others (e.g. bank reconciliations are more important for fiduciary risk compared to medium term budgeting, which is more important for development risk). A third approach takes a subset of PEFA indicators as a proxy for fiduciary risks – this approach is the PEFA-10 method³⁶, based on the idea of "basics first in accounting control". A fourth approach first used in 2009 is the PEFA-plus approach³⁷, which expands the PEFA indicator set and applies fiduciary risk factors to quantify risk scores. The first and second of these four approaches were adopted here.

36 Hashim, 2015, "Presentation: A Practitioner's Guide for Setting Reform Priorities, Systems Design and Implementation", Phnom Penh, Cambodia. The PEFA-10 approach focuses attention on the most important PEFA indicators related to fiduciary risk.

37 Methodology first used in 2009 in Papua New Guinea, and applied in various other countries including Tokelau, Afghanistan, Ghana, Zambia, Iraq, Vietnam, Turks and Caicos Islands. Methodology paper available on request.



It is important to appreciate that PEFA provides an evidence base to discuss reform priorities³⁸. It was never meant to be the defining prioritisation tool or a simple scoring mechanism, it is a heuristic device used to discuss reform priorities with governments and that is all. Setting PEFA targets as aspirational and guiding targets has been shown to be very helpful to implementers to own and direct reform over time.

2.1.7 How does the Cook Islands perform with regards to Fiduciary Risk?

While The Cook Islands performs relatively well on PEFA, with an average score of C+, and an average PEFA-10 score of a high C. Figures 10 and 11 below reveal the strengths and weakness of the CIG's fiscal management systems. In summary the strengths include:

- a credible and accurate budget;
- good medium-term budgeting process with a working system of rolling over and explaining changes in forward estimates;
- a relatively transparent tax system;
- good debt and payroll management;
- good reconciliation of accounts, with good in-year reporting, quality annual financial statements and the application of solid accounting standards; and
- high quality audits and solid legislative control of appropriations.

However, fiscal performance is constrained due to weaknesses in key systems. These include:

- a classification system that makes it difficult to compare performance with other countries;
- insufficient oversight of public corporations to minimise avoidable fiscal risk;
- sector strategies (where they exist) are not properly costed, and the current costs of projects are not reflected well enough in forward year estimates;
- the tax collection rate is too low with inadequate tax reconciliation;
- cash balances are not consolidated well enough, increasing fiscal management pressures;
- establishment control is weak, putting undue pressure on the wage bill;
- very weak procurement system, increasing risk of poor value for money;
- lack of commitment control, increasing fiscal management pressures and weakening fiscal discipline;
- lack of internal audit capacity - compromising financial disclosure and the integrity of the continuous improvement cycle;
- weak reporting on service delivery resourcing and performance, with no ministerial portfolio budget statements or annual reports of portfolio performance – compromising the integrity of the continuous improvement cycle;
- late production of financial statements – compromising timely review;

³⁸ See Appendix 1 on Synthesis Report for a discussion of the applicability of PEFA in the small island state context



- late external audits – primarily due to the legislative requirement to audit every budget holder/Ministry rather than auditing CIG as a whole (appropriate for small budget government) – compromising the integrity of the continuous improvement cycle; and
- insufficient scrutiny by the legislature of proposed budgets and actual performance.

Overall, however, the weakness in the system constitutes a moderate level of fiduciary risk, with weak tax collection and procurement systems compromising performance the most, as a result these should be the target of PFM reform plans.

Levels of fiduciary risk are reasons donors often cite to not channel aid through budget support mechanisms, which is related to concerns of reputation risk for the donor. The extent to which New Zealand’s delivery of project aid outside of government systems is due to fiduciary and reputation risk concerns is really a matter for MFAT to answer. From a technical point of view, the level of fiduciary risk posed by Cook Island’s system is only moderate, meaning the fiduciary risk argument against provision of budget support is weaker.

Development risks – or the risk of development objectives not being achieved – were assessed as substantial, primarily due to weak legislative oversight of proposed budgets and actual performance. **In other words, CIG has a lower probability of being able to convert its own funding as well as aid funding into development outcomes, than would otherwise be the case if they had stronger planning and review systems.**

Donor performance related to the provision of timely estimates of aid projects outside of country systems but in line with the budget cycle is rated as very good. **This is partly due to the outstanding system of FAPs used by New Zealand**, which delivers clarity and predictability (noting the FAPs are appropriately only estimates of future commitments and are not hard commitments). FAPs provide the framework to help deliver proper annual budgeting of multi-year funded projects.

Donor performance of reporting on actual expenditure performance is poor according to the last PEFA. This has important aid policy implications. For example, it is recommended that MFAT consider supporting a PFM reform priority of routine publication of annual reports of performance that would be produced by the Government and covers both consolidated financial reporting (government and donors expenditure added together) and non-financial results (outputs and outcomes) of government and donor spending. With the Cook Islands being small, such a task is actually easier to do than if the country was large. The weak PEFA scores on use of country systems needs further investigation as it appears that poor scores are applied on the basis that the sector budget support does not actually go through government accounts, but directly through quasi-public corporations.

The overall implication of the risk assessment for MFAT is that the risks need to be acknowledged and a plan for feasible risk reduction agreed i.e. through a fiscal performance improvement plan. Such plans can then be the basis for team-based performance management, and a performance based budget support arrangement.



Figure 9: PEFA-10 and Donor Practice Scores

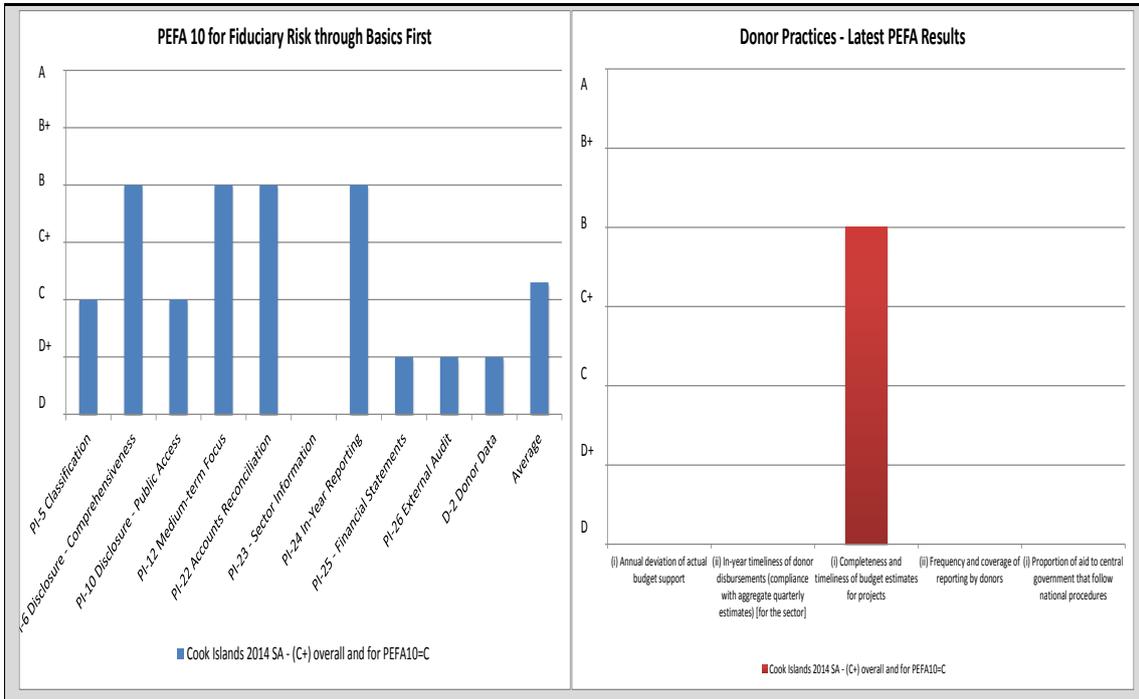


Figure 10: Cook Island’s Fiscal Management Performance – Strengths Revealed by PEFA

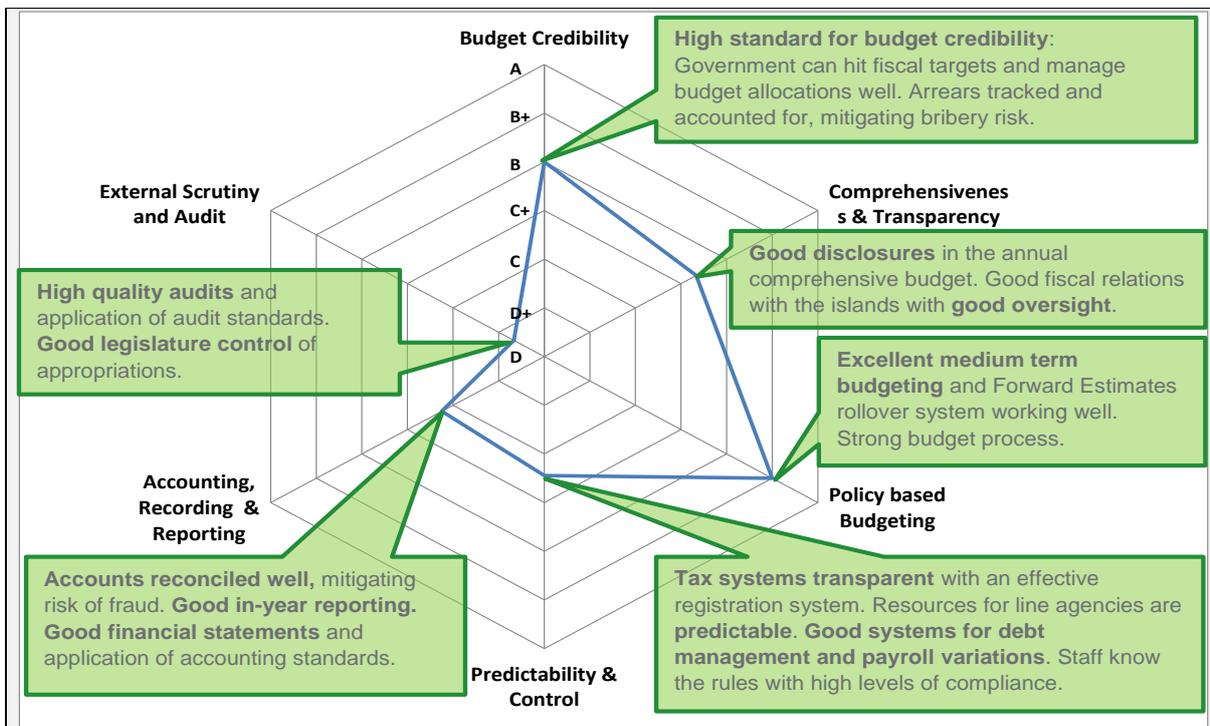


Figure 11: Cook Islands Fiscal Management Performance – Weaknesses Revealed by PEFA

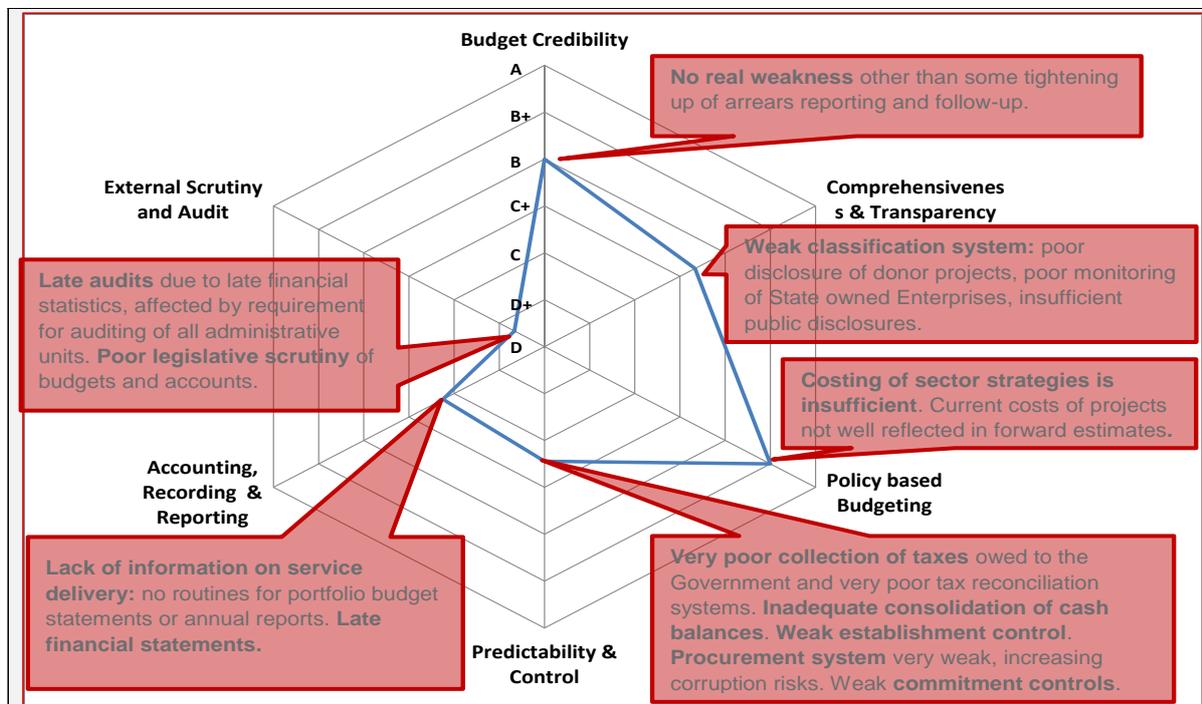
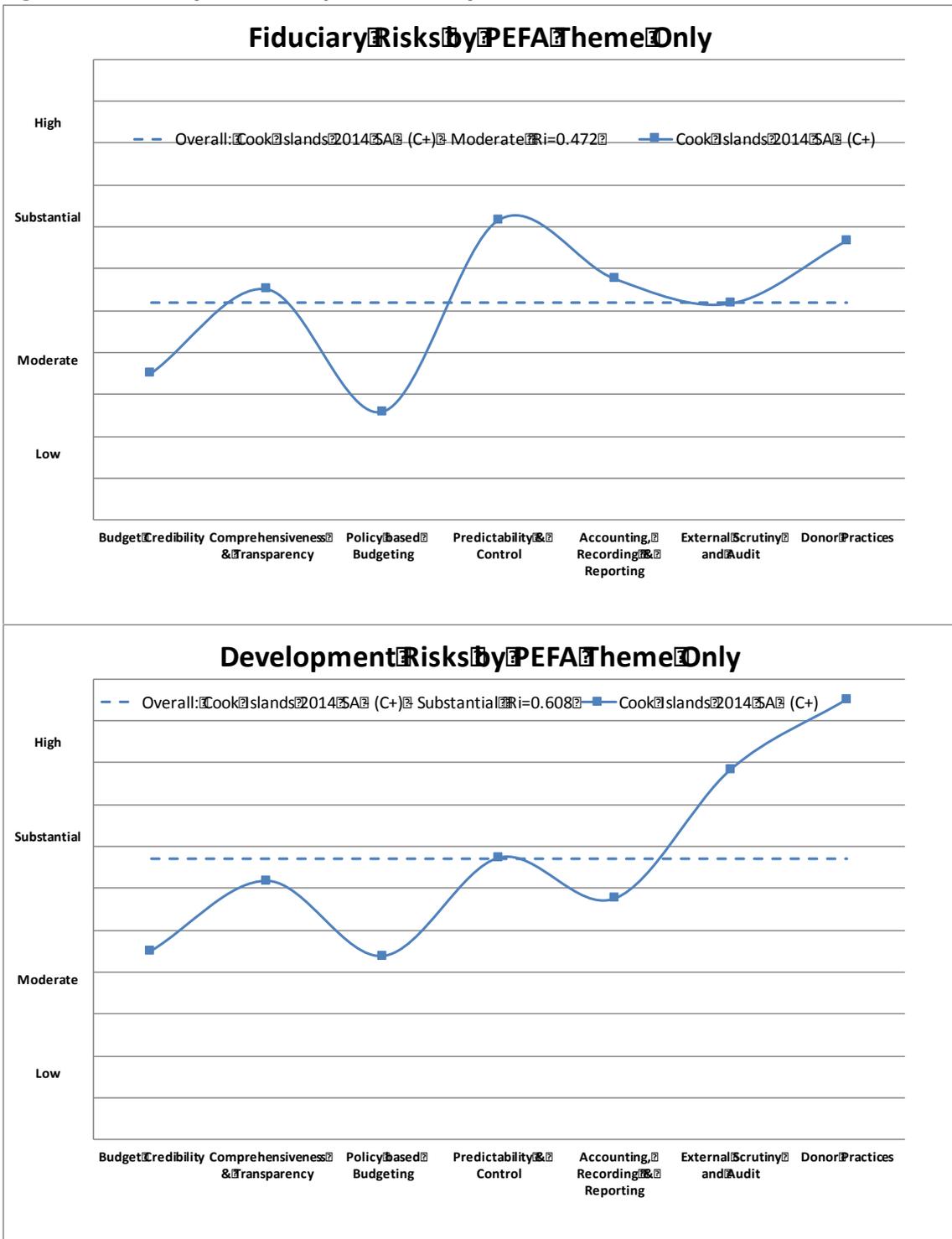


Figure 12: Fiduciary and Development Risks by PEFA Theme



2.1.8 Absorptive Capacity Analysis

Another important issue to consider when thinking about systems alignment, and the quality of country systems more generally, is absorptive capacity. **A concern for absorptive capacity is based on the recognition that from a development effectiveness perspective there are limits to the amount of aid that a country can absorb efficiently** and, as a consequence, allocating more aid to a country could actually result in less than optimal effectiveness. Absorptive capacity will depend on many factors, in particular including the capacity of relevant partner government staff and administrative systems. This type of analysis is important as it can help donors in their aid allocation decisions.

Put simply, more aid does not necessarily mean greater development effectiveness. A key task for an aid programme is to allocate aid among and within countries in such a way as to avoid losses in development effectiveness that might be considered excessive or not totally justified on non-developmental criteria. Figure 13 illustrates this thinking and is consistent with findings in the research literature on aid effectiveness³⁹.

Figure 13: Absorptive Capacity

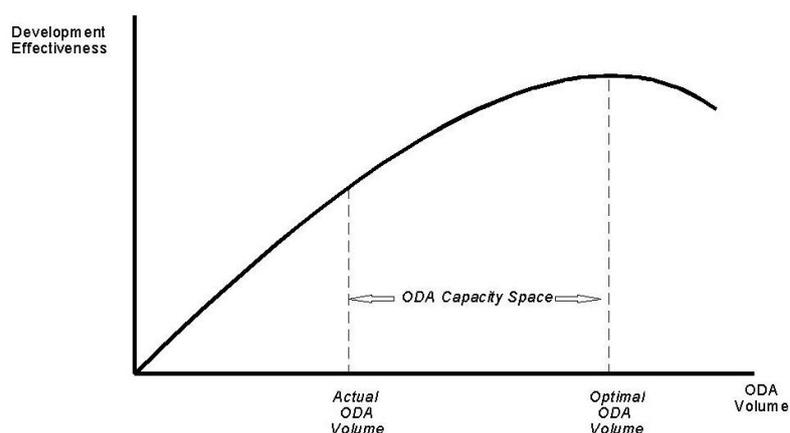


Figure 13 provides an illustration of absorptive capacity for a hypothetical aid receiving country at a single point in time. It shows that as the level of aid (ODA volume) to this country increases, so too does development effectiveness, but only up to the optimal ODA volume. The optimal ODA volume is that level of aid at which development effectiveness is highest. Beyond this level development effectiveness commences to fall. The reason for this fall is absorptive capacity. The idea is similar to the resource curse, where too much of a

³⁹ Absorptive capacity is an issue that has become increasingly prominent in aid policy circles, owing largely to concerns over scaled up aid in order to meet the Millennium Development Goals. It has been recognized, however, that these issues are relevant at all aid levels, large and small. A large literature has emerged on these topics and includes Guillaumont and Guillaumont (2006), Bourguignon and Sundberg (2006), Heller and Gupta (2002), Heller et al. (2006) and McGillivray and Morrissey (2001), McGillivray and Feeny (2009) and Feeny and McGillivray (2010).



good thing can be detrimental, including with aid, where aid-induced Dutch disease⁴⁰ can emerge.

The general rule of the thumb for absorptive capacity from the perspective of the ODA to GDP ratio is 20%. Research has shown that for Small Island Developing States (SIDS), the level of ODA at which its contribution to growth is highest is when ODA is around 35% of recipient country GDP⁴¹. It is stressed that there are competing reasons to allocate aid, and efficiency is only one of many. The formula approach is not intended to provide the definitive allocation, just a baseline to help focus discussion on aid allocation levels. **It should also be noted that there are many persuasive cases that can be made to exceed the rules of thumb.** For example, investing in capacity and developing and institutional performance culture could arguably be efficient if for example it is able to push the absorptive capacity schedule up and to the right.

