Change and Resilience in New Zealand Aid under Minister McCully

Abstract
This article studies the New Zealand government aid programme over the years of Murray McCully’s tenure as New Zealand’s foreign minister. The article uses quantitative and qualitative data to detail changes in New Zealand aid volume, sectoral and geographic foci, and quality. We argue that despite strong rhetoric from Minister McCully, change in some areas was surprisingly modest. Yet the minister had impacts in other areas, particularly on aid quality, foremost in the form of changes to the purpose of New Zealand aid.

Keywords foreign aid, aid policy, foreign policy, international development, MFAT

In the wake of the 2008 general election, Murray McCully became New Zealand’s foreign minister. He was to stay in this role until May 2017, a term that makes him New Zealand’s third longest serving foreign minister. As foreign minister McCully took an active interest in the New Zealand government’s aid programme. In this article we draw from publicly available data sources to study Minister McCully’s impacts on the New Zealand government aid programme. We first outline the organisational arrangement changes made in rescinding the aid programme’s semi-autonomous status. Second, we make use of OECD and Treasury data to describe quantitative changes in New Zealand aid – specifically, the extent to which New Zealand’s aid volume and effort, and regional and thematic foci, changed under McCully. We then explore McCully’s impact on New Zealand aid quality, using data from the New Zealand aid stakeholder survey, the OECD and qualitative sources.

Our key findings are that McCully’s impacts were less in some areas than might have been anticipated on the basis of either the minister’s own rhetoric or the extent of controversy at the time. The minister did, however, have a significant impact in important ways. His organisational arrangement changes removed the aid programme’s authority and autonomy in relation to other foreign policy, but they did not completely prevent the aid programme from functioning. McCully increased the aid budget, but much more slowly than promised. He had little impact on aid’s concentration in the Pacific and aid to multilateral organisations, and, while some increase in aid for economic development occurred, it was not a radical transformation. However, the quality of New Zealand aid worsened under
McCully’s tenure, driven in part by his approach to managing the aid programme and in part by his desire to align aid with other foreign policy areas. This latter change saw the purpose of New Zealand aid giving become markedly more oriented towards advancing New Zealand’s interests rather than helping people in developing countries.

This article, it should be noted, focuses on the types of high-level change that can be tracked with publicly available data. The article also draws primarily on quantitative data. Because of this, subtler changes – such as shifts in the dynamics of the relationships that structure New Zealand aid work – are not captured in our study. Similarly, other areas for which there is no public data, such as aid programme staff turnover and staff morale, are not covered here. To fully investigate changes in New Zealand aid more qualitative research would be very useful. Nevertheless, the data we have compiled enables us to identify important areas of continuity and change.1

Background to the changes
While opposition spokesperson on foreign policy, McCully signalled early on that he planned to do things differently. In a paper written with National Party colleagues he stated that ‘[f]resh thinking [was] required on development assistance strategy’, and that ‘[t]he way ahead is not obvious but it does not lie in replicating failure’ (McCully et al., 2007, p.8). Upon assuming the role of foreign minister, he wasted no time in making his desired changes, requesting Cabinet papers be produced to justify change before Christmas 2008 (Spratt, 2017). NZAID, New Zealand’s semi-autonomous aid agency, was integrated back into the Ministry of Foreign Affairs and Trade (MFAT) (Cabinet Office, 2009a, p.2). The minister indicated that he planned to take a hands-on approach to aid programme management, deriding ‘so-called development experts’ and ‘development specialists’ (McCully, 2009, p.1, 2011, p.1). On the minister’s recommendation, Cabinet agreed to increasingly concentrate aid in the Pacific region, and to make economic development the aid programme’s core focus (Cabinet Office, 2009b, p.1). McCully also pledged to increase the government aid budget (McCully, 2009). He also indicated that New Zealand’s aid work would be changed to ‘be consistent with, and support, New Zealand’s foreign policy and external relations outcomes’ (Cabinet Office, 2009b, p.1).

From the outset these changes were controversial, prompting critique from NGOs, academics, the private sector and political parties (New Zealand Labour Party, Green Party of Aotearoa New Zealand, Progressive Party and United Future, 2009; Coates, 2009; McGregor et al., 2013; Banks et al., 2012; Overton, 2009), as well as former aid programme staff (for example, Adams, 2011) and the media (New Zealand Herald, 2009). Yet the extent and impacts of the changes varied considerably.