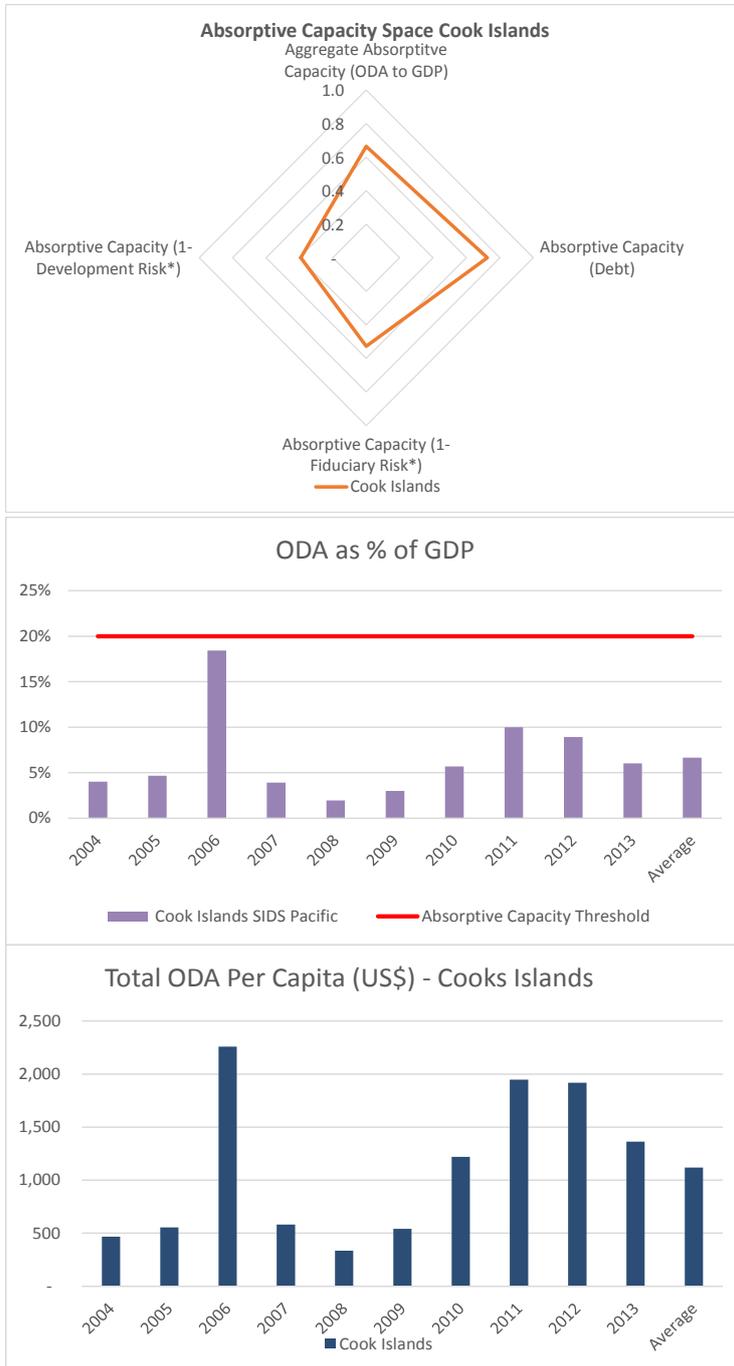
Absorptive capacity can be measured in different ways. The most simple is through a single dimension: % of ODA to GDP as raised above. There other dimensions, and these include reviewing aid in per capita terms, and against other determinants aid absorption, including quality of fiscal management systems, levels of debt, capacity of the private sector and donor behaviours.

40 Dutch disease is one of the four main theories that explain the resource curse. The resource curse refers to the general observation that, since the 1970s, certain countries rich in natural resources have achieved a slower rate of economic growth than resource-poor countries. The other three theories are; i) rent-seeking and governance; ii) volatility; and iii) non-tradeables specialization and financial market imperfections. These theories have been applied to ODA flows, reflecting the importance of aid flows in many developing county economies. The Dutch disease explanation focuses on macroeconomic factors, while the other theories are more microeconomic or institutional in nature. Dutch Disease theory says that significant increases in revenues from resources shift the domestic production to non-tradeables (e.g. construction and domestic services). This shift happens because the increase in income leads to an increase in demand for goods and services overall, but since non-tradeables have to be produced locally, the economy becomes more focused on the production of non-tradeables. But this only implies that resource or revenue booms cause a contraction in manufacturing (tradeables). The next step is crucial to the Dutch disease explanation. It is founded on the notion that the tradeable goods sector is better for growth than the non-tradeables sector. It follows that any shift from the former to the latter results in less economic growth than would otherwise be the case. An important issue to note is that the Dutch Disease explanation still recognizes that high growth driven from massive revenue windfalls still occurs in the short-run. In the medium term after the domestic economy has adjusted to the new structure, growth will be slower than if the domestic economy did not adjust. That is, slower economic growth at a higher level national income. (See Davis, Ossowski, Fedelino, 2003, "Fiscal Policy Formulation and Implementation in Oil-Producing Countries" IMF). Aid-induced Dutch disease arises for exactly the same reasons as that due to increased revenues from resources. That is, it arises if aid causes a shift away from the tradeables to non-tradeables goods sectors, which is bad for growth on the grounds stated above.

41 McGillivray, M and S. Feeney, 2010, "Aid and Growth in in Small Island Developing States" in Understanding Small Island States", Routledge, New York, USA.



Figure 14: Cook Islands Absorptive Capacity



Cook Islands	2005	2006	2007	2008	2009	2010	2011	2012	2013	5 Year Average
Aid to GDP	5%	18%	4%	2%	3%	6%	10%	9%	6%	7%
Debt to GDP	37%	19%		14%	19%	22%	20%			20%
Debt to Revenue	91%	34%		37%	52%	57%	51%			53%
Debt Service to Revenue	2%	1%		2%	2%	3%	2%	1%	1%	2%
Absorptive Capacity Threshold	20	20	20	20	20	20	20	20	20	20
Debt GDP Threshold	40	40	40	40	40	40	40	40	40	40
Debt to Revenue Threshold	250	250	250	250	250	250	250	250	250	250
Debt Service to Revenue Threshold	20	20	20	20	20	20	20	20	20	20
Aggregate Absorptive Capacity	0.77	0.08	0.80	0.90	0.85	0.72	0.50	0.55	0.70	0.66
Debt Capacity - GDP	0.07	0.52	1.00	0.65	0.53	0.45	0.51			0.50
Debt Capacity - Rev	0.63	0.86	1.00	0.85	0.79	0.77	0.80			0.79
Debt Capacity - Service	0.89	0.96	1.00	0.92	0.90	0.87	0.91	0.97	0.97	0.92
Aggregate Absorptive Capacity	0.77	0.08	0.80	0.90	0.85	0.72	0.50	0.55	0.70	0.66
Absorptive Capacity for Additional Debt	0.53	0.78	1.00	0.81	0.74	0.70	0.74			0.73
Absorptive Capacity (1-Fiduciary Risk)									0.53	0.53
Absorptive Capacity (Development Benefit)									0.39	0.39

Source: OECD DAC CRS, WDI and Collected Data from the Authorities.

Four dimensions were reviewed to assess the capacity of the Cook Islands to efficiently absorb more aid. Capacity dimensions were assessed as proximity to:

1. ODA to GDP absorptive capacity threshold/rule of thumb reported in the literature (20%) – this is the macro absorptive capacity indicators commonly reported in the literature;
2. Debt levels compared to IMF/World Bank Debt Sustainability thresholds (captures capacity to absorb aid related concessional debt);
3. Levels of fiduciary risk of mismanagement and/or corruption from weak systems (captures capacity to allocate, distribute and spend aid efficiently); and
4. Levels of development risk, meaning the probability that the system will deliver on development objectives when allocating and spending more aid (captures development policy implementation capacity)

Results of the assessment are presented in Figures 14. Aid to GDP levels on average were around 7% over the period, which is well below the absorptive capacity rule of thumb limit of 20%. Prima facie, this low level is consistent with relatively high income levels of the Cook Islands and its well-developed tourism industry. Similar results were found in average per-capita terms with the Cook Islands receiving USD467. Fiduciary and development risk were relatively low as discussed in the previous section. **What this means is that the Cook Islands has significant capacity to absorb more aid in an efficient way, or in other words, investing in Cook Islands through aid will deliver core levels of value for money.**

The implications for MFAT is that if more aid was given, MFAT could be assured that the resources would very likely provide value for money. And moreover, the absorptive capacity analysis also reveals that given that country systems are relatively strong, more aid can be channelled through country systems – delivering the much sought after systems alignment.



2.2 Harmonisation

Harmonisation is the extent to which donors better coordinate their development work amongst themselves to avoid duplication and high transaction costs for recipient countries. This evaluation looks at some of the ways that New Zealand has sort to harmonise its programme in the Cook Islands.

The New Zealand aid programme in the Cook Islands is a harmonised aid programme delivered jointly with Australia. This harmonised programme has been in place since 2008. The Delegated Cooperation Arrangement (DCA) between Australia and New Zealand⁴² provides details of how this delegated cooperation works in practice in areas like forward planning, financial assistance, consultation, monitoring and evaluation and accountability. New Zealand receives funds on an annual basis which it retains in trust and spends in accordance with the priorities agreed to by the three governments in the JCfD and as laid out in its FAPs. The DCA was continued after 2012 and amended to include an element of soft tagging in areas like resilience to climate change and women's empowerment⁴³. Since the signing of the amendment in 2012, Australia's allocation to the Cook Islands has reduced significantly, from a predicted NZD2.81 million in 2014/15 and NZD2 million in 2015/2016⁴⁴ to a predicted AUD1 million in each of these years⁴⁵. Shifts such as these affect the predictability of aid flows on the margins and are one of the downsides of delegated cooperation from a financial planning perspective. The burden of these changes typically falls on the primary donor who has to manage the adjustments through programme pipeline modifications. The Australian government's commitment to this agreement seems likely to continue despite the recent dramatic changes to its aid programme⁴⁶. Senior Cook Islands officials interviewed as part of this evaluation appreciated the proactive role New Zealand plays in administering this harmonised programme which reduces the administrative burden on the CIG.

New Zealand is also involved in the Te Mato Vai project, which is the second largest infrastructure project ever in the Cook Islands (after the Rarotonga airport), which aims to deliver improved potable water facilities to residents of Rarotonga. This project is being delivered via a triangular partnership with the Cook Islands and Chinese Governments. This is the first time that China has partnered with a traditional donor to deliver an aid programme in the Pacific. Senior informants from the Cook Islands and New Zealand governments interviewed for this evaluation confirmed the leading role the CIG played as the driver of this initiative; this is a sign of the strength of development cooperation capability within the CIG, and the strong role the Ministry of Finance and Economic Management plays in donor coordination more generally. The Minister of Finance has been integral to the

42 Donor Funding Arrangement for a Donor Harmonised Programme of New Zealand and Australian Official Development Assistance to the Cook Islands (2008-2012), 22nd October 2008, unpublished internal document

43 Amendment 1 of the Arrangement of Delegated Co-operation between

44 See MFAT (2014) Harmonised Development Assistance Programme from New Zealand and Australia to the Cook Islands, Annual Programme Report, 2014, unpublished internal document

45 See DFAT Cook Islands Budget Allocation at <http://dfat.gov.au/geo/cook-islands/development-assistance/Pages/development-assistance-in-cook-islands.aspx>

46 See: http://www.aid.govt.nz/webfm_send/674



progress of this project and was involved in many aspects of project development⁴⁷. The CIG realised that a holistic approach was required to address the islands chronic water supply problems and it designed a model that drew on the respective approaches of the two donors, i.e. grant funding through a more traditional north-south development partnership as is the case with New Zealand, with a heavy focus on technical design and quality issues, and concessional finance through the Chinese EXIM bank and China's concomitant construction expertise. The New Zealand government and Chinese governments are providing NZD26 million and the CIG is providing the remaining balance. A significant amount of time and effort has been expended on stakeholder consultation and technical designs for the various stages of the project, however the project has suffered from delays due to the disinfection debate and ongoing issues associated with land acquisition, which has not been resolved despite the intense stakeholder negotiations. Stage two, which involves upgrading existing intakes, trunk pipelines and constructing new treatment and reservoir storage facilities is expected to be delayed significantly as work has to be undertaken on private land and compensation for land use has so far not been provided. This is expected to delay the implementation of the project by six to nine months⁴⁸. Land acquisition and access for publicly funded capital works is an ongoing problem that has plagued infrastructure projects in the Cook Islands for years, and is an example of the type of structural issues that the Forum Compact Report highlighted in its review that both the CIG and donors should address explicitly in their respective strategic documents.

2.3 Coherence

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

The second is the coherence of domestic New Zealand policy. New Zealand seeks to take action to 'identify positive synergies and avoid the negative consequences' of its domestic policies⁴⁹. The avoidance of negative spill-overs emanating from domestic policies is a key feature of the emerging Policy Coherence for Development (PCD) agenda⁵⁰. Ignoring these spill-overs can undermine development objectives, and reduce the effectiveness of development efforts⁵¹. This evaluation briefly considers the impact of some domestic New Zealand policies vis-à-vis the Cook Islands.

47 See Mark Brown presentation

48 Cook Islands News, Thursday March 12, 2015

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

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

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



2.3.1 Programmatic Coherence

This discussion focuses on “investment in economic development” and “promoting human development” as they comprise the vast majority of New Zealand’s ODA and are the focus of this evaluation. Funding for the ‘investing in economic development’ priority exceeded 50% of total programme funding in the previous two financial years. New Zealand’s efforts to address economic development are delivered through four funds: the Bilateral Programme, the Partnerships and Funds Programme, the Pacific Economic Development Programme and the Pacific Regional Agencies Programme. The majority of funding for initiatives under this priority over the last three years has been provided through the Bilateral Programme; however, the majority of activities are delivered through the three much smaller programmes.

The Bilateral Programme funds economic infrastructure initiatives in areas like renewable energy, and marine-focused infrastructure projects, and provides ongoing sector support for tourism. It also provides funds for the Cook Islands Technical Assistance Facility (CITAF), which New Zealand classifies as an economic development programme, and a small private sector focused project – the Pearl Industry Revitalisation project. New Zealand’s renewable energy funding includes significant investment for the provision of solar power to the Northern Group of islands totalling NZD23.6 million over the last two financial years. It also included NZD4.9 million for renewable energy infrastructure at the Rarotonga airport and associated work to improve the enabling environment for the effective use of renewable energy. The analysis in Section Three discusses the results of New Zealand’s ongoing support for renewable energy and tourism.

The Pacific Economic Development Programme provides a relatively small amount of funds for a wide range of small value activities in the area of economic development (15 activities in 2014-15 with an average value of approximately NZD100,000). These range from support with regional and global trade facilitation and negotiation; providing technical assistance in areas that have a regional dimension, such as Airspace, Customs and Fisheries; and funding regional bodies to provide high level technical advice in areas like public financial management and private sector development. These programmes don’t invest directly in economic infrastructure, but target areas where economic benefits can be maximised through better cooperation (e.g. through more favourable regional and global trade outcomes or more favourable fishing license outcomes), where risks to economic development can be addressed (e.g. air safety) and where governments systems can be improved (e.g. audit, customs, public service capacity).

The Partnerships and Funds Programme had a similar profile of initiatives over the last three years, i.e. projects that address risks (in this case in maritime safety in particular), and efforts to improve capacity in key areas such as audit. The Pacific Regional Agencies Programme supports agencies in the region that provide support to the Cook Islands in the area of economic development, such as the Forum Fisheries Agency, the SPC and Pacific Trade and Investment Promotion. In 2014-15 the latter three funds comprised 25 activities with an average value of NZD154,000 spread over the following sectors: audit, trade facilitation/negotiation/promotion, maritime safety, air safety, customs support, private sector development, fisheries, infrastructure, and regional governance.

The lack of a concise strategic framework with regards to how New Zealand seeks to promote economic development in the Cook Islands creates difficulties when seeking to



assess the coherence of New Zealand's engagement at the 'priority' level because there is no frame of reference to compare investments against. Nowhere in the strategic guidance is the rationale for New Zealand's various investments (at the funds level) in 'economic development' spelt out; rather different funds are used for projects nominally related to 'economic development'. Looking at New Zealand's overall investments in economic development, it is clear that the majority of programme funds, aside from those supporting tourism, are targeted towards a small number of large value investments in economic infrastructure, augmented by a relatively large number of small value activities that seek to supplement capacity in key areas and address risks in others. It is unclear how the small value activities support or complement the larger value ones, or seek to address those issues that constrain economic development and government performance in the Cook Islands, issues which are many and varied.

A review of the portfolio highlights the importance New Zealand has given to the issue of risk in the areas of maritime and air safety in particular, and this is an important focus in the evaluation team's view and one that could usefully inform the development of a more strategic approach to 'investing in economic development'. As noted by one key informant, the risk-focused activities in maritime and air safety seek to address 'those small things that could make the whole thing unravel'⁵². These programmes target areas where CIG government capacity is very weak, for example the area of air safety. A recent audit by the International Civil Aviation Organisation (ICAO) on air safety in the Cook Islands caused concern within MFAT due to the many shortfalls highlighted in safety areas such as: legislation, organisation, licensing, operations, airways and navigation. The Cook Islands scored well below the global average and some significant issues were raised⁵³. The capacity of the CIG to respond to these issues is very limited and the consequences of not proactively addressing the audit recommendations are far reaching, and could, if not addressed, result in certification problems and risk-averse airlines choosing not to fly to the Cook Islands, an outcome that would have a significant impact on the economy which relies on tourism more than anything else. It could also affect ongoing negotiations with airlines regarding future air routes to the islands. This is an example of a prudent and risk-averse project that strategically links to New Zealand's much larger investment in tourism and investment in 'economic development'. It is these types of strategic synergies that should be fostered more clearly across the programme to ensure that small and large value programmes complement each other as much as possible.

Funding for human development in the Cook Islands has been approximately 20 per cent of total programme funds over the last two years. Activities in support of human development are delivered through three programmes: the Bilateral Programme, the Pacific Human Development and Governance Programme, and the Partnerships and Funds Programme. The Bilateral Programme provides approximately NZD3 million per year in budget support to the education sector; funds large programmes in water and sanitation; funds the Te Mato Vai project, and provides funding for specialist health visits. New Zealand's bilateral programme has a significant focus on water supply and sanitation and this is warranted noting the

52 Key Informant 22, pers comm 29th April 2015

53 See: <http://www.icao.int/safety/Pages/USOAP-Results.aspx>



importance of this issue in the Cook Islands and the significant decrease in water quality in the lagoons surrounding Rarotonga, and the relationship between potable water quality and human health. The analysis under 'Strategic alignment' highlighted the importance of this issue in the Cook Islands. Aside from the obvious health implications, a decrease in water supply and sanitation quality has the potential to impact adversely affect tourism. Water quality issues have been a persistent problem in the Cook Islands for over a decade. Analysis in 2005 confirmed that water quality levels were below international standards and had the potential to undermine tourism⁵⁴.

The Partnerships and Funds Programme funds a small number of unrelated activities delivered by New Zealand agencies in areas such as: health literacy, tertiary education development, ambulance services, youth enterprise and local government capacity. The latter programme funds technical assistance from New Zealand local councils in areas such as waste, water storage and, recently building the capacity of Infrastructure Cook Islands. New Zealand NGO's such as Volunteer Services Abroad (VSA) also operate in the Cook Islands with their own core funding (provided by New Zealand ODA) and place volunteers in in-line positions within CIG ministries with a view to supplementing capacity where requested. VSA is currently working on placing engineers in the CIG to work alongside infrastructure counterparts in areas like water and sanitation, which as noted above, is a key priority of the government. The Pacific Human Development and Governance Programme funds small health activities in the areas of blindness prevention, run by the Fred Hollows Foundation and sexual and reproductive health projects run by the UNFPA.

As with the 'investing in economic development' priority the lack of a strategic framework for New Zealand's investments makes it very difficult to assess the coherence of the New Zealand's support for 'Human Development', as the logic for funding the various programme elements is unclear. New Zealand's Bilateral Programme support issues of high importance to the Cook Islands, particularly those in water and sanitation. As the analysis under 'systems alignment' highlighted the capacity of the government to deliver these infrastructure-related activities is limited, and is one of the primary reasons for delivering the renewable energy programme through the Office of the Prime Minister. However, New Zealand's approach to building capacity in this area lacks clarity and could be much more systematic and strategic. This should be a high priority noting the importance of infrastructure for both economic development and human development in the Cook Islands. At present, New Zealand's support for building infrastructure management and capacity includes the provision of volunteers to supplement capacity in much needed areas, and support through LGNZ to help Infrastructure Cook Islands (ICI) implement recommendations emerging from the special audit of that organisation. MFAT has concerns with the capability, capacity and financial management systems of ICI to deliver projects and has in the past chosen to bypass this organisation in order to fast track infrastructure projects. While this may suit short-term goals to deliver important infrastructure projects, it doesn't help improve capacity in what remains an important government institution. New Zealand agencies operating, or seeking to

54 See: Holland, B and B, Parakoti (2006) Economic cost of watershed degradation – using economic tools to create incentives to protect watersheds on Rarotonga, SOPAC, Paper prepared for the 23rd Science, Technology and Resources Network (STAR) Conference, Honiara, Solomon Islands, September 2006; held in conjunction with the SOPAC 35th Session



operate in the Cook Islands in the infrastructure space commented on the need for a more high level and strategic approach to infrastructure capacity building in the Cook Islands that they could all align to. These agencies wanted to understand how best to deploy their resources to most effectively address capacity constraints. Some New Zealand agencies were unsure of what others in the same space were doing and believed that while “independence needed to be respected...more could be done by working together”⁵⁵. The lack of a coherent, strategic approach to infrastructure capacity development affects the ability of New Zealand to optimise its support across its whole programme.

2.3.2 Policy Coherence for Development

As noted above, the aim of Policy Coherence for Development (PCD) is to ensure that New Zealand’s domestic policies achieve positive results for developing countries and avoid negative spill-overs. In 2013 MFAT commissioned a review into opportunities to improve its PCD⁵⁶ (“Sapere Report”) and this research identified a number of options. The primary areas for expanding PCD that are relevant to the Cook Islands included expanding New Zealand’s Pension Portability Programme (PPP), safeguarding remittances, and providing risk underwriting for exports and services.

In 2013 the New Zealand government signalled its intention to modify PPP arrangements. The improved PPP policy allows residents of Realm states to apply for New Zealand superannuation or the veteran’s pension from their country of residence provided they can demonstrate they were resident and present in New Zealand for ten years since the age of 20, including five years since the age of 50. The improvement of these arrangements is a topical issue that has generated a significant amount of debate both in New Zealand and in the small islands states of the Cook Islands, Niue and Tokelau, who are initially targeted by the new arrangements. The *Social Assistance (Portability to the Cook Islands, Niue and Tokelau) Bill* was introduced into parliament in July 2014 and was subject to a second reading and review in May 2015. All the parties supported the Bill, but parliamentary records highlighted some concerns over the requirement that citizens of the Realm, who are New Zealand citizens, should demonstrate that they have resided in New Zealand for five years after 50, which is different from the treatment of New Zealand citizens resident in New Zealand. Amendments to this effect have been proposed by the New Zealand First Party⁵⁷.

These concerns were echoed in the Cook Island’s submission to the Social Services Committee during its first reading of the Bill in January 2014⁵⁸ and reaffirmed by Prime Minister Puna during his address to the same Committee in May 2015. The CIG supports amendments to modify eligibility to 10 years residence after the age of 20, with no requirement to reside in New Zealand for five years after 50. The CIG submission noted the economic benefits such an amendment would have for the Cook Islands (an additional

55 Key Informant 23, per comm 15 May 2015

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

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

58 Government of the Cook Islands (2015) Submission on the Social Assistance (Portability to Cook Islands, Niue and Tokelau) Bill 2014, 27th January 2015



NZD1.5 million per year), the special nature of the relationship between New Zealand and the Cook Islands, the economic benefits of high levels of migration between the Realm countries and New Zealand, the insignificant cost such an amendment would have on New Zealand's economy, and the fact that similar arrangements (though reciprocal in nature) have been reached with other countries whose citizens are not New Zealand citizens. At present the matter remains unresolved before the House and it is unknown if the proposed amendments will be approved. While the economic impact has not been modelled, it is clear that there exists an opportunity for the New Zealand government to further the principles of PCD and confer a significantly more positive result for the Cook Islands through the adoption of these amendments.

With regards to the safeguarding of remittances, it seems that the advent of Anti-Money Laundering and Countering Financing of Terrorism (AML-CFT) legislation both in New Zealand and Australia has had some negative impacts on the Cook Islands. According to the Australian Financial Review⁵⁹, the enactment of this legislation, and the costs of complying with its provisions, influenced the decision of the Westpac Bank, one of only two banks in the Cook Islands, to sell its Pacific island enterprises to the Bank of the South Pacific (BSP). This has caused concern within the Cook Islands with regards to the stability and capability of BSP and its ability to continue to provide direct money transfer services for individuals and access to New Zealand and Australian bank accounts⁶⁰. With this in mind, and noting the importance of remittances and banking facilities for Cook Islanders, New Zealand's PCD objectives could be further enhanced by acting on some the recommendations of the Sapere Report, including:

- Gathering more information about the impact of AML-CFT legislation;
- Ensuring aid objectives are factored into AML-CFT policy; and
- Assessing how financial institutions could implement the Act and also continue to foster effective remittances to the Cook Islands.

2.4 Efficiency

In development evaluation, efficiency is a measure of how economically resources (inputs) are converted into results (i.e. outputs, outcomes and impacts)⁶¹. It is the extent to which the cost of a development intervention can be justified by its results.

Due to the high level nature of this evaluation, this report does not focus on activity level efficiency issues but programme-wide indicators of efficiency. There are two types of analysis that together tell a story about programme level efficiency issues. They are 'proliferation and fragmentation analysis' and 'cost-effectiveness analysis', which are discussed below.

59 See Australian Financial Review, Westpac Sells Pacific Operations, 29th January, 2015 - <http://www.afr.com/business/banking-and-finance/investment-banking/westpac-sells-pacific-operations-20150129-130o03>

60 See Cook Islands News, 2nd February 2015 - <http://www.cookislandsnews.com/item/50264-bank-sale-concerns/50264-bank-sale-concerns>

61 MFAT (2014)



2.4.1 Proliferation and Fragmentation

Proliferation reduces development effectiveness because it increases the burden on partner countries, which have to manage, coordinate and monitor aid contributions. Proliferation also increases the burden on donor agencies, affecting their ability to manage ODA programmes efficiently and also effectively. The terms 'fragmentation' and 'proliferation' are widely used but often poorly defined. There are several different types of proliferation. Donor proliferation is the number of donors supporting a particular partner country, or the number of donors operating in a particular sector within a partner country. Activity proliferation is the number of activities funded at the global or country programme level, for all donors or for an individual donor. Fragmentation relates to the spread of donor involvement or engagement. It can refer to the number of developing countries a donor partners with or the number of sectors a donor operates in, in any given country). One of the ways that donors attempt to mitigate problems of country system fragmentation is through the increased use of budget support type modalities as New Zealand is currently seeking to do in the Cook Islands.

The proliferation and fragmentation of aid programmes has important implications for the effectiveness of aid inflows and the efficiency of programme delivery. Generally speaking, the greater the extent of proliferation and fragmentation of aid flows, the greater the administrative burden it places on both receiving countries and donors. This not only makes aid harder to manage but it can also take time away from other public administration tasks, such as domestic resource mobilisation and budget execution. Figures 15 and 16 show data on the number of all donor and New Zealand supported aid activities in Cook Islands, respectively between 2002 and 2013⁶².

Between 2008 and 2010 the Cook Islands experienced a significant increase in the number of donor-funded activities, which more than doubled over that period to a high of 105 activities. Activity levels such as this would have placed significant stress on the CIG from a management perspective. After the establishment of the DCD in 2011 and stronger efforts to coordinate donors, activity levels decreased significantly after 2011 and continue to decrease. As highlighted in the figures below, New Zealand did not contribute to the growth in activity numbers between 2008 and 2010, and has managed to decrease its activity levels significantly since 2011. New Zealand activities in the Cook Islands almost halved between 2011 and 2013. This decrease was driven by both the ODA policy of the CIG, and the strong New Zealand focus on 'bigger, fewer, deeper, longer' investments. New Zealand should be congratulated for its strong focus on consolidation.

Figure 17 shows data on the number of donor agencies supporting the Cook Islands between 2002 and 2013. The overall message is that the number of supported activities and supporting agencies remains high, despite the significant reduction witnessed. This has the potential to place a burden on the Cook Islands that could reduce the effectiveness of its ODA receipts.

62 The data used to construct these charts have been obtained from the OECD's International Development Statics CRS on-line database. Activity level ODA data are only available in this database for the years 2002 onwards. No other source publishes sufficiently comprehensive ODA activity level data



Figure 15: All Donor Supported Activities, Cook Islands, 2002 to 2013

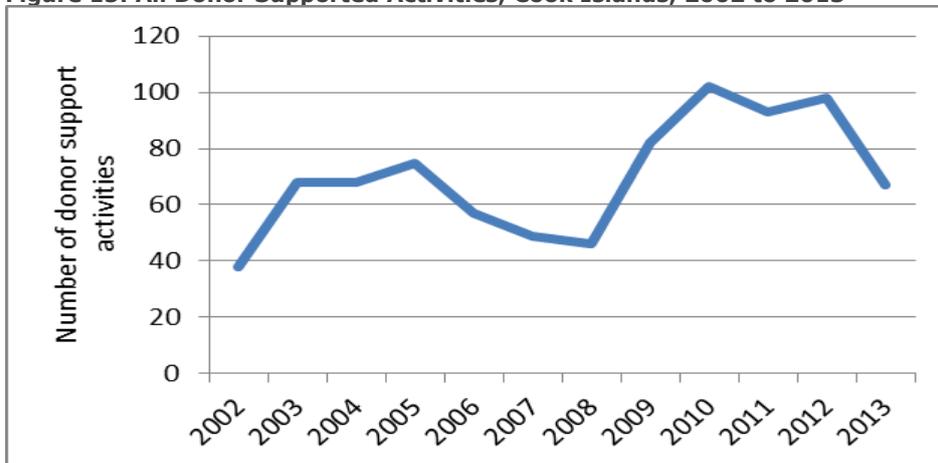


Figure 16: New Zealand Supported Activities, Cook Islands, 2002 to 2013

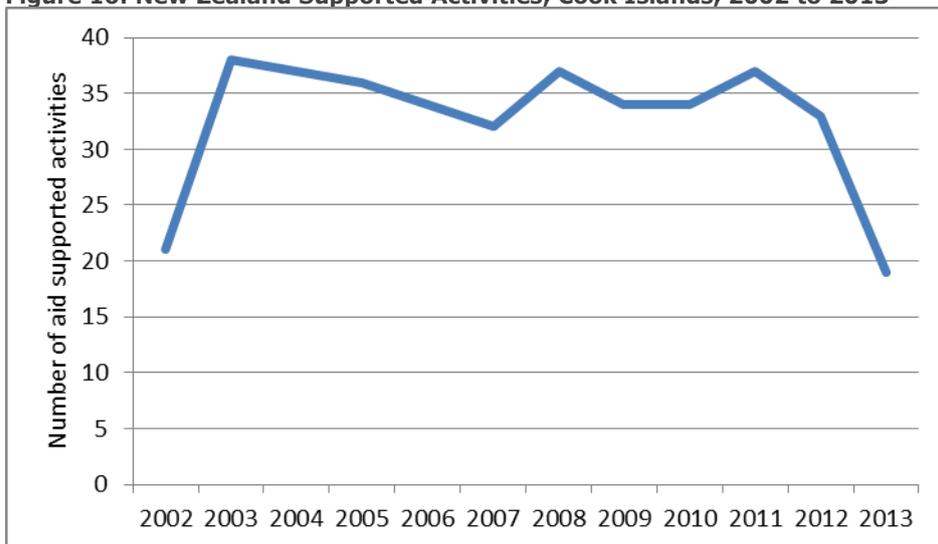
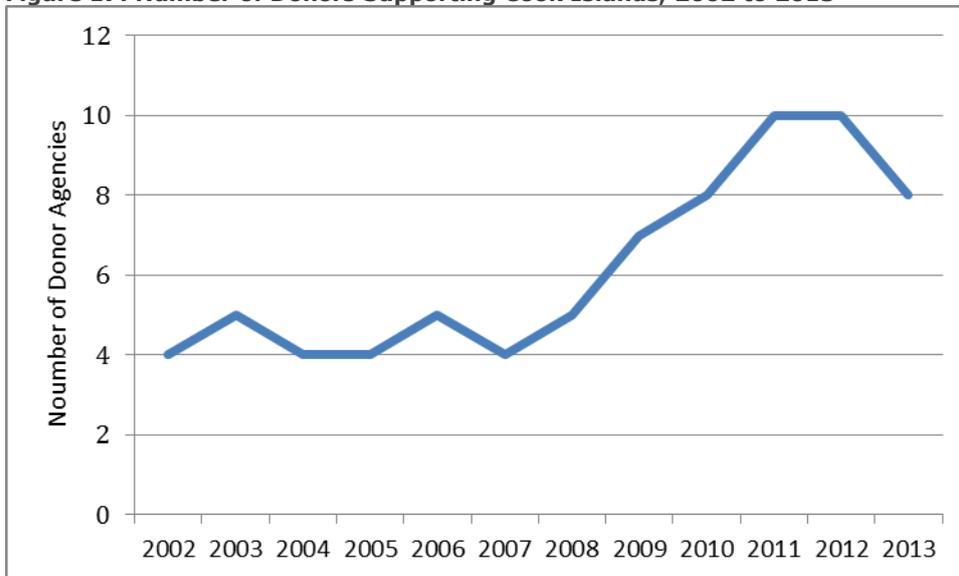


Figure 17: Number of Donors Supporting Cook Islands, 2002 to 2013



Proliferation at the activity level is one particular form of fragmentation. The number of sectors in which donors are active in the recipient country is also relevant. Information on the number of sectors in which New Zealand is active in the Cook Islands is shown below in Figure 18. The sectors in question are those for which data are reported at the three digit level by the OECD-DAC, using information provided to it by each DAC member, of which New Zealand is one. A breakdown of expenditure according to DAC sectors is provided in Figure 19. Putting aside the DAC sectors relating to 'administrative costs of donors', 'refugees in donor countries' and 'unallocated', there are 15 sectors in which donors can be active. New Zealand is active in 10 of these sectors in the Cook Islands. The heaviest concentrations since 2002 have been in health and economic infrastructure and services. There is no agreed or accepted wisdom on the appropriate number of sectors in which a donor ought to be active in recipient countries, but 10 seems to be rather high from an aid effectiveness perspective in a country the size of the Cook Islands, **but this may be appropriate considering the Realm state relationship.**



Figure 18: Number of DAC Sectors in which New Zealand is Active, Cook Islands, 2002 to 2013

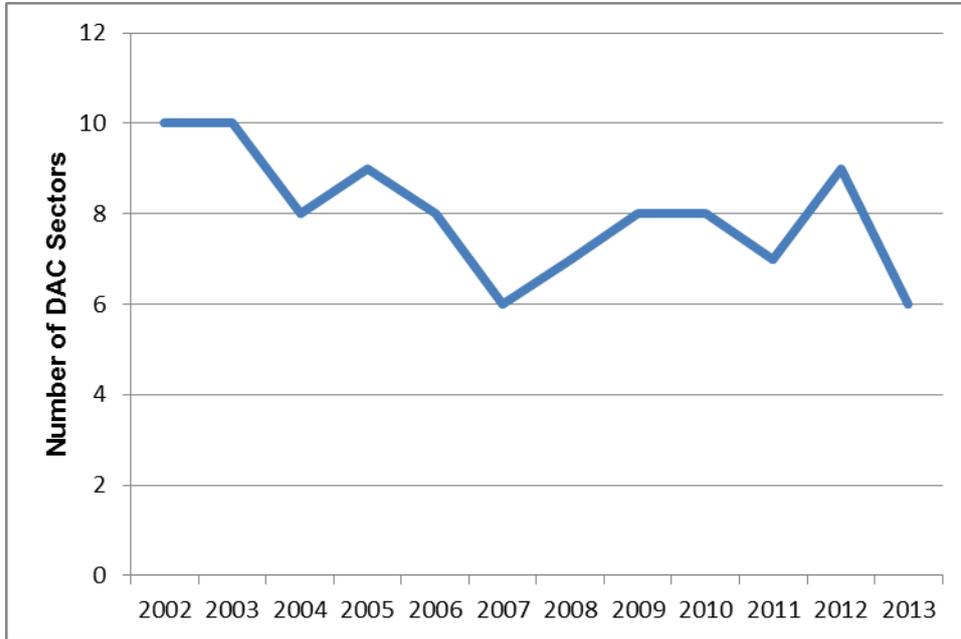
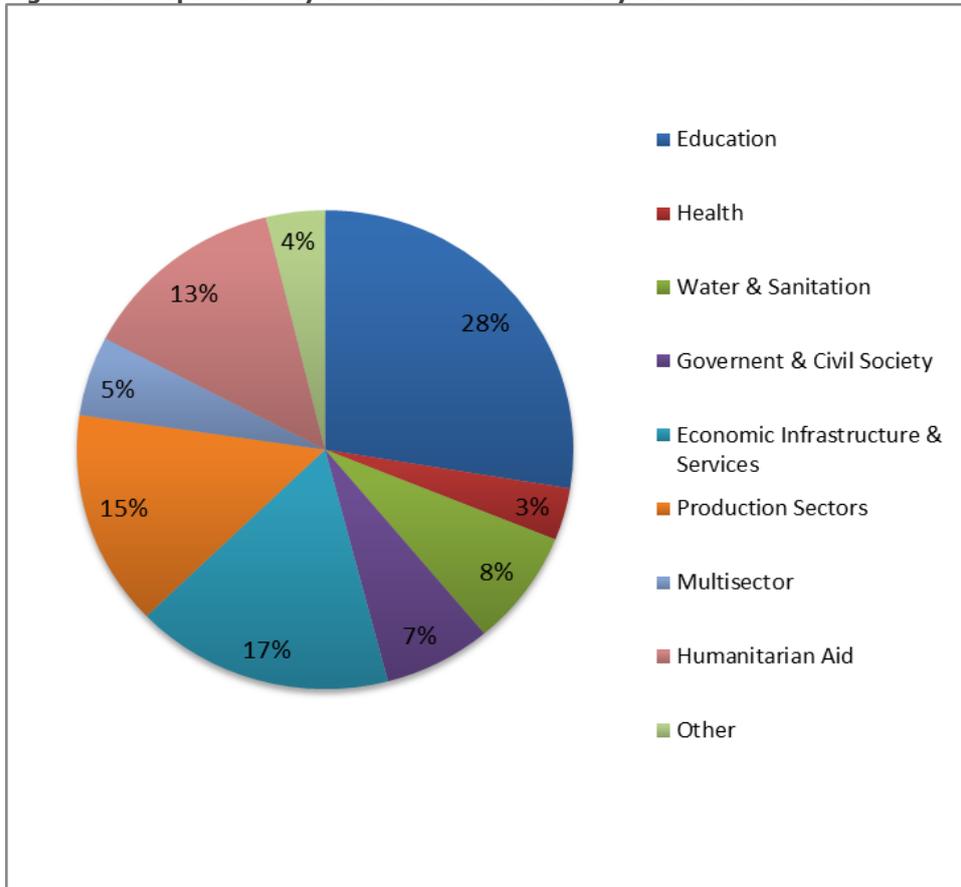


Figure 19: Proportionality of donor contributions by sector 2002 to 2013



2.4.2 Cost-Effectiveness Analysis

Cost-Effectiveness Analysis (CEA) is an analytical method that determines value for money in relative terms. CEA is a type of economic analysis that essentially compares the relative costs and outputs or outcomes (effects) of at least two courses of action, such as comparing a proposed intervention with no intervention or the current prevailing intervention. CEA is different to Cost-Benefit Analysis (CBA) in that CBA assigns a monetary value to the measure of effect, whereas CEA uses a quantifiable effectiveness comparator.

CEA results are expressed in terms of Cost Effectiveness Ratios (CER) and Incremental Cost Effectiveness Ratios (ICER). CER is simply cost divided by effect, which can be misleading as it does not account for counterfactuals or relative performance (see equation 1 for simple CER). In ICERs (see equation 2), counterfactuals are purposely addressed: the denominator is a gain in effect ($E_1 - E_0$) and the numerator is the cost associated with the gain in effect ($C_1 - C_0$).⁶³ ICERs over time were not calculated.

Equation 1:
$$CER = \frac{C_t}{E_t}$$

Equation 2:
$$ICER = \sum_{t=0}^n \frac{C_t - C_t}{E_t - E_t}$$

CEA of sectoral systems was undertaken. Different health and education related effectiveness measures were used and were determined by data availability on the UN MDG dataset and other data collected on mission. These included rates for infant mortality, under 5 mortality, maternal mortality, immunisation, TB prevalence, literacy rates and primary net enrolment rates. Costs were attributed to the functional/sector costs for to which the output/output indicator related. For example, health system costs were compared with health outcome/output statistics under equation 1 (as adjusted to make effectiveness criteria sense). All health and education costs were on a consolidated basis, including resources provided by donors and from the governments' own sources.

The results indicate that Cook Islands is delivering health and education services cost-effectively. In other words, a good level of education and health services are provided at relatively low unit cost (it costs around USD600 to USD700 per person to deliver reasonable health outcomes and around the same amount to delivery reasonable education outcomes - see Figure 20). Drilling a bit deeper on resourcing reveals that combined source resourcing for health and education sectors is relatively low. When compared to other Realm states and the countries where Cook Islanders enjoy free and easy access to public social services and labour mobility: Australia and New Zealand (see Figure 21)⁶⁴.