Aid’s organisational arrangements
One area where the minister’s desire for change had a clear impact was the organisational structure of the New Zealand government aid programme. In 2001, following a ministerial review of New Zealand’s aid, the Labour–Alliance coalition government decided to establish a semi-autonomous aid agency, called the New Zealand Agency for International Development, or NZAID (Cabinet Office, 2009a). NZAID had an executive director who could provide advice directly to the minister, and responsibility for its own human resources and policy development.

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As we discuss in a later section, some of the negative long-term consequences of this change were less than many feared at the time. However, there is no evidence that these changes improved the quality of New Zealand aid. And in the short term the transaction costs were significant. Human resources and internal systems required realigning. Existing aid and development policies were also removed, and it took until early 2010 for a single international development policy statement to emerge (Spratt, 2012).

Aid volume
Figure 1 shows the volume of New Zealand government aid over time.

Initially, McCully pledged to increase the government aid budget to NZ$600 million in 2012–13 (McCully, 2009). He subsequently pledged to increase aid to $621 million by the 2014–15 financial year (McCully, 2011). However, as Figure 1 shows, the rate of increase was much slower than McCully promised, with the non-inflation-adjusted aid spend only topping $600 million for the first time in the financial year ending 2017. As the inflation-adjusted line in Figure 1 shows, with inflation accounted for, the increase across his tenure was only $36 million – a very modest 6% in total over nine years. Plausibly, the minister’s failure to deliver on promised growth in the aid budget might be explained by circumstances outside the minister’s control, such as overall economic performance and the Canterbury earthquakes. However, this explanation does not fit with available evidence. The New Zealand economy grew at a more rapid pace than the New Zealand aid budget across the years that McCully was foreign minister. The government could have at least increased aid in line with economic growth, but this did not happen. This can be seen in Figure 2, which shows New Zealand’s aid spending relative to economic performance, as measured by the standard international measure of aid effort, aid/gross national income (GNI). As a share of GNI, New Zealand’s aid spend crept downwards during McCully’s tenure.

Regional focus
Early in his time as foreign minister, McCully indicated that he wanted to increase New Zealand aid’s concentration in the Pacific (Cabinet Office, 2009b, p.1). As Figure 3 shows, New Zealand aid’s Pacific focus did increase under McCully’s tenure, yet the increase was quite small: four percentage points between 2009 and 2015. (2009 was the first calendar year in which McCully was able to exert an influence on country allocations.) Moreover, the increase was a continuation of existing trends. The particularly low aid share to the Pacific in 2003, 2004 and 2005 was a product of the Indian Ocean tsunami, and surges in aid to Iraq (2003) and Afghanistan (2004). Were it not for the tsunami, more than 50% of New Zealand country-allocable aid would have been spent in the Pacific in every year since the turn of the millennium.

Spending on multilateral organisations
In his final speech as minister to the New Zealand Institute of International Affairs, McCully spoke of his antipathy for multilateral organisations: “These giant process-driven bureaucracies generally deliver a below-average quality of service to the poorer countries of the world, especially those in our region’ (McCully, 2017, p.1) For some in the New Zealand media this comment was indicative of a hard line that McCully had supposedly taken on multilateral aid organisations throughout his tenure (for example, Watkins, 2017). Given such reported antipathy, it seems reasonable to expect that McCully’s tenure as minister might have brought with it a decrease in New Zealand aid funding going to multilateral organisations.

Figure 4 shows New Zealand government aid broken down by multilateral and bilateral spending. In the years from 2000 to 2009, on average 23% of New Zealand aid was allocated via multilateral organisations. In the years since, on average 22% was allocated through multilateral means. McCully may have held strong views about the efficacy of multilateral organisations, yet these views do not appear to have had an effect on spending patterns.

Aid for economic development
One of the most controversial aspects of the changes that McCully brought to New Zealand aid was the decision to make economic development the aid programme’s core focus. As Figure 5 shows, McCully’s time as foreign minister did bring an increase in the share of New Zealand aid devoted to economic development.

Economic development’s share of spending doubled from 15% in 2009 to 30% in 2015. Since 2011 economic development has been the largest sector. This is a substantial change, yet the change hardly counts as a wholesale transformation. Change occurred, yet it was less than might have been anticipated on the basis of either the minister’s statements or the public debate at the time.

Interestingly, the increased focus on economic development has not come at
the expense of humanitarian assistance, or education. The share of spending devoted to improving governance and, to a lesser extent, health in developing countries fell, but the real loser was the ‘other’ category. This category is an amalgam of sub-categories. Analysis of these sub-categories shows that this fall was driven by a relative fall in aid allocated to the OECD category of ‘unallocated/unspecified’. What this means is hard to interpret. One possible explanation is that previously uncategorised projects were recategorised as being related to economic development. If this has occurred, the extent of change in this area may actually be less than Figure 5 suggests.4

### Aid quality

The 2015 New Zealand aid stakeholder survey (Wood and Burkot, 2016) surveyed senior managers in New Zealand aid NGOs and private sector contractors who worked regularly with the aid programme. It asked them a series of detailed questions about aid programme performance, both overall and with respect to specific aid programme attributes. While the sample of participants was comparatively small (62), all of the participants were well placed to assess aid programme performance, owing to their regular work with it. Significantly, the method affords detailed insights into aid programme functioning that are not readily able to be inferred through other means, such as the analysis of aid flows (for a detailed discussion of the method and its strengths and weaknesses compared to other approaches, see Wood, Burkot and Howes, 2017).

By far the most positive finding from the 2015 stakeholder survey can be seen in Figure 6. A significant majority of respondents thought the aid programme was effective. Favourable appraisals of the aid programme were less common from NGOs than from the private sector, and when asked in a separate question about trends in aid programme performance, fewer than a quarter of respondents said they thought the aid programme was becoming more effective. Nevertheless, given the transition the aid programme went through with NZAID’s dissolution, the effectiveness finding is an encouraging one. It also fits broadly with the high-level findings of the OECD Development Assistance Committee’s peer review of the New Zealand government aid programme (Development Assistance Committee, 2015). To be clear, there is no evidence that the aid programme has been made more effective by the changes it has been through. Indeed, it may well be the case that effectiveness has deteriorated since 2008. Yet the finding remains encouraging in that the stakeholder survey data does not provide evidence of a catastrophic collapse in aid programme effectiveness.

However, the 2015 stakeholder survey also brought more worrisome findings. Chief among these was the fact that the majority of surveyed stakeholders thought that New Zealand aid was primarily focused on advancing the commercial and geostrategic interests of New Zealand, rather than on helping reduce poverty. This view was advanced not only by NGO stakeholders, but also by private sector stakeholders (Wood and Burkot, 2016, p.13).

Although geostrategic interests have always played some indirect role in guiding aspects of aid policy, in the years immediately prior to McCully’s time as foreign minister there was no evidence of New Zealand giving aid to advance its commercial interests, and the purpose of New Zealand aid giving was considered a strength (Waring, 2005; Development Assistance Committee, 2005). The shift
under McCully to an increased focus on New Zealand’s commercial and geostrategic interests emerged from the Cabinet decision to align aid with other foreign policy goals, of which, the minister stated, the most important element was the ability ‘to align aid policy with trade policy’ (McCully, 2009, p.1). The use of aid to advance New Zealand’s commercial interests became evident in a number of aid projects. These included: bringing young South East Asian business leaders to New Zealand (New Zealand Aid Programme, n.d.-b); ‘agricultural diplomacy initiatives’ aimed at boosting relations between New Zealand and ASEAN agricultural agencies and agribusinesses (New Zealand Aid Programme, n.d.-a); and funding a costly dairy farming project in Myanmar which had little development justification but which brought potential commercial benefits for New Zealand (Spratt, 2012, 2013; NZADDs, 2013; Wood, 2012; Ministry of Foreign Affairs and Trade, 2012).

An increased focus on New Zealand’s commercial and geostrategic interests came with costs for other aid work. For example, as Figure 5 shows, the share of New Zealand aid devoted to education did not fall during the years McCully was foreign minister. However, the nature of New Zealand’s education spending changed to increasingly reflect New Zealand’s non-development foreign policy aims, something that significantly reduced the share of funding available for development-oriented education spending. When McCully took the helm, New Zealand’s aid for education was considered a strength, with systematic work being undertaken in a number of Pacific Island countries, particularly in primary education. This state of affairs reflected a profound shift from the beginning of the millennium, when most of New Zealand’s education aid was focused on scholarships for tertiary study in New Zealand (Development Assistance Committee, 2005, 2000).

Tertiary scholarships have some development merit. However, there is no evidence that they are as efficacious in fostering development as improving primary and secondary education is. On the other hand, tertiary education scholarships are thought to bring benefits to donors who offer them. Scholarships bring people, often from the families of economic and political elites, from developing countries to donor countries, where it is hoped they will develop ties and relationships and acquire fond memories. Through this, it is hoped they will become potential advocates and supporters, and potentially business partners, in the future, thus bringing benefits to donor countries. Tertiary scholarships also bring revenue to donor country tertiary institutions and provide free advertising in potential markets (Development Assistance Committee, 2000, p.197). We estimate that at the turn of the millennium about 75% of New Zealand’s education aid went on scholarships. By 2009, reflecting the increased development focus of aid during the NZAID era, this figure had fallen to 41%. Figure 7 shows a return to a scholarship focus under McCully. The situation in 2015 was not as bad as that of 2000. Nevertheless, the share of education spending devoted to scholarships was increased rapidly under McCully, rising 12 percentage points in just five years. This rise was accompanied by a concomitant decrease in the share of education funding going to other education types, particularly to primary education.