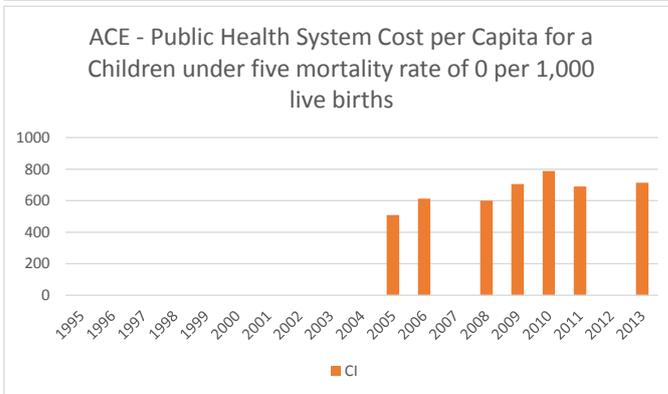
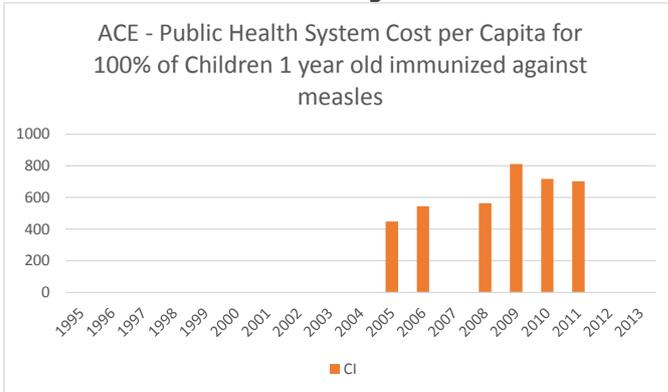
63 A commonly used outcome measure in CEA is quality-adjusted life years (QALY) as used in the field of health economics.

64 Results should however be treated with some caution as data sets for costs and effects were incomplete. On costs, the extent to which health and education outcomes are being implicitly subsidised by free and easy access to New Zealand health and education services was not estimated. Consequently, the true cost of achieving the education and health outcomes is likely to be higher than estimated. Only a few sectoral output and outcomes were used as effectiveness criteria. Further research is warranted to drill down further looking at more criteria, such as Quality of Life Adjusted Life Years, Life Expectancy,



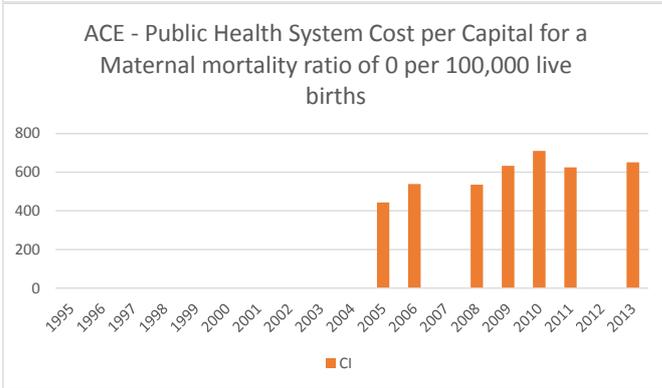
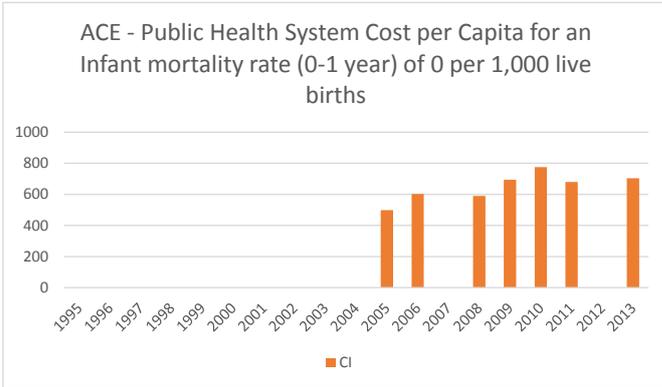
Figure 20: Sectoral System Cost-Effectiveness Results – Health and Education

Selected Health Related Average Cost-Effectiveness Trends



Learning Quality, Prospects for High Income Generating Employment etc, and separating sectoral costs. These would be better addressed in sectoral reviews.





Selected Education Related Average Cost-Effectiveness Trends

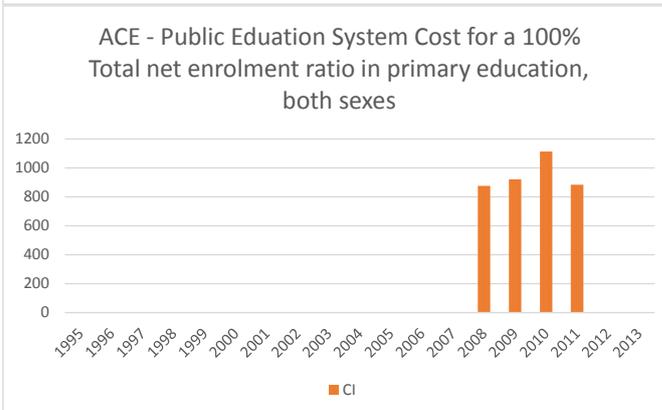
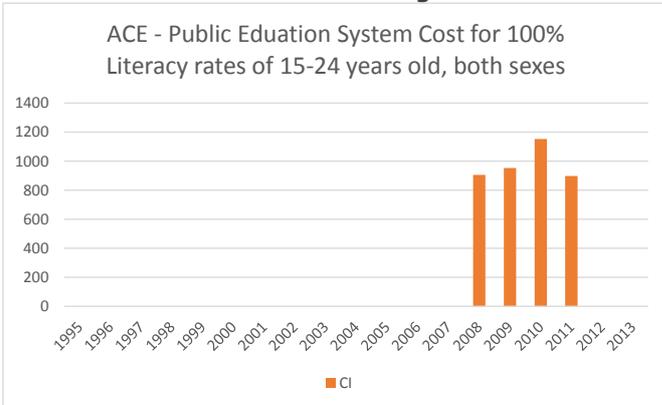
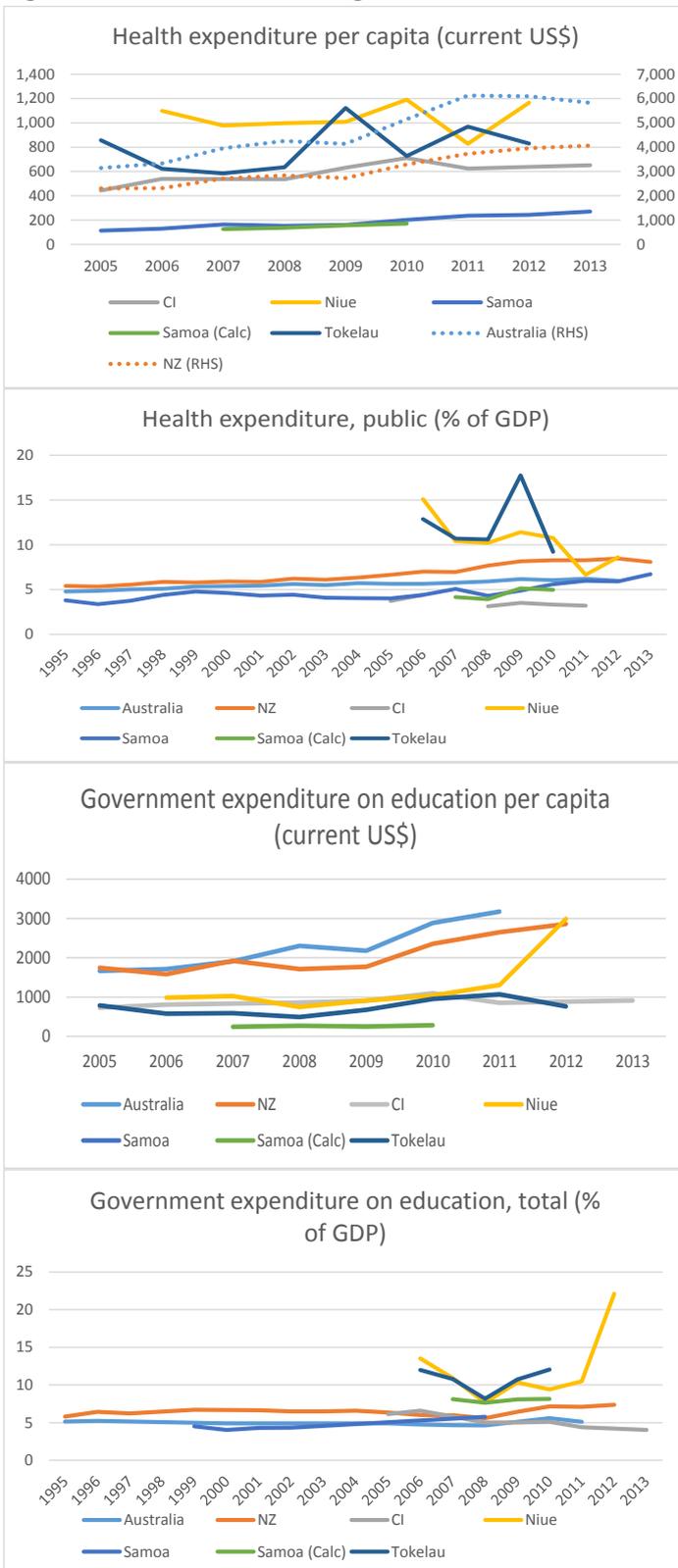


Figure 21: Relative Resourcing for Health and Education Sectors



2.5 Relationship Management

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

2.5.1 Realm state relationship

The Cook Islands is a self-governing state in free association with New Zealand. In this context 'self-governing' means that the CIG has full legislative power in all areas and New Zealand has no legislative power in the Cook Islands whatsoever. The status of 'free association' gives Cook Islanders full New Zealand citizenship, and Her Majesty the Queen (through her Ministers) retains some responsibility for the defence of the Cook Islands and its external affairs. These arrangements were codified in both the *Cook Islands Constitution* 1965 and the *New Zealand Cook Islands Constitution Act* of 1964 and subsequently updated in the Joint Centenary Declaration in 2001, which outlines that while New Zealand retains some residual responsibility regarding external and defence issues this infers no rights of control and can only be acted upon at the request of the Cook Islands Government⁶⁵.

The 'decolonisation' of the Cook Islands and the concomitant development of the free association model of statehood were a product of "UN pressure and [New Zealand] democratic idealism⁶⁶". Throughout the 1950's and 1960's various New Zealand parliaments sought a mechanism through which to adhere to UN resolutions regarding decolonisation, while seeking to maintain a special relationship with the Cook Islands, all within a broader paradigm of national interest. As parliamentary records of the time suggest, New Zealand's leaders were keen to reassure the international community that it retained no colonial ambitions and that it was doing what it thought was best for small islands states in the Pacific. As noted by one senior New Zealand key informant interviewed for this evaluation "...those ideas [the ideas of independence and decolonisation] have been the underlying paradigm influencing our policies in the Realm states for many years"⁶⁷.

In recent times the pursuit of independence from New Zealand has gained further momentum, as evidenced by recent discussions between New Zealand and the Cook Islands pertaining to the Cook Islands obtaining a seat in the United Nations, and statements in the Cook Islands Parliament made by the Prime Minister. Key informants from the Cook Islands interviewed for this evaluation communicated contrasting views about this issue. At one end of the continuum were those who see the Cook Islands' initial move to self-governance in free association with New Zealand as the first step in the move towards complete

65 Joint Centenary Declaration of the Principles of the Relationship Between New Zealand and the Cook Islands, 11th June 2001.

66 Bertram, I.G and R.F Watters (1984) *New Zealand and its Small Island Neighbours: A Review of New Zealand Policy Toward the Cook Islands, Niue, Tokelau, Kiribati and Tuvalu*, INSTITUTE OF POLICY STUDIES WORKING PAPER 84/01 October 1984

67 Key Informant 1, pers comm. 14th May 2015



independence and one that is best for the country, as it may help secure more aid and allow the Cook Islands to mature as a country in a diplomatic and economic sense. On the other hand are those within the Cook Islands community who are critical of this proposal, and who cite the costs associated with it, the impact the withdrawal of New Zealand citizenship may have on labour mobility and the economy, and the fact that it may actually speed up the depopulation that has been evident over time⁶⁸. Those critical of the proposal suggest that any move to full independence would be associated by the withdrawal of New Zealand citizenship and for this reason alone it would not be supported by the population unless the so-called 'money and the bag option' was obtained from New Zealand, which would guarantee both New Zealand citizenship and Cook Islands sovereignty.

The consideration of full independence takes place within a milieu of interconnectedness in many areas. The Realm state relationship, and the historical ties between the two countries, has been significantly beneficial to the Cook Islands in many ways, as the analysis in Section Three suggests. In particular, the relationship has helped enable access to a stable source of ODA which in turn has assisted in the delivery of core services (education and health), infrastructure development, the growth of a strong tourism industry and access to long term technical assistance in many areas that a small country like the Cook Islands would be incapable of supplying its own small human capital endowment. At the same time the relationship expressly provided Cook Islanders with labour mobility to New Zealand and on to Australia. The opportunities (perceived or real) that this affords has created a pull factor drawing people away from the Cook Islands in increasing numbers over the last 40 years. This has significantly reduced the population and radically changed demography. Remittances from New Zealand may also play an important role in the Cook Islands economy, but are largely unsubstantiated. The extrapolation of Australian survey research conducted in 2010-11 suggests that remittances from New Zealand could constitute 50% of GDP in the Cook Islands. Further work needs to be conducted to substantiate this research and address the policy implications⁶⁹.

2.5.2 Policy dialogue

Effective policy dialogue is an important aspect of quality aid delivery and fundamental to the maintenance of a strong and coherent strategy of development cooperation. Policy dialogue is defined as "the expression of a set of values or principles that the leadership of an organisation holds to be important in delivering its mandate or in bringing about change⁷⁰". Policy dialogue is an important component of aid delivery as it can have a demonstrable influence on policy change. Policy dialogue is effective when areas of policy interest, objectives, and priorities are identified and communicated effectively, when the necessary capabilities exist to ensure engagement can be meaningful, when credible and relevant

68 See: <http://pidp.eastwestcenter.org/pireport/2015/July/07-01-07.htm> for an example of this commentary

69 See Brown, R.P.C et al (2011) An analysis of recent survey data on remittances of Pacific Island migrants in Australia, Working Paper, Australian Research Council Discovery Grant 'Determinants, Motives, and Channels of Pacific Island Workers Remittances from Australia.

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



evidence if used, and when informal and formal approaches are used and power imbalances addressed⁷¹.

There are numerous policy dialogue channels through which New Zealand engages with the CIG, these include: annual high level meetings at officials level (which includes joint reviews of the JCfD and involves officials from both New Zealand and Australia), bilateral meetings at Ministerial level, dialogue on the draft NSDP, and Ministerial Forums. There are also ongoing informal engagements through relationships at Post and during visits from technical staff from Wellington who engage CIG counterparts on technical matters. However, the annual development partner roundtable focuses on showcasing Cook Islands activities, rather than involving partners in policy dialogue. New Zealand government agencies operating in the Cook Islands also engage in policy discussion on issues directly relevant to their activities in-country in areas such as procurement policy, customs policy, maritime policy and air safety, for example. The pathways for policy dialogue are therefore many and varied, from the Prime Ministerial level down to discussions on suitable sectoral policies.

The recent Forum Peer Review highlighted a number of issues with regards to policy dialogue and communication that are pertinent to this evaluation. The most important issue highlighted in that report and also emerging from this evaluation is the need to foster more meaningful engagement regarding the key structural challenges faced by the government⁷². Both the Forum Peer Review and this evaluation found that policy dialogue between donors (in this case New Zealand) and the CIG is often hampered by a focus on financial and administrative issues associated with the delivery of projects. A significant proportion of New Zealand's ODA is delivered through the project modality and there have been justifiable concerns regarding the capacity of the CIG to deliver infrastructure projects through government systems. In one instance the CIG requested New Zealand oversee the implementation of a large scale renewable energy project and in others, New Zealand has supplemented capacity to ensure projects are delivered on time, but this supplementation is not used in all activities. The technical and administrative issues associated with the actual delivery of projects, and ongoing interactions with line ministries absorb significant resources at Post.

CIG officials interviewed for this evaluation valued the high level strategic discussions undertaken during bilateral talks at senior officials and ministerial level. They also valued the high level discussions around the JCfD and these discussions also influenced CIG thinking with regards to their own prioritisation. CIG officials did highlight the disjunction that they felt existed between these talks and their focus on high level relationship issues, budget support and other matters, and the ongoing transactional discussions that characterised their dialogue with Post. There was also a feeling within the CIG that MFAT staff did not fully appreciate the significant advances that had been made in various areas, including Public Financial Management, and that the focus was on issues associated with the delivery of activities.

71 Ibid

72 Pacific Islands Forum Secretariat (2014)



While there have been points of tension around the move to higher order aid modalities in the past, it is clear from discussions with senior staff in Wellington and at Post that they are keen to shift to higher order modalities. Our analysis suggests that there are no impediments to this from a fiduciary risk perspective. What this will need to be accompanied with, however, is much higher order, ongoing strategic discussions regarding the structural challenges faced by the CIG. As noted in the Forum Review and the ADB Functional Review, these are many and varied and include: growing inequality, the need for more inclusive economic growth, ongoing outward migration and concomitant demographic change, and rising public service costs. Associated with that are a plethora of other ongoing challenges that require prioritisation and the deployment of both domestic and donor financial resources and technical assistance in a consistent fashion. These include: public debt, tax reform, air safety, ecological sustainability, infrastructure quality improvement, and land tenure, to name a few. On the New Zealand side there are other strategic relationship issues that are important that require continued prioritisation through high level policy dialogue. These include: the ramifications of ODA graduation, and the stated desire of the Cook Islands to join the World Bank, IMF and UN and the practical and Realm state issues associated with that.

Engagement in this type of dialogue is a two way process and, as noted in the Forum Review, both donors and the CIG need to be proactive in creating meaningful spaces for this dialogue. The Forum Review suggested that the CIG needs to be more proactive in creating the space for policy dialogue on a medium term strategy to move away from project based financing to one budget support mechanism. In the recent past MFAT has also found it difficult to substantively engage with the CIG on a number of other important issues through existing policy dialogue channels, examples of these important issues include: levels of core service funding (particularly for education), improving procurement, audit performance, public sector reform, school rationalisation, asset management, cost recovery and compliance with international aviation rules to name a few. It is important for the CIG to demonstrate reciprocal engagement with regards to these issues to enable New Zealand to better understand the constraints and, in turn, help contribute to solutions.

In order to address this issue the CIG and New Zealand could also explore new systems of formal and informal policy dialogue that seek to address the strategic issues mentioned above in a more consistent fashion. On the New Zealand side this will involve the deployment of significantly more technical and strategic human resources, i.e. experts in public financial management, government reform and other areas who can engage directly with the highest levels with the CIG to address the aforementioned structural issues. This type of high level dialogue will be essential to the effective implementation of general budget support.

The recent OECD-DAC review⁷³ noted that MFAT's capability in these technical areas has decreased over time, particularly since International Development Group's (IDG) incorporation into MFAT in 2009. For example, between 2009/10 and 2014/15 there has

73 See Chapter 4 of the OECD DAC Review (2015)



been an 18% reduction in full time equivalent staff within the IDG. This decrease has been particularly noticeable in Wellington, where the greatest reductions have taken place. While there has been some recruitment of technical specialists, the OECD-DAC review noted that technical expertise is stretched in a number of areas, including economics and cross-cutting issues. A number of key informants from MFAT interviewed for this evaluation commented on the time pressures they are under with regards to supporting programme teams and in-country programme teams. The loss of institutional memory that has occasioned the reforms since 2009 (50% churn since 2009/10) will have also contributed to human resource deficits at the sector and country programme levels. Effective high level policy dialogue requires the use of evidence-based technical advice that supports a donors' values, and which address pressing development challenges in the recipient country, as noted in earlier sections. As the modality shifts to a higher order, so do the discussions around optimal policy settings at macro-economic and sectoral levels. This involves the deployment of technical experts in these policy areas, and this is something that New Zealand needs to ensure it can provide to optimise the quality of its aid delivery.

2.5.3 Facilitating ownership and mutual accountability

Ownership is the extent to which developing countries lead their own development policies and strategies, and manage their own development work on the ground⁷⁴. It is clear that since the adoption of the ODA Policy in 2012 and the establishment of the Development Coordination Division (DCD) within MFEM, CIG's ownership of its development agenda has been strengthened significantly. Key informants from the CIG interviewed for this evaluation commented on the lack of strong government ownership before 2011, the unilateral nature of donor programming, and the lack of effective coordination in the years before the adoption of the ODA policy. The DCD oversees the implementation of the CIG's ODA policy; it coordinates donor resources within the country, reviews project proposals, works to improve transparency, performs a quality control function, and works to operationalise a whole-of-government approach to strengthening governance. It also organises donor roundtables and works with donors to progress development effectiveness issues. As a result of its activities, the coordination of donor resources has improved greatly, as has the articulation and ownership of the strategic and policy agenda. The DCD suffers from some of the same issues as other CIG departments with respect to capacity and capability challenges, and moderately high rates of staff churn, but it has instituted a system of policies and processes in an attempt to ensure that development effectiveness issues are mainstreamed within MFEM.