Changes to the purpose of New Zealand aid giving was not the only aid quality issue to emerge during McCully’s term as foreign minister. One of the least positive findings of the 2015 New Zealand aid stakeholder survey came from answers to the question about funding reliability. As Figure 8 shows, while for-profit firms polled were fairly
upbeat about funding predictability, the majority of NGOs thought this aspect of the aid programme was a weakness or a great weakness.

The response of NGO participants to this question is unsurprising. Early in his time as foreign minister, McCully chose to dismantle long-standing NGO funding mechanisms – one for humanitarian emergency assistance through NGOs, and one for longer-term development projects. The previously well-functioning humanitarian emergency fund for NGOs was replaced with a fund that was so poorly configured it took six months to release funding in response to famine in the Horn of Africa, only doing so once stories of its dysfunction made it into the media (Wood, 2011). The humanitarian fund was eventually repaired. However, one of the issues the most recent OECD Development Assistance Committee peer review of New Zealand aid highlighted was the fact that New Zealand still does not have a well-functioning generalised NGO funding mechanism for longer-term development projects (Development Assistance Committee, 2015).

Conclusion

Given Minister McCully’s stated desire to change New Zealand aid, in many ways it is surprising just how little changed. The aid budget went up between 2009 and 2016, but its rate of increase was slight, less than the overall growth in the size of New Zealand’s economy. Aid spending was increased to the Pacific, but once again the change was not large and a continuation of pre-existing trends. And, despite the minister’s own reputed hostility towards multilateral institutions, the share of New Zealand aid to multilateral organisations did not fall in any meaningful way. The aid programme did become more focused on fostering economic development in aid-recipient countries. Yet this shift was not so large as to see economic development completely dominating the aid programme’s work.

One lesson for scholars of aid policy from these facts is that some aspects of aid policy are remarkably resistant to change. Aid forms part of New Zealand’s relationships beyond its borders, and these relationships place constraints on both what can change, and how fast. New Zealand could not, all of a sudden, start focusing all of its aid on the Pacific: doing so would have damaged other important international relationships, such as with Indonesia and Vietnam, both recipients of reasonable amounts of New Zealand aid and important emerging international actors. Similarly, it would have been hard to cease giving aid to Afghanistan, for example, without straining New Zealand’s alliance with the United States. Dramatically reducing multilateral aid is difficult for similar reasons. A small country such as New Zealand runs risks if it is seen to be free-riding in its multilateral engagements. Changing the sectoral focus of New Zealand aid is easier, but even here existing plans with recipient countries and with other donors such as Australia, with whom New Zealand tries to coordinate, place constraints on change. Similarly, the emphasis on aid’s development outcomes that was cultivated within NZAID left an institutional legacy that initially enabled the aid programme to continue functioning quite well in altered political times, although this clearly did not entirely insulate the aid programme from the new environment, and the potential for further deterioration remains.

And yet McCully did not fail completely in his desire to transform New Zealand aid. He brought major structural change through his reintegration of NZAID into MFAT. And with this he shifted the purpose of New Zealand aid, placing increased emphasis on bringing geostrategic and commercial benefits to New Zealand.

We believe that the changes to the purpose of New Zealand aid giving were clearly for the worse. Public opinion data shows that most New Zealanders want their government’s aid to be given primarily for altruistic ends (Wood and Burkot, 2016, p.11), and the ethical case for the world’s wealthy nations devoting resources to helping poorer countries is compelling. We accept that to some extent geostrategic concerns need to play some role in how New Zealand engages as an aid donor, but we believe that in New Zealand’s case such concerns can usually be met simply by being a good international citizen. Moreover, we see no reason whatsoever why New Zealand aid should be used as a subsidy for commercial interests.

Looking forward, from our perspective the resilience of New Zealand aid to change may prove to be both a blessing and a curse. Because McCully’s changes were less than they might have been in some areas, the need to remedy his impact on the aid programme is less than it could have been. However, in the crucial area of the purpose of aid giving, he had an impact. And because the aid programme is now integrated into MFAT – a government department with a mandate to advance
New Zealand’s interests – reversing this particular change may not necessarily come easily. Murray McCully’s impact on New Zealand aid was less than it might have been, but his legacy may still outlast his time as foreign minister.

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