At the strategic level, there is very strong ownership of the development agenda by the CIG. Donors are expected to align their programmes to the National Sustainable Development Plan and the NSDC reviews projects to ensure they align with priorities articulated in that Plan. While there are problems with prioritisation and medium term planning and budgeting, there is nevertheless strong ownership of the broader strategic vision, as recognised in the Forum Peer Review⁷⁵. New Zealand works closely with both the DCD and NSDC and has funded initiatives that seek to improve capacity to better manage aid coordination and strengthen ownership across the CIG. **However, it is clear that while**

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

75 Forum Peer Review (2014)



the CIG has strong ownership at the policy and strategy levels its ability to 'manage its own development work' is constrained, as this section has highlighted.

Capacity constraints within key ministries affect the implementation of donor-funded development programmes and the lack of prioritisation and medium term planning and budgeting means that the vision enshrined in the NSDP, which is strongly owned by the CIG, faces difficulties being implemented. This leads to situations where the management of development work occurs outside government systems through project based modalities. **Ownership requires an alignment of strategic, policy and operational, and at present the latter is the weakest element.**

As noted throughout this report there is a 'missing middle' with regards to planning and budgeting that affects the ability of the CIG to effectively manage its own resources and the resources of donors. Sector plans (where they exist) are not costed, Ministry business plans do not link to sector plans but to high level priorities outlined in the NSDP, and the annual Budget policy statement doesn't follow a logical and strategic approach to resourcing sector plans, which means that the long term budget planning required to make sector plans work is not possible.

Another important aspect of aid effectiveness is mutual accountability, based on the premise that donors and developing country governments must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid. With the establishment of the DCD the transparency and accountability of the CIG with regards to donor funds has improved. In particular, New Zealand's adoption of the FAPs, which outlines current and forward year estimates of likely aid flows by programme, is used to facilitate dialogue and strengthen budget planning. While accountability has been improved somewhat through the activities of the DCD, transparency and accountability is also a function of other CIG oversight bodies, such as audit, amongst others, whose capacity is weak.

Aside from transparency, mutual accountability also involves a negotiation between donor and recipient on the required level of financial and results-based reporting. In previous years there have been tensions between New Zealand and DCD with regards to what is an appropriate level of accountability for New Zealand ODA funds. Reporting places a burden on recipient governments and wherever possible they seek to reduce the reporting burden. The reporting burden for New Zealand ODA funds is high due to the predominance of project-based activities, capacity constraints in the government and the relatively high number of New Zealand funded projects. New Zealand requires multiple reports each year on the progress of initiatives implemented by the CIG; this may be in addition to internal reporting required with the CIG government system. Informants from MFAT interviewed for this evaluation expressed concern over the quality and timeliness of reporting from some CIG counterparts, while informants within the CIG expressed concern over the burden of reporting noting the capacity constraints they faced. The presence of audit backlogs also exacerbates the mutual accountability issue and often delays the achievement of project milestones.



2.6 Summary

The above analysis paints a mixed picture with regards to the quality of New Zealand's aid delivery in the Cook Islands. While New Zealand's programme is relevant to the high level priorities and development challenges facing the Cook Islands, the lack of an adequate country strategy framework that articulates how New Zealand's resources will be used to address CIG and New Zealand strategic priorities limits the effectiveness of New Zealand's whole-of-government approach. This, coupled with the existence of multiple funding pathways and myriad relationships between CIG and New Zealand government agencies, leads to a less than coherent approach to aid delivery. This affects the extent to which the high level strategic priorities of the New Zealand government can be effectively actioned. It also means that many of the persistent structural challenges that the Cook Islands faces are not consistently addressed.

At the strategic and policy level, it is clear that the Cook Islands government has strong ownership of its development agenda; this has been strengthened since the introduction of the ODA Policy in 2012 and the establishment of the Development Cooperation Division. However, ownership also includes control over (and accountability for) implementation, which is where the Cook Islands is weak. As a result of this weakness, New Zealand has, at times, adopted a more hands-on approach to programme implementation. On one occasion, New Zealand bypassed government systems and in others, New Zealand has supplemented capability to implement projects more efficiently, particularly in the area of infrastructure, and particularly when faced with time pressures. While this approach has had some good outcomes (as highlighted in Section Three) capability improvements have to-date been somewhat ad hoc in the absence of a CIG public service capability needs assessment. Associated with this hands-on approach has been an associated focus on accountability and control, which has led to heavy administrative and financial reporting burdens in the CIG, which has further reduced government capacity. It should be understood, however, that New Zealand has required supplementary reporting only from those agencies who have been weaker in the use of the CIG's own systems.

On the other hand, New Zealand's performance in other areas of aid quality, have been impressive. New Zealand's Sector Budget Support has been highly effective and it is clear that there are minimal barriers to a move to general budget support as fiduciary risk in the Cook Islands is relatively low. The move to higher order aid modalities will occasion a shift to different types of policy dialogue, however, and at present New Zealand does not have the human resources to proactively support this type of policy dialogue, although the evaluation team notes that new resourcing in the very near future may address this important issue. New Zealand's efforts in supporting harmonisation through delegated cooperation with Australia and through the innovative triangular partnership with China are important and representative of its role as the primary bilateral donor in the Cook Islands. New Zealand has also been very active in consolidating the Cook Islands programme in line with its 'bigger, fewer, deeper, longer' principles, and this has significantly reduced the reduced activity numbers. This will improve the efficiency of programme delivery, and, coupled with the cost effectiveness of programme delivery in the Cook Islands, suggests that the programme is reasonably efficient.



3. Findings – Results

The following section reviews the results of New Zealand’s support for economic and human development in the Cook Island’s. In the context of development evaluation, ‘results’ are the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. In order to understand the results of New Zealand’s aid it is important to consider the broader development context and the trends in development achievements. As such, this section begins with a review of New Zealand’s aid flows, a discussion of trends in economic and human development achievement, and the discussion of simple associations between New Zealand aid and development achievements in the Cook islands. This is followed by a review of the results of New Zealand funded economic and human development activities in the Cook Islands.

3.1 Aid flows and development achievements

Our focus now turns to higher-level downstream impacts of New Zealand aid to Cook Islands. This investigation was originally intended to provide a comprehensive empirical analysis of the downstream impacts of New Zealand aid to the Cook Islands. A preliminary analysis of this demonstrated, however, that owing to data constraints it is not possible to provide results that are sufficiently robust to provide insight into these downstream impacts. The constraints relate primarily to both the periods of time for which data on development achievements are available, and the number of variables necessary to isolate the possible impact of aid from those of other drivers of these achievements. Owing to this, the investigation that now follows initially confines itself to focusing on trends over time in aid and development achievements and, building on this, the analysis that is required to establish whether there is a causal relationship between these trends.⁷⁶ As such it seeks to inform future analysis of the possible downstream impacts of New Zealand aid to the Cook Islands.

What matters for downstream impacts are levels of aid relative to the recipient country GDP and populations. Measured in these ways, **the levels of ODA provided by New Zealand to the Cook Islands have been significant but have declined over time.** Cook Islands’ ODA receipts from New Zealand relative to its GDP have over the period 1982 to 2013 been as high as 64.5 percent and have often exceeded 15 percent (see Figure 22). These levels have fallen appreciably since 1982, to between 1.6 and 5.3 percent in recent years. Cook Islands’ New Zealand ODA receipts relative to its population have over this period been as high as NZD6,276 and prior to 1993 were typically in excess of NZD1,000 (see Figure 23).

⁷⁶ Data have been taken from the best sources available. In the case of demographic and economic data (on population and GDP) these data have been taken from various issues of the Asian Development Bank Key Indicators for Asia and the Pacific, aid data are taken from the OECD International Development Statistics and all other data from the World Bank MDG Statistics source. Throughout this analysis we use the most recent data available, for the longest time period possible. The earliest year for which non-aid data are available is 1982.



Since 1993 they have been well below this level and have over the period since 1982 followed a clear downward trend and reached NZD449 in 2013. Downward trends notwithstanding, these numbers are enormous compared to the international yearly norm for developing countries⁷⁷ of USD20 per capita.

Figure 22: Total ODA/GDP and NZ ODA/GDP, 1982 to 2013

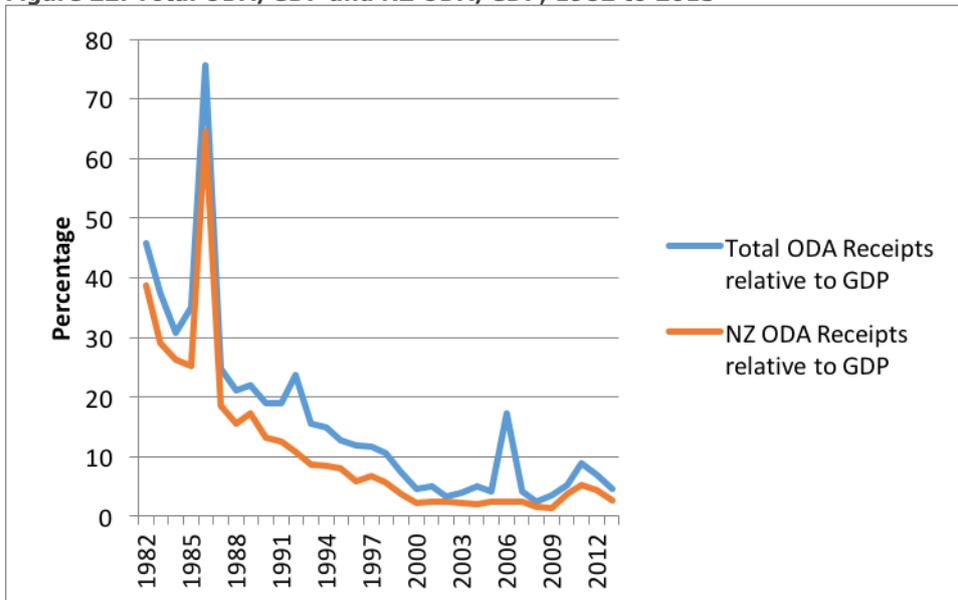
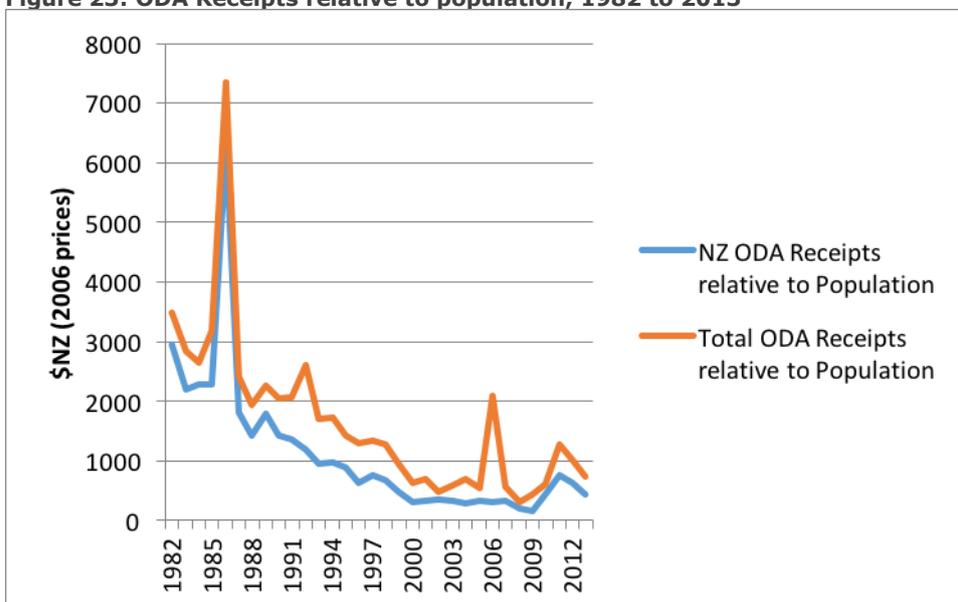


Figure 23: ODA Receipts relative to population, 1982 to 2013



77 Excluding India and China



The levels of New Zealand ODA to the Cook Islands relative to the latter's GDP and population are clearly large enough to expect downstream impacts, be they positive or negative. Whether the impacts are positive or negative will depend on the quality of the ODA from a development effectiveness perspective. It is quantity interacting with quality that ultimately matters. Quality will be dependent on a range of factors that will be influenced by both donor and recipient government behaviour, and include whether the aid has addressed pressing development changes or diverted attention therefrom, whether it is aligned to recipient government priorities, whether the recipient government has a sense of ownership of what the aid is trying to achieve, whether there has been sufficient mutual accountability between the donor and recipient, whether there is sufficient capacity in the recipient to independently promote good development outcomes, and whether the activities of different aid donors are harmonised. If these and other aid quality factors are present we might expect that aid has had positive downstream impacts. Looking at quantitative data on both aid from New Zealand and these development achievements might tell us whether this is the case.

Yet, data interpretation needs to be conducted with great care, as the case of the Cook Islands clearly demonstrates. For example, it was shown above that Cook Islands' high-level development achievements with respect to per capita incomes have increased and infant and child mortality continually and steadily decreased over time. How might this be interpreted, given that the volume of New Zealand ODA has both trended downward over time, but has been of sufficient volume to expect downstream impacts? If New Zealand ODA was the only driver of development achievements in Cook Islands, then the interpretation might be that the former has had a harmful effect on the latter. But this is a naive interpretation as there are many drivers of these achievements.

The key question that needs to be answered if any assessment of the downstream impacts of New Zealand ODA to the Cook Islands is as follows. Would development achievements in the Cook Islands be lower in the absence of ODA from New Zealand? In an ideal evaluation environment we would have both sufficient empirical data to address this question, and the results of analysing the data would be cross-validated with results from qualitative case study and key informant investigations of the quality of New Zealand ODA and its delivery. **The evidence presented thus far in this report is clearly suggestive of this ODA having had positive downstream impacts**, although this is a matter that requires further investigation

3.2 New Zealand's Support for Economic Development

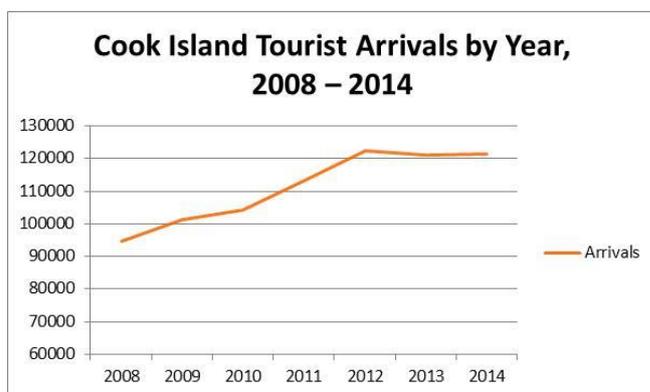
The following section discusses the results and sustainability of New Zealand's major economic development-related projects in the Cook Islands. It includes a review of New Zealand's support for the tourism sector, its large investments in renewable energy generation, and its support for an Automated Border Management System. It also includes a review of the Cook Islands Technical Assistance Facility (CITAF), which seeks to improve public service performance.



3.2.1 Tourism

Tourism is the backbone of the Cook Islands economy. It generates over NZD200 million per year, which is more than 50% of GDP. There are at least 80 businesses in the Cook Islands directly involved in tourism, and these businesses employ a significant proportion of the Cook Islands private sector work force. Every Cook Islander resident in the Cook Islands is directly or indirectly affected by the tourism industry. Up to 2012, the Cook Islands experienced significant growth, in tourist numbers and this has had strong outcomes for the economy. More recently, visitor numbers have begun to plateau. Figure 24 below provides details of the growth in tourist numbers between 2008 and 2014.

Figure 24: Tourist Arrivals, Cook Islands 2008 – 2014



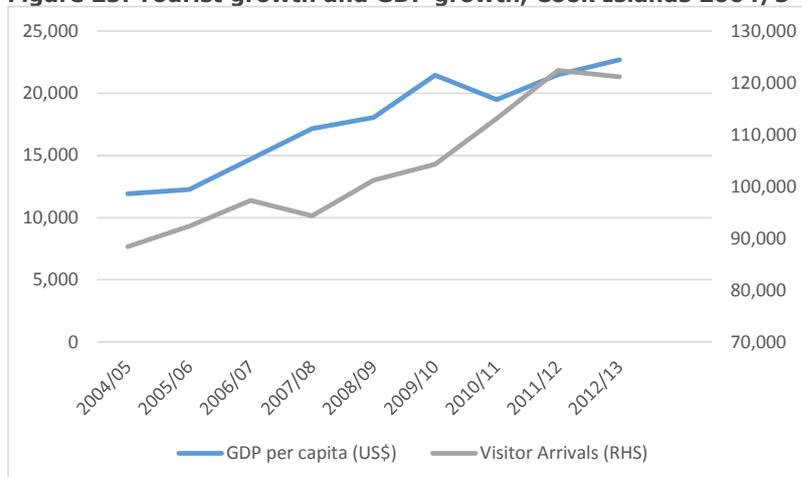
Between 2008 and 2014 tourism numbers grew by 26,682 or 28%. The most significant growth occurred between 2010 and 2012 with arrivals increasing by 18,000 over that time. Since 2012, tourism numbers have been relatively stable and witnessed only a minor reduction in 2013-14. This reduction is attributed to increased competition from Asian and other South Pacific markets, and exchange rate fluctuations, both of which challenge the sustained growth of the Cook Islands economy. As noted in the recent evaluation of Tourism Sector Support:

“The high New Zealand dollar and attractive offers from destinations such as Hawaii, Vietnam and Bali have seen double digit growth into these destinations out of New Zealand (the major source of visitors to the Cook Islands). This trend is impacting most South Pacific destinations with annual visitor arrivals greater than 100,000 p.a. – the only destination growing visitor numbers in 2013 being Vanuatu (growing its visitor arrivals from Australia, New Zealand, North America and other Pacific Islands). The Cook Islands has performed relatively well in retaining visitor arrivals above 120,000 during 2013”⁷⁸.

78 Wilson, C et al (2015) Evaluation Report for Cook Islands Tourism Sector Support, New Zealand Ministry of Foreign Affairs and Trade, 5th February, 2015



Figure 25: Tourist growth and GDP growth, Cook Islands 2004/5 – 2012/13



Between 2008 and 2014 the GDP of the Cook Islands increased significantly as well, and a large part of that growth can be attributed to the growth in tourist arrivals, as Figure 25 suggests.

New Zealand is the most important source of tourists for the Cook Islands. Over the last four years tourists from New Zealand have constituted 66% of all arrival; in 2014 (representing 79,959 of the 121,458 arrivals). **In 2014 revenue from New Zealand tourists were approximately NZD138 million, which was equivalent to 36.4% of GDP⁷⁹.**

The growth in tourism numbers witnessed between 2010-12 coincides with a period of increased investment in tourism by both the CIG and New Zealand governments. CIG annual appropriations for tourism have risen from around NZD \$4m in the early 2000s to around \$6m pa since 2011. New Zealand has supplemented this funding with an additional \$12.4m since 2010/11.

Total annual expenditure for tourism over the past 5 years has averaged nearly NZD9 million per year. It was during this period (2012/13), that tourism numbers exceeded 120,000 for the first time. The combined efforts of both the CIG and New Zealand have directly contributed to this increase in tourism arrivals.

New Zealand continues to support tourism through its Tourism Sector Support (TSS) programme activity. The Grant Funding Arrangement was signed in July of 2013 and provided NZD6,440,000 until June 2015. The goal of the TSS is to enable the Cook Islands to 'achieve sustainable economic growth for the tourism industry without compromising the Cook Islands' unique qualities'. The programme seeks to achieve this goal

⁷⁹ Estimations based on average daily spend figures developed by the CITC and contained in Wilson (2015)



by increasing the ability of the CITC to invest in destination development (DD) and destination marketing (DM) activities.

A recent evaluation of TSS assessed the relevance, efficiency, effectiveness and sustainability of the programme. The programme was found to be highly relevant and reasonably efficient. Some issues were raised with regards to effectiveness and sustainability, but overall the programme received a positive review, which has also been reiterated by MFAT in their latest Activity Monitoring Assessment (AMA)⁸⁰. Some strategic issues were raised in both reports that are relevant to the high level focus of this evaluation. The first issue pertains to the sustainability of tourism outcomes and the dependency on New Zealand aid. The TSS evaluation found that CIG investment in tourism was very high, at between NZD17 million and NZD19 million per year. Between NZD11 million and NZD13 million of this supports the underwriting of flights, while the rest supports the work of the CITC. New Zealand support was quite low by comparison, but critical in two very important areas: destination marketing in key markets (such as USA, UK/Europe and Australia, which is required to support the airline underwrite), and destination development activities (involving visitor-oriented events and the development of major facilities and attractions, trails and venues). The report found that:

“Without a substantial funding allocation to DD activities by the CIG, it is reasonable to conclude that development and management of the destination will be curtailed in the next few years. This is of concern given the importance of DD activities for long-term sustainability of the Cook Islands. Certainly, the effectiveness of part of the global marketing campaign would be threatened in the short-term by withdrawal of New Zealand support and the likely introduction, in late 2016, of larger Boeing 777-200 aircraft (replacing Boeing 767-300 aircraft) which could increase the airline underwrite costs”. This clearly highlights the need for a careful and phased exit strategy from tourism in the Cook Islands, as has been flagged in the most recent MFAT Activity Monitoring Assessment. While MFAT and the CIG don’t have an agreed upon exit strategy in this sector as yet, they are working towards one.

80 MFAT (2015) Tourism Sector Support Activity Monitoring Assessment, 8th January 2015.



The TSS evaluation further found that:

“In the short-term after any removal of the tourism support programme, it is reasonable to expect that the Cook Islands may experience a decline in investment and visitor arrivals until new mechanisms for boosting development, marketing and investor confidence are put in place. Removal of the aid programme does not necessarily mean a long-term decline for the Cook Islands tourism sector”.

The report then went on to suggest that the growth in government and private sector investment in tourism could help address the dependency issue and maintain the sustainability of tourism over the long term. MFAT has concerns over the feasibility of leveraging private sector investment in these areas, noting the poor conditions for private sector development in the Cook Islands, and the fact that private sector agencies are already providing significant in-kind support to CITC⁸¹.

There are a number of challenges regarding the sustainability of tourism in the Cook Islands. One of the key challenges is to grow the revenue generated by the tourism sector, whilst mitigating environmental harm and accommodation capacity constraints. This will require a progressive shift away from year on year increases in visitor numbers, to spreading a greater portion of visitors into the shoulder / low seasons and increasing visitor yield i.e. spend per person, per day, per visit. Current yield has seen little real growth and despite some marginal success, the vast majority of visitors continue to travel in the high season. Without improvements to the private sector investment environment, and therefore destination selling points, yield is unlikely to increase. Reforms to the business environment are needed that can promote increased investment in the destination, particularly tourism infrastructure in order to attract higher yield tourists, this will involve improving the regulatory environment and developing incentives for by private sector actors as the CIG cannot afford to use public funds for core infrastructure.

There is currently a lack of a whole of government approach to engaging with the private sector and incentivising investment. Presently the CITC is not allowed to fund private sector entities through its various funding programmes, as it cannot be seen to favour one private sector entity over another. This limits the potential for innovative public-private partnerships, which may eventually address the dependency issue noted above. Noting the high level of dependency on New Zealand aid in key areas, and the link between these areas and ongoing tourism growth, it is essential that mechanisms for increasing CIG and private sector interaction and investment in key marketing and destination development programmes be explored.

A large number of broader constraints also an impact on the performance of the private sector were raised by key informants interviewed for this evaluation, these included:

- The lack of a private sector investment strategy in the tourism sector;

⁸¹ MFAT (2015) TSS AMA



- The problem labour mobility causes in the tourism sector in particular, as trained workers leave to access high paying jobs in New Zealand and Australia;
- Labour constraints in key areas of hospitality and in technical areas;
- The inadequacy of the CIG's foreign investment policy;
- The lack of bankruptcy laws and the problems this causes with regards to investor confidence; and
- The issues associated with the buying and selling of businesses and in particular, the need for significant land reform.

The latter issue was seen by the majority of key informants as the most significant constraint to private sector investment both in tourism and in other sectors in the Cook Islands.

Those involved directly in the management of the tourism sector also flagged a number of additional issues that affected the sustainability of the industry. Chief among these was the need to improve public infrastructure, which was rated as low quality in recent visitor surveys. The provision of high quality drinking water is a major concern that is now being addressed through the New Zealand funded Te Mato Vai project, but the quality and management of other public infrastructure is an ongoing issue. The second issue is the deterioration in quality of the lagoon environment and the potential this has to affect tourism numbers, an issue which is also being addressed through the Sanitation Upgrade Programme, funded by New Zealand, the EU and the CIG. These issues will continue to present problems into the future as the lagoon becomes shallower due to natural sediment accumulation, and if coastal development continues. The third issue raised by key informants was the need to better link government planning and investment decisions to the needs of tourism. This was considered particularly important due to the contribution of tourism to the economy. A more integrated whole-of-government approach to tourism investment across multiple sectors was called for by both public and private sector actors and this is the key issue that needs to be addressed to improve the sustainability and economic viability of tourism. .

In summary, tourism is a significant component of the Cook Islands economy, and New Zealand is the most significant source of tourists who contribute approximately NZD 138 million per year to the Cook Islands economy (34.6% of GDP). With the help of the New Zealand aid programme, receipts from tourism have grown significantly over the last five years. However, market conditions are shifting and the Cook Islands must adapt to a shifting market context. It also needs to ensure that the income it receives from tourists is maximised by increasing the spend per tourist. It also faces a number of internal constraints that affect the potential of tourism more generally. The Cook Islands is dependent on New Zealand support in key areas and it is imperative that any exit strategy from the sector avoid a reduction in tourist numbers. The CIG and New Zealand government need to work together to devise new and innovative models for public-private partnerships in tourism to reduce this dependency and ensure sustainability and to increase opportunities to lift income from the tourism sector through increased tourist spend.

3.2.2 Renewable Energy

The provision of renewable energy is a high priority for both the Cook Islands and New Zealand governments. The Cook Islands Renewable Electricity Chart ('Te Atamoa o



Te Uira Natura') set a target of 50% renewable energy coverage by 2015 and 100% renewable energy coverage by 2020⁸². This was subsequently re-interpreted by CIG to mean 50% of all islands by 2015, and 100% of all islands by 2020. The provision of renewable electricity is a pressing development challenge for the Cook Islands, which is heavily dependent on fuel imports for electricity generation. **In 2013 total fuel imports amounted to NZD34.6 million or 9% of GDP, up from NZD20.3 million in 2008.** The most important factor driving this growth was an increase in global fuel prices⁸³. **This is a very high proportion of government expenditure, and approximately triple the CIG's health budget.** Diesel fuel use for electricity generation accounted for 56% of all fuel imports in 2013 (approximately NZD19 million per year). With diesel fuel prices expected to grow at an average of 2.9% per year to 2040⁸⁴. It is imperative that the Cook Islands economy becomes increasingly decoupled from global fossil fuel markets.

Electrification on the outer islands of the Cook Islands ('Pa Enua') has also been an ongoing problem since the 1970s. These islands suffer from irregular fuel supply, poor fuel handling, inadequate maintenance and poor facilities, resulting in partial and unreliable electricity supply. Island authorities are responsible for the maintenance of power systems and the costs associated with the maintenance and operation of these systems has increased over time⁸⁵. CIG subsidies are provided to help island authorities to operate and maintain power systems. Over time electricity use in the Pa Enua has grown, in some places quite significantly, which places financial stress on island resources. For example, between 2006 and 2010, electricity consumption on Manihiki increased threefold from 154,000 kWh to 450,000kWh, while on Penhryn it increased 50% from 121,000kWh to 186,000 kWh during the same period⁸⁶.

New Zealand hosted the Pacific Energy Summit in 2013, which resulted in significant commitments by both New Zealand and the European Union, initiating the installation of renewable energy generation facilities across the Pacific. In the Cook Islands, New Zealand has been the most significant investor in renewable energy generation over the last three years. Between 2012/13 and 2014/15 it invested NZD28.52 million in renewable energy infrastructure⁸⁷.

New Zealand invested NZD 4.92 million between 2012/13 and 2014/15 for the 'Te Maro oTe Ra' or Airport West project, which was launched on 14th October 2014. This solar energy system meets 5% of Rarotonga's electricity demand, producing 1.413 Mwh per year; and **displaces the use of 375,000 litres of diesel fuel each year, which is an**

82 See:

http://www.mfem.gov.ck/images/MFEM_Documents/DCD_Docs/Renewable_Energy/Cook_Islands_Renewable_Electricity_Chart_-_Final_April_2012.pdf

83 Asian Development Bank (2014)– Economic Assessment , Renewable Energy Sector project

84 ADB (2014)

85 IRENA (2013) Renewable Energy Opportunities and Challenges in the Pacific Island Region – Cook Islands, International Renewable Energy Agency

86 Ibid

87 MFAT (2015) Cook Islands Forward Aid Plan



annual saving of NZD945,000 based on 2012 diesel fuel prices⁸⁸. The displacement of diesel fuel will also reduce greenhouse gas emissions by 1,000 tonnes per year and reduce exposure to international diesel price hikes⁸⁹.

New Zealand has also invested NZD23.6 million over 2013/14 to 2014/15 in the 'Te Huiira Natura Ki Te Pae Tokerau', or Northern Group Renewable Energy Project. This project provides solar mini-grid technology that meets the entire electricity demand of the six Northern Group islands of Manihiki, Nassau, Palmerston, Penhryn, Pukapuka, and Rakahunga. This is the biggest economic infrastructure project ever implemented in the Northern Islands group and is a pillar of the CIG's Renewable Electricity Chart and its broader commitment to provide high quality infrastructure services to the Pa Enea. The project included the provision of eight photovoltaic – diesel – battery mini-grid systems on the six atolls, with a total output of 1.126 MWh per annum⁹⁰. Each system is designed to supply up to 95% of annual electricity demand on each of the islands.

The project suffered from some initial delays in the design phase with regards to proposed harmonisation with the Japanese aid programme and issues associated with the use of some Japanese renewable energy systems. New Zealand was adamant in its requirement for standardised technology throughout the project and should be applauded for doing so. In order to fast track the installation phase of the project, New Zealand worked outside of Cook Islands government infrastructure and procurements systems, and directly through the Renewable Energy Office in the Office of the Prime Minister. According to key informants interviewed for this evaluation, this decision was driven by concerns regarding capacity constraints with infrastructure in Cook Islands, and the political imperative to fast track the construction process to meet commitments arising from the Pacific Energy Summit. Concerns regarding the capacity of the Cook Islands to deliver large infrastructure projects in a timely fashion are warranted from an efficacy perspective, as noted in the recent MFAT Infrastructure Evaluation "*...historically the Cook islands has had very limited capacity to deliver projects.*"⁹¹ The same evaluation also noted that a large number of smaller infrastructure projects have been subject to significant delays, due to a range of issues ranging from political interference, long procurement processes, delays in decision-making and poor project management.

The project installation phase began in September 2014 and was completed in early June 2015, representing an incredibly swift process by Pacific island standards. All of the Northern group islands now have a 24 hour electricity supply augmented by a diesel back-up system, which guarantees energy security. The provision of constant electricity supply to health and education facilities is expected to improve human development outcomes on these islands, and the project is also expected to contribute to increases in economic development opportunities through the better storage of fish for export to Rarotonga for example. The

88http://www.mfem.gov.ck/images/MFEM_Documents/DCD_Docs/Renewable_Energy/Cook_Islands_Renewable_Electricity_Chart_-_Final_April_2012.pdf

89 IRENA Cook islands Renewable Energy Notes, Internal MFAT Document

90 IRENA Cook islands Renewable Energy Notes, Internal MFAT Document

91 MWH (2015) Evaluation of Infrastructure Investment in the Pacific, Stage 1 Report, MWH New Zealand, March 2015



project is expected to result in annual diesel savings of approximately 230,000 litres per annum and up to 436,000 litres per annum once the potential of the systems is fully realised – this will result in annual savings of between NZD791,000 and NZD1.5 million per year⁹², and will reduce greenhouse gas emissions by between 620 tonnes and 1,170 tonnes per annum.

The Northern Group and Airport West projects were designed to align to the Cook Islands renewable energy roadmap and in particular to address sustainability concerns and stakeholder requirements, while also allowing for growth. The large Stand Alone Power Systems (SAPs) were the first of their kind in the Cook Islands and were customised to the energy requirements of each island and designed to provide 100% of renewable energy generation for 95% of the year. The systems were designed to factor in growth, withstand severe cyclonic events, while being easy to use and easy to replicate⁹³. According to key CIG informants interviewed for this evaluation, the training of island government utilities employees has been completed, central monitoring systems have been established on Rarotonga to continually monitor the system, and O&M transfers have been included in island government budgets. This augurs well for the sustainability of the project. Lessons from the Northern Group project have informed the development of the new Southern Group project, which will be funded by the EU, ADB, and JICA. This NZD29 million project will utilise the same technological solutions as the Northern Group project to ensure a standardised approach across the Pa Enua.

3.2.3 Automated Border Management System

Over the last 4 years, the New Zealand Customs Service has been providing a wide range of services for the improvement of border management and the modernisation of customs arrangements in the Cook Islands. The New Zealand government has provided NZD2.1 million through the Cook Islands Border Management System (CIBMS) project for the period 2011-2016. Over this period the New Zealand Customs service has developed a system that has improved the efficiency of trade and tourist flows and reduced the risks of illegal border activity. As a result of this activity, clearance times for goods at the border have been reduced from 24 hours to 2-3 minutes which has generated savings of between NZD 138,000 and NZD 690,000 per year⁹⁴. This automated system is based on New Zealand's own border management system and the information technology aspects of the system are supported alongside the New Zealand system.

Officials from the Cook Islands Ministry of Finance and Economic Management interviewed for this evaluation commented on the important work undertaken by the New Zealand Customs service to improve the enabling environment for customs and border processing in the Cook Islands. This has included the secondment of a New Zealand Customs expert in MFEM, who supported the development of the Customs Revenue and Border Protection Act

92

http://www.mfem.gov.ck/images/MFEM_Documents/DCD_Docs/Renewable_Energy/Cook_Islands_Renewable_Electricity_Chart_-_Final_April_2012.pdf

93 CAT Projects (2012) Cook Islands Outer Islands Renewable Energy Project, Feasibility Report

94 MFAT (2014) Cook Islands Border Management System, Activity Monitoring Report, 16th July 2014



(2012) which updated the Cook Islands' previous 100 year old customs regulations and the Customs Tariff Bill (2012) which updated the 1989 Tariff levels. This new legislation has been supported by a range of new policies and procedures that together have helped modernise border management and improve tariff collection. Training has been provided through the Customs Leadership Programme on legislative matters and in the operation of the automated border management system. It is essential that after 2016, the New Zealand Customs service continues to provide ongoing technical support to the Cook Islands Customs Service to ensure the sustainability of outcomes.

3.2.4 Cook Islands Technical Assistance Facility

New Zealand provided NZD 2.97 million to the Cook Islands Technical Assistance Facility (CITAF) between 2012 and 2015. CITAF was designed to be a flexible, contestable mechanism for responding to capacity development needs within the CIG. It provided support for short and long term capacity development projects that aimed to improve government financial management, service delivery and administration. The project also provided funds for the supplementation of senior public servant salaries. The Facility was administered by the Office of the Public Service Commissioner (OPSC). CITAF invested in 17 government agencies in five key areas:

- *Strengthening legal frameworks*, which included the legislative drafting in areas like financial services, employment and the review of Seabed Minerals legislation;
- *Streamlining core functions of the public service*, which included developing centralised payroll and Human Resource information systems and consolidating the ICT communications platform;
- *Ensuring compliance with international standards*, which included improving meteorological services, the management and inspection of dangerous goods and laboratory certification;
- *Conducting policy reviews and audits*, which included the review of clinical nursing standards, support for clearing the audit backlog and the review of the education curriculum framework; and
- *Recruitment of staff in key public service roles*, which included supplementing the salaries of the Solicitor General, Senior Tax Auditor, Financial Secretary, Economic Policy Advisor and Chief Medical Officer.

A Mid-term Review (MTR) of the project was undertaken in 2014, which assessed the relevance, effectiveness and sustainability of the Facility. The MTR⁹⁵ found that while the project was highly relevant at the goal and project level with explicit linkages to government priorities, there were problems at the fund and activity level with targeting capacity development needs. The MTR found that guidance with regards to capacity development priorities was somewhat ad hoc and not driven by the existing capability analysis. It

95 Newport, C., and R. Newport-Lupena (2014) Cook Islands Technical Assistance Facility, Mid-Term Review, Final Report, 6th March 2014



concluded that more could have been done to systematically align CITAF's activities to existing and demonstrated capacity gaps. With regards to effectiveness, the MTR found that while technical assistance did fill important capacity gaps and helped departments improve performance, more could have been done to build staff capacity through more effective utilisation of the training fund. This would have improved the probability of achieving long term capacity development outcomes. The effectiveness of the programme was also affected by a lack of operational documentation, high staff turnover and a lack of clarity with regards to governance and decision-making processes. With regards to sustainability, the MTR found that outcomes would have been improved if there was better use of succession planning and the development of individual performance and training plans.

One of the key issues with regards to the relevance, effectiveness and sustainability which stems from the CITAF review and MFAT's own internal reporting⁹⁶ is the impact the lack of an overarching public sector strengthening strategy has on a technical assistance facility with such broad aims and objectives. The OPSC and CITAF were guided in their funding decisions by the very broad priorities of the National Sustainable Development Plan and by annual budget policy statements. At the time, there was no clear public service strengthening strategy or a public service reform plan that CITAF could meaningfully align to. This resulted in a somewhat ad hoc approach to capacity development that was unable to focus on priority issues and so was unlikely to address capability gaps over the long term.

The emergence of the Draft Cook Islands Public Sector Strategy (2015-2025) and the proposal to align a future technical assistance package to that strategy is an important development that has the potential to improve public sector performance over time and the impact of New Zealand support in this area, provided the very real barriers to structural reform are addressed by the CIG as well. This strategy provides a much clearer strategic alignment for New Zealand's future investments in supporting public service strengthening. The Strategy, which is in its consultation phase and remains in draft form, is comprised of three stages: strengthening of central agency capability, public sector transformation and performance improvement and public service innovation and excellence. The aim of the strategy is to transform the Cook Islands public service through structural reform (e.g. rationalisation of corporate services) and through improving performance.

3.3 New Zealand's Support for Human Development

The following section discusses the results and sustainability issues associated with New Zealand's major investments in Human Development. This includes the review of the results of New Zealand's ongoing budget support in the Education sector, and its support for health and sanitation initiatives and social sector non-governmental organisations.

96 MFAT (2014) Cook Islands Technical Assistance Facility, Assessment of Activity Implementation, 16th June 2014



3.3.1 Education

Between July 2012 and June 2015, New Zealand provided NZD9.52 million in sector budget support to the Cook Islands Ministry of Education (MoE). New Zealand’s budget support provides important resources for the implementation of the MoE’s Business Plan, which is aligned to the Cook Islands Education Master Plan (2008-2028). With almost 90% of the Ministry’s budget allocated to salaries, the MoE has very little domestic resource that it can use for improving education outcomes and is highly dependent on New Zealand aid for such activities⁹⁷.

A recent evaluation of New Zealand sector budget support for education in the Cook Islands suggests that it is directly contributing to a wide range of improved education outcomes⁹⁸. New Zealand supports activities that address the four outcomes presented in Table 2.

Table 2: Headline Results of New Zealand’s support for Education in the Cook Islands⁹⁹

High Level Outcome	Headline Results
All children in school and completing basic education	Significant decreases in ‘below average or at risk’ classifications for Pa Enua students in both literacy and numeracy as a result of new online learning programme; achieved 93% retention rate for year 10 to year 11 students (3% above target indicator); increase in year 11 to year 12 retention from 60% in 2012 to 75% in 2014; a decrease in retention rates for students from year 12 to year 13 from 69% in 2012 to 54% in 2014; NCEA achievements rates increased at all levels from 2011 to 2014 by around 20%
An increased number of children able to read and write	Improvements in literacy achievement at NCEA level 1 from 85% in 2011 to 91% in 2013; significant improvement in Northern group numeracy achievement in year 3 assessments from 59% in 2011 to 95% in 2013; improvement in cross country year 3 numeracy from 68% in 2011 to 76% in 2013; improvement in NCEA level 1 numeracy achievement from 85% in 2011 to 97% in 2013; improvement in the capacity of teachers to deliver numeracy programmes as evidenced by 100% pass rates of teachers in 2013 University of Auckland Education Curriculum courses.
Trained and effective teachers	100% of new Principal’s completing Auckland University First Time Principal’s Programme in 2013 up from a baseline of 75% in 2012; 72 (of 268 teachers) completed further education qualifications by 2012, projected to increase to 198 by 2018; development of Education Act (2012) and subsequent changes to frameworks for teachers; the development of a performance management system for the education department; development of MoE Workforce Plan.

97 Public Expenditure Review of Cook islands Education, 2013

98 Scott, C (2015) Desk Study for the Evaluation of the Cook Islands Education Sector Budget Support Grant Funding Agreement, 19th January, 2015

99 Modified from Scott (2015)



High Level Outcome	Headline Results
Young people appropriately skilled to participate in the labour market	Development of a TVET strategy (with costing support provided by Volunteer Services Abroad); NZQA and LCG accreditation of courses under the Cook Islands Tertiary Training Institute (CITTI), and development of hospitality related programmes; implementation of CITTI apprenticeship scheme in Hospitality.

The table above highlights a number of important advances in basic education provision in the Cook Islands that have been supported by New Zealand funding. One of the most important is the substantial increase in numeracy achievement by Pa Enua students at year 3 levels and the improvements in performance of Pa Enua students more generally in both literacy and numeracy. This is a significant outcome from an equity perspective, particularly considering the difficulty delivering services to such remote locations. However, concerns were raised in the evaluation that equitable access to education services will continue to be affected by the ongoing rise in the per person cost of education services in the Pa Enua which is growing each year and beyond the financial capacity of the MoE with its existing funding envelope. This highlights the current importance of New Zealand funds to support equitable education outcomes in the Cook Islands. The creation and accreditation of the Cook Islands Tertiary Training Institute (CITTI) is also another major achievement as it allows the Cook Islands to develop and implement training courses that address employment needs and economic development priorities across the country, such as those in tourism and hospitality. Significant advances in teacher and principal training and the associated improvement in service delivery are also very positive, and again only possible with New Zealand's ongoing support.

A number of major changes in the education sector were instigated in 2012 and 2013, which have had an impact on the results observed and the enabling environment for education service provision more generally. These include the passing of the Education Act in 2012 and changes to remuneration within the MoE. Both these changes had an impact on the capacity of the MoE to continue to deliver its services sustainably within its current budget envelope. The passing of the Education Act raised the age limit for compulsory education to 16 (from 15), while also decreasing the age for funded education commencement to 3 years of age (from 3.5). This increases the demand for education services and as noted in the evaluation of New Zealand's support stretches '...resources more thinly to meet increased demand'. Alongside this, the recalibration of teacher pay scales which increased pay for entry and lower level teachers had both positive and negative outcomes for the MoE. The increase in base rates of pay at the lower levels helped reduce the comparable pay gap with New Zealand, which may have some positive effect on retention and recruitment of teachers, but also caused a blow out in the MoE's personnel appropriation, a shortfall that had to be met by New Zealand funding. In the current 2014-15 budget, personnel costs account for 86.7% of the Department's operational budget¹⁰⁰. This leaves very little room for other activities which aim to improve the quality of the education system.

100 MFEM (2014)



The dependence on New Zealand support for education service provision in the Cook Islands is likely to continue.

A 2013 public expenditure review of the Cook Islands education system highlighted the recent dependence of the Cook Islands on New Zealand funds¹⁰¹. The key finding from this analysis was that CIG spending on education (both as a percentage of GDP and as a share of government expenditure) was low by international standards, and insufficient to meet the needs of the education sector. Between 2008-9 and 2014-15 education as a percentage of GDP was projected to decrease by almost a quarter, from 3.8% to 2.9%. Over the same period the trends in education expenditure as a percentage of total government expenditure were also projected to decrease, from 13.5% in 2008-9 to 11.1% in 2014-15. We note, however, that since this review, education expenditure has increased slightly, and the CIG should be congratulated for this change in allocation. In the 2014-15 budget, the total gross education appropriation was NZD14.53 million, which is 3.6% of projected GDP¹⁰². New Zealand's additional support raises this to 3.8% of GDP, which was the minimal level set by the public expenditure review required to ensure sustainable outcomes.

While this increase is welcome, as noted in the public expenditure review, these are still low rates for education expenditure by international standards, particularly for a country that aspires to a quality of education enjoyed in developed countries. For example in 2009/10 Cook Islands public education expenditure was 3.8% of GDP (including New Zealand's aid). This compared to 7.2% in New Zealand, 5.1% in Australia and 6.8% in Finland, which has some of the highest education achievements in the world. The Cook Islands' investment in education also compared poorly with comparable developing countries, Pacific island nations and small island developing states. Noting the challenges relating to personnel costs and ongoing service provision in remote locations, the CIG needs to continue to raise its education expenditure.

Aside from its significant contribution directly to educational achievement in the Cook Islands through sector budget support, the Realm state relationship between New Zealand and the Cook Islands has important implications for education in the Cook Islands. The influence of New Zealand on the Cook Islands education system is significant indeed, and, as noted in the public expenditure review, enables the CIG spend less on education than it otherwise would have to. For example, services provided by the New Zealand Qualifications Authority are equivalent to approximately 0.3% of CIG expenditure on education, and Cook Islands students who are New Zealand citizens can access New Zealand tertiary education institutions, thus displacing the need for significant local investment in tertiary education. The relationship between the two countries also has other positive outcomes through the presence of New Zealand education experts in the Cook Islands education workforce, the use of New Zealand education assessment tools and curriculum support, the adoption of the NCEA, and the ongoing professional development of teachers in New Zealand institutions.

101 Public Expenditure Review of Cook Islands Education, April 2013
102 MFEM (2014)



3.3.2 Health

New Zealand provides a range of support for the health sector in the Cook Islands, including: the Health Specialists Visit (HSV) Programme (funded from the bilateral programme), and the Pacific Science for Health Literacy Programme (funded through the Partnerships and Funds programme), and much smaller investments in emergency Ambulance service provision and laboratory strengthening. However, there is no overarching delivery strategy guiding New Zealand's various investments in the health sector. As a result, multiple New Zealand actors are operating in parallel, which affects the coherence and efficiency of New Zealand's support.

New Zealand's most significant investment in health is the Health Specialist Visits Programme, which provides NZD500,000 per year for the Cook Islands Ministry of Health to access tertiary health care services from New Zealand specialists in areas including: urology, gynaecology, obstetrics, and orthopaedics. It also provides health system review and capacity development services, which aim to help strengthen the health system and build the capacity of local medical professionals. This programme has a long history and provides a necessary service for Cook Islanders who would not otherwise be able to access tertiary health care services. This support is particularly important considering the aging population and the rising incidence of Non-Communicable Diseases (NCDs) in the Cook Islands. The programme operates effectively and achieves good outputs. In 2013/14, 1,564 patients were assessed under the programme and 49 were treated. These services were delivered at a cost significantly lower than that available in New Zealand, primarily because of the low fee rates charged by New Zealand specialists, many of whom operate on a pro bono basis¹⁰³. This, coupled with the cost effectiveness of the Cook Islands health sector more generally (as noted in Section 2), suggests that this investment provides value for money for New Zealand. With regards to sustainability, New Zealand has no plans to exit from this programme, which is being extended to include the training of GPs, and other modifications are being considered in light of a recent evaluation¹⁰⁴.

New Zealand's support for the HSV is highly regarded by Cook Islands Ministry of Health (MoH) officials who were interviewed as part of this evaluation. These key informants acknowledged how the HSV programme augments the Cook Islands health budget, which is important noting that over 80% of health expenditure is spent on salaries and operational expenses, thus leaving little to be spent on tertiary health care. The rising cost associated with referrals from the outer islands also puts increasing stress on the health budget. MoH officials are concerned about the sustainability of the programme and voiced a concern that they could not fund these important services from their current budget in the unlikely event that New Zealand exited from the programme. The health budget currently stands at NZD12 million or 5.6% of GDP¹⁰⁵, but its growth has not kept pace with the increased demand on health services, particularly those associated with treating NCDs.

¹⁰³ See MFAT (2014) Activity Monitoring Assessment, Cook Islands Health Visits Programme, 21st May 2014

¹⁰⁴ See Page 4 Activity Monitoring Assessment

¹⁰⁵ MFEM (2014) Cook Islands Budget Book 1, 2014-15



Key informants from the MoH also reported on a number of issues associated with the programme, and opportunities to improve New Zealand's support for the health sector more generally. First, there was a call for greater logistical coordination within the programme to ensure that the provision of tertiary health services by New Zealand professionals better align to the schedule of the MoH. Second, the delays associated with the disbursement of funding, which are occasioned by late audit reporting with MFEM affect the provision of services – this issue is widespread across the Cook Islands. Third, MoH officials felt that New Zealand could do more to help the Cook Islands systematically access health services in New Zealand, which in their view was somewhat ad hoc; this point was reiterated by one senior health official who said: “.....we feel that we are driving the Realm state relationship in health¹⁰⁶”. The MoH feels that a more formal relationship with the New Zealand Ministry of Health would help ensure the systematic provision of a range of health care services, particularly in areas where specialist expertise will most probably never be developed in the Cook islands (biomedical engineering, epidemiology and pathology for example).

New Zealand funds the Liggins Institute at Auckland University to implement the Pacific Science for Health Literacy Programme, with total funding amounting to NZD 880,000 over three years from 2013/14 to 2015/16. This programme uses science communication tools to address society-wide health problems including NCDs and food security. The programme is developing school based programmes, linked to the national curricula that enable young people to explore health problems in Cook Islands society, particularly NCDs, obesity and food security. These themes are particularly salient noting the high proportion of youth obesity in the Cook Islands and the high risk factors amongst Cook Islands youth more generally¹⁰⁷. **This project could form an important part of a wider New Zealand strategy to systematically address NCDs in the Cook Islands (see discussion in Section 4).**

3.3.3 Waste Management Initiative and the Sanitation Upgrade Programme

Maintaining the natural capital of the lagoon environment is a high priority of the CIG for social, environmental, cultural and economic reasons, and a major human and economic development issue confronting the Cook Islands, as noted in the National Sustainable Development Plan:

“...our livelihoods and our economy are very much reliant on the condition of our lagoons and marine life and we must safeguard these resources¹⁰⁸”.

A review conducted 2012¹⁰⁹ commented on the poor to very poor water quality evident in the Muri lagoon, which is locally referred to as the jewel in the crown for tourism on Rarotonga.

106 Key Informant 56, per comm, 17th March 2015

107 According to the Global School Based Health Survey (2012) 29% of Cook Island boys between the age of 13 and 15 are obese and 58% are overweight, one of the highest rates in the world for youth.

108 CIG, NSDP

109 Beca (2012) Rarotonga and Aitutaki Sanitation Assessment, 24th September 2012, Beca International Consultants



This report documented a swath of environmental issues, including high levels of nitrogen, phosphorous, and ammonia, the presence of high concentrations of faecal coliforms, frequent algal blooms, contaminated groundwater inflows and coral degradation. The review concluded that:

“...poorly performing sanitary systems are considered highly likely to be contributing to current poor lagoon quality, water quality will deteriorate further if pollution loads from all sources are not reduced”.

The report noted that sanitation issues weren't the only contributor to lagoon pollution and that other sources such as natural sedimentation, animal husbandry and the use of fertilisers also contributed to what is a very complex problem. Research undertaken by Southern Cross University found that it was a conflation of natural factors such as the steepness of the topography and the presence of untreated human and animal waste that contributed to groundwater discharge into the lagoon environment and concomitant pollution¹¹⁰.

In response to this issue New Zealand provided NZD 4.165 million to fund the three year Waste Management and Sanitation Improvement Programme, from 2011 to 2014. The objective of this pilot programme was to assist the Cook Islands Government to improve lagoon water quality in the Muri Avana area, in order to promote sustainable cultural and recreational use of the lagoons, sustainable tourism and to safeguard public health. The programme included: establishing a Water and Sanitation Office in the Ministry of Infrastructure and Planning (now Infrastructure Cook Islands), inspecting and upgrading sanitation systems in the pilot area around Muri Lagoon, developing a user pays system for access to improved domestic sewerage treatment systems, upgrading of waste management facilities, and reviewing legislation and policies. In 2012, an initial review of 242 existing domestic sewerage systems in the Muri Avana pilot area found that only 6 of 242 met Cook Islands health regulations. Soon after these reviews, Cabinet approved the adoption of a user pays system, after some delay, and the programme then provided an extensive subsidy (NZD 10-12,000) for the purchase of new systems in the pilot area upon payment of NZD 1,000.

A total of 222 household sewerage systems were upgraded through the course of the programme, which provided improved sanitation services for an estimated 832 people¹¹¹. These replacements were rolled out over the course of the programme, and while there was some delay with payments from about 20% of households¹¹², the programme rolled out reasonably efficiently, as noted in Activity Monitoring Assessments¹¹³. The costs for programme delivery was kept down through the use of a panel of private sector suppliers. The programme required extensive technical support from specialists, and MFAT staff at Post

110 Southern Cross University (2011) Lagoon Freshwater Intrusion Investigation

111 Ibid

112 See: <http://www.cookislandsnews.com/item/45857-more-than-a-fifth-of-households-behind-on-payments-for-sanitation-system-upgrade/45857-more-than-a-fifth-of-households-behind-on-payments-for-sanitation-system-upgrade>

113 MFAT (2013) Activity Monitoring Assessment, Waste Management and Sanitation Programme, 11th October 2013



were heavily involved in the management of the project, which was seen as a necessity considering the limited capacity of the Water and Sanitation Unit (Watsan) within MOIP. New legislation and regulations pertaining to sanitation were developed during the course of the project, but MFAT raised a number of issues regarding the inconsistent application of these regulations and the performance of institutions responsible for enforcing compliance and inspection¹¹⁴. Officials from the CIG interviewed for this evaluation commented on their efforts to streamline services which at one time required permissions from four separate agencies. This type of streamlining is essential for efficient service provision. Auckland City Council is assisting the ICI to streamline its various approvals and monitoring processes.

In 2014, the relatively successful pilot led to the launch of an NZD18 million Sanitation Upgrade Programme (SUP), funded by New Zealand, the European Union and the CIG launched (to which New Zealand is contributing NZD 10 million over three years). The SUP builds on the efforts of the pilot and aims to upgrade up to 1,000 private sewerage systems across Rarotonga and Aitutaki, by applying the same user pays system that was successfully deployed in the Muri-Avana pilot study programme. The SUP is presently in its early days and it is too early to assess its results, but there are some concerns about implementation delays in its early stages, and the capability of Watsan to deliver this activity. CIG key informants interviewed for this evaluation suggested that the complicated reporting requirements was diverting resources from project implementation. For example to acquit funds for this project, monthly reports are required for MFEM, six monthly reports are provided to the Public Service Commissioner, and Cabinet also receives reports; New Zealand receives six monthly reports as well (on a project-by-project basis) and the EU also receives reports. Five different reporting mechanisms are in place, which is clearly inefficient. The ongoing backlog in departmental auditing is also delaying the disbursement of funds and therefore the progress of the project. Progress had been made on the roll out of the SUP, but project implementation in Aitutaki was delayed around the time of election and subsequent by-election earlier in 2015 due to political issues.

3.4 Summary

The evaluation found that New Zealand has been the most significant donor to the Cook Islands in terms of total aid flows and ODA/GDP per capita. New Zealand's aid provision has, in the recent past, been consistently around 2% of GDP, and these funds have enabled the CIG to undertake a range of important economic and human development initiatives. The evaluation also found that New Zealand's support for economic development has been effective and important, and has contributed directly to the significant increase in tourist numbers that has been evident over the last six years in particular. A number of structural issues must now be tackled to ensure that growth continues.

New Zealand's sector budget support in education has been very effective and has contributed to a number of significant achievements. The Realm state relationship between the two countries enables the Cook Islands to deliver education services more cost-effectively than would otherwise be expected, but CIG expenditure must continue to increase if the high levels of achievement are to continue or be maintained. New Zealand's support for

114 MFAT (2013)



tertiary health care provides a level of service to citizens of the Cook Islands that would otherwise be prohibitively expensive.

New Zealand is embarking on a significant investment in Sanitation which is a major priority for the Cook Islands. This investment transcends both the economic and human development priorities as the natural capital of the lagoon environment is central to ongoing tourism levels, while health issues are also associated with poor sanitation. This is a wise investment and based on the results of the pilot we expect it will progress slowly due to capacity constraints within the CIG, but the technical solution should contribute to better water quality.

New Zealand's support for renewable energy has been fundamentally important for the residents of the Northern Group of islands, and promises to achieve significant savings. Energy security has improved significantly and a host of human development benefits will also occasion the provision of 24 hour electricity. Once the full potential of the systems is realised, New Zealand's investments in renewable energy in the Northern Group and on Rarotonga are predicted to reduce diesel fuel costs by approximately NZD 2.45 million per year, which is a significant outcome considering the predicted increase in diesel fuel costs (2.9 per cent per year) expected over the next 25 years.



4. Improving Development Effectiveness

This section draws on the findings from the previous two questions and identifies the key changes that are needed to ensure that New Zealand's programme is more relevant, efficient, effective, and contributes to sustained economic and human development outcomes in the Cook Islands. It also identifies opportunities for strengthening New Zealand's whole-of-country approach. The section discusses New Zealand's overall aid allocation to the Cook Islands noting its likely graduation from ODA eligibility in 2017, suggests an approach to budget support, and highlights the need for a clearer strategic framework for the aid programme. It then moves on to discuss specific issues that pertain to economic and human development.

4.1 New Zealand's aid allocation to the Cook Islands

The Cook Islands GNI per capita is above the ODA eligibility¹¹⁵ threshold and a UN resolution regarding its graduation from ODA eligibility is due for consideration. This will include resolving issues around the multi-year transition period, which can be up to four years after the adoption of a UN ODA graduation resolution. MFAT needs to develop policy for this post-ODA scenario. While such policy is essentially political in nature, key development policy issues remain. To frame these issues it is useful to consider the implications of Cook Islands' graduation on New Zealand's overall ODA levels. Other issues to consider are: i) **why** assistance should be provided (or not); ii) **how** that assistance should be provided; and iii) **what** sort of assistance should be provided.

It is estimated that the impact of Cook Islands graduation would be to reduce New Zealand's reportable levels of ODA by around 0.1% of GNI. Analysis was undertaken to assess the impact on ODA levels when Cook Islands becomes ineligible to classify financial assistance as ODA. If ODA eligibility was removed for the Cook Islands in 2012, then NZ ODA would have reduced from 0.22% of GNI to 0.21%. (See Figure 26 and 27).

Financial assistance could, however, still be classified as 'Official Aid', which is the same as the ODA definition without the requirement to be on the OECD-DAC List of ODA Recipients. In this context donors need to establish their own guidelines for the provision of 'official aid', which we suggest New Zealand needs to attend to. For example, the EU is currently assessing the eligibility of the Cook Islands for budget support financing under its

115 Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). Countries are removed from the DAC List of ODA Recipients, if the country is considered too rich – i.e. have a sustained GNI per capita over US\$12,745 in 2013 dollars for three years in succession. See OECD Glossary and ODA eligibility fact sheet.

own rules¹¹⁶. While the EU budget support guidelines¹¹⁷ do not require ODA eligibility, income levels matter to decision makers in Brussels. That said, the reason for providing aid is multidimensional in nature and includes development, geopolitical, trade and industry imperatives. The strengthening relationship between the Cook Islands and China will be an important factor influencing the levels and types of financial assistance New Zealand provides to the Cook Islands. The new China engagement model developed by the Cook Islands will also be important for OECD donors moving forward with their engagement strategies with China¹¹⁸. The Realm state relationship between New Zealand and the Cook Islands is the dominant factor underpinning New Zealand's policy decisions, and its official aid guidelines should be developed with reference to that relationship. The new 'Pacific Strategy' being formulated by MFAT could provide some strategic guidance that could inform New Zealand's approach to 'official aid' in ODA graduating Pacific states.

In recognition of the special relationship between New Zealand and the Cook Islands, financial assistance should be kept at current real levels, irrespective of ODA eligibility status. There still remains much work to be done to help the Cook Islands become more economically resilient and improve its service delivery standards. The existing strong relationships between New Zealand and Cook Islands' government agencies and civil society actors present clear opportunities for strengthening New Zealand's whole-of-country approach. The Cook Islands also faces many economic challenges going forward and noting the fluid labour mobility between the two countries, it is in both New Zealand and the Cook Islands' interest to ensure that development achievements remain high to halt depopulation and forge a sustainable economy.

Ongoing financial assistance in the form of 'official aid' should move towards more performance orientated forms of general and sector budget support, including the adoption of team-based performance management (see below) as an essential part of the budget support design. Funding should continue to be provided through official aid channels (rather than non-aid mechanisms), based around a development performance dialogue. Financial assistance in the form of budget support should be prioritised as opposed to donor or government-executed donor financed projects.

116 See http://eeas.europa.eu/cook_islands/index_en.htm 12/7/2015

117 See http://ec.europa.eu/europeaid/sites/devco/files/methodology-budget-support-guidelines-201209_en_2.pdf

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



Figure 26: Impact of ODA Eligibility - Realm States Share of NZ ODA: 2004-13

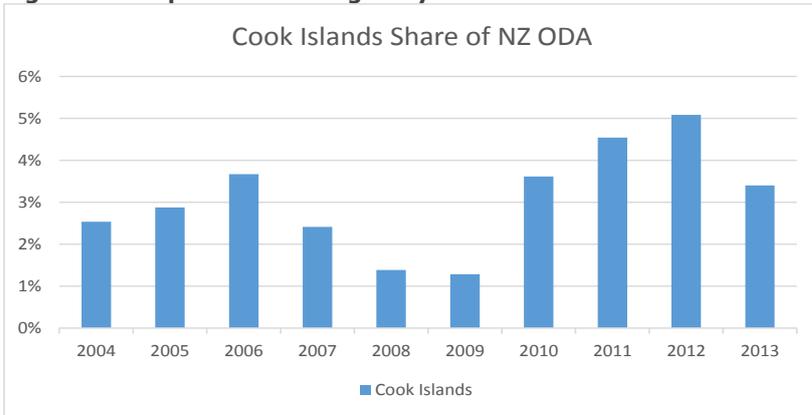
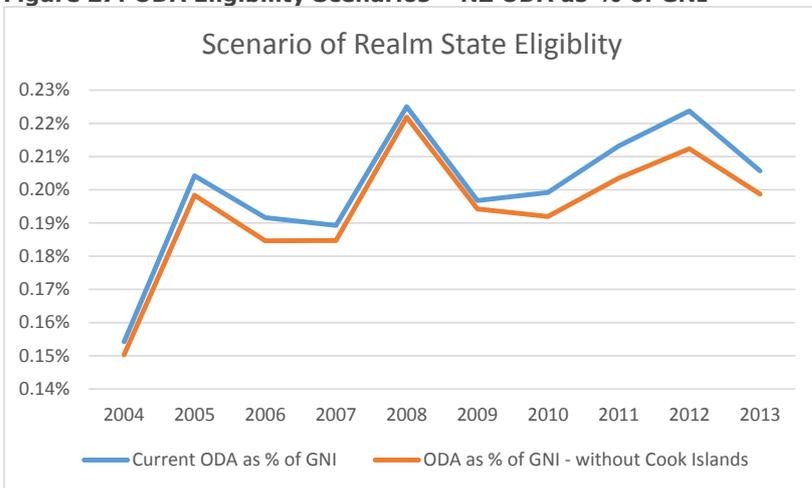


Figure 27: ODA Eligibility Scenarios - NZ ODA as % of GNI



4.1.1 Budget Support and Team-Based Performance Management

Development effectiveness can be improved by moving towards higher levels of budget support, as has already been mooted by New Zealand. As noted in Section Two, there is moderate fiduciary risk associated with the provision of general budget support to the Cook Islands. The evaluation team is of the view that higher levels of budget support is likely to provide better value for money than bypassing country systems to avoid exposure to fiduciary risk. Absorptive capacity analysis revealed that country systems are relatively strong and more aid can be channelled through these systems improving systems alignment (by using systems to improve them rather than bypassing them). Moreover, the cost effectiveness analysis suggests that the CIG is reasonably effective at converting financial resources into development outcomes.

The evaluation team is of the view that team-based approach to performance management will help address some of the persistent issues with planning and implementation that hinder



reform in CIG organisations¹¹⁹. Team-based performance management creates incentives for the ownership of policy choices. It focuses effort and resources on reforms that have a high impact and are achievable, using existing management systems and improving them over time. The aim of this approach is to direct attention to the inputs that are needed to deliver the outputs that will, in turn, lead to the reform outcomes prioritised by donors and the CIG through the budget support arrangement. Team-based performance management concentrates on the development and implementation of team-level rolling plans that cover all aspects of institutional development, it focuses on the actual tasks that need to be undertaken to implement change, this is one of the biggest constraints to reform in the CIG with its current performance management approach. In the team-based performance management approach, plans are developed by Government officials to reflect their goals and capacities, ensuring that accountability for successes and failures is firmly with the Government and not with external consultants. By instituting team-based performance management the Government is saying we value institutional culture as the primary determinant of performance. Moreover, we believe that managing teams is more effective than managing themes, as focusing on teams means more direct lines of reporting and increased accountability for results.

In order to proactively address risks and improve performance, the CIG and budget support donors should consider a move to team-based performance management linked to a fiscal performance improvement plan and investment priorities. Such an approach introduces validation systems that grade the performance of teams in different performance dimensions. In particular, annual work plan deliverables (Action-based Key Performance Indicators – A-KPIs) of administrative units (teams) are graded in terms of quality, timeliness and effectiveness. These performance indicators would be in addition to the standard output targets used for budget support operations, and guided by aspirational outcome targets. Under such a system, league tables can be used to help incentivise teams, and guide training and support. This system supports a single plan, and a single M&E and reporting principle. In addition, it also provides a flexible approach to providing performance-linked budget support, in that the variable components of the budget support funding agreement are linked to the overall grade. It should be noted that the team-based performance management system also requires a validated rating of reform or investment actions in terms of impact (or in other words importance), and risk of failure (or in other words difficulty). This ensures grades are fairer, as difficulty and importance can be taken into account when producing league tables of team performance. This is also consistent with the recommended approach to help prioritise and sequence reform activities¹²⁰, and it can establish a good basis for New Zealand’s other public service reform activities, which will provide stronger coherence in that area. The Team-Based Performance approach can help address some of the deficiencies in the current CIG annual business planning and performance management system, which has not been particularly effective to date.

119 See Appendix 1 of the Synthesis report for more details of the team-based performance management process and a discussion of its applicability to small island states contexts

120 Diamond, J, (2013) "Sequencing PFM Reforms", PEFA Secretariat, Washington DC, USA.



This evaluation has found that MFAT has opportunities to strengthen human resource and technical expertise, which is needed for more effective technical and policy dialogue associated operationalising a high quality general budget support operation.

4.1.2 New Zealand's Framework of Assistance

As noted in Section Three, New Zealand's strategic framework for the Cook Islands does not effectively articulate how the sum of its resources will be used to address CIG and New Zealand strategic priorities, and this limits the effectiveness of New Zealand's whole-of-government approach. This, coupled with the existence of multiple funding pathways and myriad relationships between CIG and New Zealand government agencies, leads to a less than coherent approach to aid delivery. Further, there are a large number of issues that affect the performance of government and donor-funded activities in the Cook Islands, which have not been coherently targeted by New Zealand with the resources at its disposal. These include underlying structural problems with the enabling environment for private sector development, the structure of the CIG more generally. The articulation of these issues needs to be built on a thorough country level assessment of the drivers of economic growth and human development, the challenges that shape and constrain the delivery of effective aid, an articulation of the assumptions underpinning this analysis, and a theory of how New Zealand, through its various programmes will support change in the country.

New Zealand needs to develop a more robust and analytical approach to country strategy development that targets the key underlying issues that constrain economic and human development, and describes how the sum of New Zealand's resources are used to address these underlying constraints. Theory of Change¹²¹ is one example of a high level strategic planning and monitoring and evaluation process, which can be deployed at the Country Programme level to design robust country strategies. This approach (and others like it) allow for a more strategic, high level outcomes-focused and country context specific implementation of the aid programme. Processes such as these can be used to articulate how whole-of-government resources (technical assistance, programme funds, and domestic policy) can be used to meet long term goals and address the constraints and issues that consistently arise across various activities, and support better strategic operational management by targeting these constraints directly through various programmes. They also allow for a more consistent and strategic approach to cross cutting issues (namely gender, human rights and environmental sustainability). The country strategies that emerge from this process and the range of modalities can also be linked to business unit or operational plans that outline how human and financial resources will be deployed to support programme implementation. This is critical as different types of aid investments require different levels of human resource support, with higher level modalities requiring higher levels of technical policy dialogue capability as discussed above.

121 <http://www.theoryofchange.org/what-is-theory-of-change/>



4.1.3 Tourism

Tourism is the most significant economic development activity in the Cook Islands and as such it should be the primary focus of New Zealand's support. As noted in Section Three, New Zealand's support for tourism has directly contributed to the large growth in tourism numbers that has been witnessed over the last six years. Over the last three years, however, competition has increased and tourist numbers have plateaued. Considering the importance of tourism for the economy, renewed effort needs to be made to continue to grow the sector and to address some of the underpinning issues that constrain growth. As highlighted in Section Three there are a number of constraints to the further growth of the tourism sector, which are linked to issues in the private and public sectors more generally. These issues should be the focus of renewed efforts by New Zealand and the CIG. The Cook Islands has managed to increase tourism numbers off the back of airline underwrites and marketing initiatives but a number of structural issues are likely constraining the further growth of tourism and these more intractable issues need to be addressed if the sector is to grow sustainably into the future. Aside from addressing these medium-to-long term issues, the CIG also needs to ensure it is addressing any short term risks associated with issues like air safety, which was a risk identified and supported by New Zealand and which has the potential to affect future international flights.

Improving the enabling environment for private sector development while also addressing public sector capacity constraints should be a central focus for New Zealand to help further grow the tourism sector. This could involve supporting the Cook Islands in a number of regulatory, policy and capacity building areas. This includes, but is not limited to:

- Addressing the persistent issue of land reform, which is recognised as a significant constraint to private sector development.
- Providing support for the modification of bankruptcy laws and reviewing other laws which have a detrimental impact on private sector investment, such as foreign investment and immigration laws to ensure they are more private sector focused.
- Providing coherent support to improve environmental planning and policy to ensure that the natural capital of the Islands, upon which the economy ultimately depends, does not continue to degrade.
- Providing support to better link government planning and investment decisions with the needs of tourism, particularly in areas such as education, agriculture and infrastructure.
- Providing coherent support for the improvement of infrastructure asset management and maintenance to ensure that tourism-related infrastructure is a high priority.
- Working with stakeholders to design innovative approaches to public-private partnerships in tourism, which may, in the future, abrogate the need for continued New Zealand support in destination development and marketing.

New Zealand could develop an Investment Plan for Tourism, which identifies the key constraints underpinning future growth and articulates how its whole-of-government resources could be deployed to address these constraints. This should be a key pillar of the future Cook Islands Country Strategy.



4.1.4 Seabed Minerals

The Cook Islands is facing significant challenges and opportunities with regards to the exploitation of sea bed minerals. It has been estimated that there are 10 billion tonnes of manganese nodules across 2 million square kilometres of Cook Islands' economic exclusion zone¹²². Aside from manganese, these nodules contain nickel, copper, cobalt and rare earth minerals used in the manufacture of electronic equipment. In recent years the Cook Islands has established a Sea bed Minerals Authority, and with New Zealand's support, developed sea bed mining policy and invested significant time and effort into learning more about sea bed mineral exploration. This opportunity has the potential, in theory, to transform the Cook Islands economy and increase GDP per capita astronomically. However, while commercial investment in sea bed minerals exploitation is growing, due to technical and environmental issues, these minerals have yet to be successfully commercially exploited anywhere in the world.

Providing an appropriate enabling environment for the profitable, sustainable and equitable extraction of natural resources is a complex task for any country, let alone a small island state. As noted throughout this report, the Cook Islands face capability and capacity constraints across many areas of government, and the enabling environment for private sector development is weak. There are a range of issues that will need to be addressed over the next five years to ensure that an appropriate enabling environment for sea bed minerals extraction is created. This will range from the development of appropriate legislation, improvements in the judicial system, the development of licensing regimes, and appropriate tax arrangements; in addition to transforming investment conditions and developing an appropriate sovereign wealth fund model. Significant changes will also be required in the Cook Islands government, new institutions will need to be developed, and coordination mechanisms will need to be established. Effective oversight will also be critical, as at present, the Cook Islands has difficulty overseeing the compliance of domestic sewerage systems.

One of the greatest challenges will be in the area of environment protection. The Cook Islands has very weak environmental planning and protection capability, and faces a number of environmental issues associated with the management of lagoons and potable water quality for example, that have not been adequately dealt with in the past. The environmental issues associated with sea bed mining are complex and will require a high order of environmental oversight. New Zealand has very recent experience in this area, as evidenced by New Zealand's Environmental Protection Authority decision to veto deep sea mining for by Trans-Tasman Ltd off the coast of the South Island.

With these issues in mind New Zealand should consider reorienting its government-to-government partnerships towards areas that could help build capacity in sea bed mining-related areas. New Zealand could conduct a systematic review of Cook Islands' progress in the various aspects of the enabling environment and identify which areas it could add the most value. It could then use the Partnerships and Funds programme strategically to provide incentives for New Zealand agencies to work to build the capacity of Cook Island government

122 <http://www.theguardian.com/business/2013/aug/05/seabed-mining-cook-islands-billions>



counterparts in identified areas. These capacity building programmes would also have spin-offs in other areas. For example, improving capacity in environmental planning and protection could lead to improvements in areas that require attention now such as marine pollution, waste management and water quality. Work on issues such as tax reform, labour, and investment conditions etc. It could also help improve some of the constraints to private sector development more generally, such as those mentioned under 'tourism' above. This provides a good opportunity for New Zealand to support the Cook Islands in a targeted way - by building capacity to face current and future challenges.

4.1.5 Health

As noted in Section Three, New Zealand's support for tertiary health care is effective and provides a level of service that would not otherwise be available to the Cook Islands without significantly more cost. This type of support, as well the support in education, is a practical manifestation of the Realm state relationship, in that it enables the Cook Islands to benefit from the provision of lower cost but higher quality service delivery than would otherwise be the case. While tertiary health care is important, the most pressing health challenge facing the Cook Islands is Non-Communicable Diseases (NCDs). NCDs are the leading cause of death in the Pacific, and the leading cause of death in the Cook Islands. In 2012, 70% (85 of the 121 reported) of deaths in the Cook Islands were NCD-related¹²³. These numbers will only increase over time considering the high risk profile. With regards to biochemical risk factors, 72.3% of Cook Islanders are at high risk of contracting an NCD; this is the third highest in the Pacific, after Nauru and Kiribati¹²⁴. Other risk factors are also high, 80% of Cook Islanders are overweight, 67% are obese and 74% have very low physical activity levels¹²⁵. NCDs also have an important gender dimension as women in the Cook Islands have higher risk factors than men.

The Cook Islands government has implemented some recent initiatives to tackle NCDs, most notably the introduction of a tobacco tax, which raises around NZD200,000 per year for NCD-related activities; and it has engaged in health communication campaigns and other activities that are being driven through regional bodies such as the SPC. However, addressing this issue will require a holistic strategy and improvement in a wide range of areas, such as primary health care delivery, health financing, health policy reform, strategic health communication, trade, and tax reform. High income developed countries have struggled to address the issue of NCDs, let alone fiscally constrained poorer countries. This is a complicated area that requires a high level of analysis and technical support. New Zealand has significant technical expertise in these areas, and is tackling many of these issues itself through various NCD-related programmes. While New Zealand is helping with the treatment of Cook Islanders with NCD's through its HSV programme, it does not have a systematic approach to building NCD awareness through its Health Literacy Programme, which is the biggest health challenge.

123 Figures from Cook Islands Ministry of Health, Statistic Bulletin (2012)

124 SPC (2010) NCD Statistics for the Pacific Islands Countries and Territories, Public Health Division , Secretariat of the Pacific Community

125 Ibid



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

4.1.6 Education

New Zealand's support to the education sector has been very effective and results in this area have been strong. The Realm state relationship confers significant benefits to the Ministry of Education in the Cook Islands, via access to tertiary education, the use of New Zealand qualifications frameworks and the New Zealand curriculum. Access to these services coupled with New Zealand's sector budget support, allows the MoE to provide high quality education services on a budget that is quite low by international and even Pacific standards. However, the education sector faces a number of ongoing challenges with regards to service provision and teacher salaries. A very high proportion of the MoE operational budget is used for personnel expenses and New Zealand's support helps augment that budget significantly. The quality of service provision would no doubt decline if these funds were not available. Within the current budget environment this support should continue so that quality services can continue to be provided. At the same time New Zealand should engage in a new round of evidence-based policy dialogue with MFEM and MoE on the appropriate scaling up of the education budget noting the challenges discussed in Section Three.



5. Conclusion

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

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

New Zealand’s development cooperation with the Cook Islands has been central to the rapid development of the country. With regards to economic development, New Zealand has contributed directly to per capita economic growth and its support for tourism has also contributed directly to significant growth in GDP. In the area of human development, it is clear that without support from New Zealand education achievements in the Cook Islands would be lower and the quality of education would be poorer. The same holds for the provision of tertiary health care services, which would be either be unavailable or prohibitively expensive in the absence of New Zealand aid. While these contributions have been important, it is clear that there remain a number of structural issues that must be addressed to ensure that further achievements in economic and human development can be attained. The enabling environment for private sector development is weak, both the CIG and New Zealand have not systematically addressed the constraints that continue to hinder private sector development. The same holds for government capability. Significant achievements have been made over time in areas like education and tourism, but incremental gains will require a more concerted and systematic effort to address the more intractable barriers to growth and development. Tackling these issues will help develop a more robust and dynamic economy, which in itself will help address depopulation by providing economic opportunities for Cook Islanders.



6. Recommendations

1. **MFAT should formulate a new process for the development of country strategies that includes its whole-of-government partners.** This process should result in the development of country strategies that highlight the major constraints to economic and human development and articulate how the sum of New Zealand's resources will be used to address these issues. Associated with these high level plans should be a series of more in-depth Investment Plans that target key areas, which in the case of the Cook Islands would be Tourism and Non-Communicable Diseases.
2. **In order to improve coherence, the primary focus of Country Strategies should be the bilateral programme,** and other funding modalities should be deployed in a way that support the bilateral programme in a strategic way addressing constraints identified in the country strategy.
3. **MFAT should increase its human resource allocations in technical and operational areas that will support quality policy dialogue and augment the shift to higher order aid modalities in the Cook Islands.** In order to ensure this occurs, Country Strategies should be linked to business unit or operational plans, which outline how programme level human resources will be deployed.
4. **In the area of human development, New Zealand should prioritise Non-Communicable Diseases,** as this is the single most pressing development challenge in the Cook Islands, which aside from its impacts on human health could have significant impacts on the health budget, and ultimately on economic development.
5. **In the area of economic development, New Zealand should redouble efforts in the tourism** sector and develop a strategic approach to improving the enabling environment for private sector development.
6. **New Zealand has an opportunity to refine its new budget support operation by introducing team-based performance management as the primary implementation tool but centred around a fiscal, economic and social policy performance improvement plan.** The team-based performance management programme would need to systematically addresses fiduciary and development risk issues in partnership with the Cook Islands Government; which can form the basis of New Zealand's ongoing support in government capacity building.



7. Appendices

APPENDIX 1 – Evaluation Criteria

SEQ 1

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

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

Relevance is the extent to which development interventions are suited to the priorities and policies of the target group, partner and donor¹²⁶. As noted in the PEF¹²⁷, MFAT is interested in two issues with regards to relevance: the presence of a clear strategic framework to guide the country programme, and an assessment of how well this strategy aligns to the priorities of the New Zealand aid programme and the strategies and needs of partner governments. Both issues have been explored in this evaluation.

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

Cost effectiveness or efficiency, is a measure of how economically resources (inputs) are converted into results (in this case: outputs, outcomes and impacts). It is the extent to which the cost of a development intervention can be justified by its results¹²⁸. In accordance with the focus in the PEF, this evaluation will focus on the following issues with regards to efficiency:

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

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

127 See Page 7 of the TOR

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



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

Effective policy dialogue is an important aspect of quality aid delivery. Policy dialogue is defined as “the expression of a set of values or principles that the leadership of an organisation holds to be important in delivering its mandate or in bringing about change¹²⁹”. Policy dialogue is an important component of aid delivery as it can have a demonstrative influence on policy change in developing countries. This evaluation has assessed the quality of policy dialogue by looking at the extent to which New Zealand’s dialogue accords with internationally recognised effective policy dialogue principles¹³⁰, which include:

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

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

In addition to the above, the evaluation has also considered the aid effectiveness principles articulated in the Paris Declaration and the Accra Agenda for Action¹³¹. Definitions of these principles and the issues that were examined in relation to them are listed below:

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

Alignment: Donors must line up their aid firmly behind the priorities outlined in developing countries’ national development strategies, they should use partner country systems, and

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

130 Ibid

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



their aid must be untied and be predictable. The analysis of alignment will involve looking at alignment to partner strategies, the use of country systems, the strengthening of public financial management capacity, and the strengthening of national procurement systems.

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

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

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

SEQ 2

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

'Results' includes the outputs, outcomes or impacts (intended or unintended, positive and/or negative) of a development intervention. Sustainable results are those that are likely to persist into the future and are resilient to economic, environmental and social perturbations¹³². The assessment of sustainability took into consideration the adoption of supportive policies, regulations, and financing; the building of appropriate human capital; and the building of organisational capacity in the partner country.

Outputs are defined as 'the products, capital goods and services which result from a development intervention; and may also include changes resulting from the intervention which are relevant to the achievement of outcomes¹³³'. Outputs are generated via the discrete activities of donors, and are commonly reported through activity and programme-level M&E frameworks. Since 2011 MFAT has focused significantly on results-based management, and activity and programme level results frameworks are in place for all

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

133 OECD-DAC (2010)



activities and programmes. Activity and programme level results frameworks have been developed and the documents supporting these frameworks are available to the evaluation team. These M&E documents contain a vast amount of information on the achievement of outputs (or otherwise) of country programme activities. Due to the high level nature of this evaluation, we did not focus significant resources on assessing outputs, as these reports are already available to MFAT, and the aggregation of outputs will tell us little about the high level effects of the aid programme. We did, however, review trends in the achievement of outputs in different sectors, and assess the overall output performance of the country programme over time.

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

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





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