COUNCIL for INTERNATIONAL DEVELOPMENT
Kaunihera mō te Whakapakari Ao Whānui

The New Zealand Aid Eco-system

-Opportunities and Challenges

CID discussion paper

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THE NZ AID ECOSYSTEM – OPPORTUNITIES AND CHALLENGES

This document provides some points for discussion on the current shape of the NZ aid ecosystem; the challenges and opportunities; the role INGOs might play as a partner in improving sector effectiveness; and some ideas for inclusion in a CID work programme.

The Opportunities

The MFAT Strategic Direction for Aid Effectiveness 2015 – 2019 is a strong document. It rightly recognises we are a small island economy and that best results will be achieved through focusing our efforts in the Pacific and limiting our engagement to priority sectors. It champions good development practices and is broadly consistent with the approaches being adopted by many comparable OECD countries.

The NZ aid ecosystem has many strengths including:

- Relatively good relationships with small island states in the Pacific
- Stable funding paths
- Broad political consensus on aid
- Sound relationship between MFAT and INGO sector
- A resurgent CID and growing INGO CEO collaboration
- Broad consensus across the sector regarding strategic direction
- Increasing appetite for innovation.

This broad strategic consensus and a growing appetite for innovation and collaboration is relatively rare and must be capitalised on. There is no guarantee it will last.

There is also a burgeoning appetite among millennials to engage with and solve 'wicked problems' including aid effectiveness. Dissatisfied with traditional institutional approaches to aid and development they are experimenting with various forms of social entrepreneurship and enterprise. Although New Zealand is well behind the UK and the USA in catching this wave, there are signs we are catching up fast. While this part of the sector will remain niche, it is likely to be a key source of innovation and disruption to existing players.

The Challenges

One of the biggest challenges as a sector is that we have the right strategy, but we are lagging behind on execution, particularly the strategic shifts from funding to investing and from outputs to outcomes.

The major challenges, from an INGO perspective with realising the strategy are:

1.The INGO sector is being left behind

While the Strategy speaks of "investment" and "sustainability", in practice the current aid system (at least as far as it relates to INGOs) is still largely based on the old charity model of 'aid', i.e. donors and beneficiaries:

- The Government has to date funded short term INGO projects rather than long term programmes;
- The focus has been on compliance and outputs rather than outcomes;
- The system carries high transaction costs and there is little certainty of outcome which means private sector partners are wary of engaging and easily burnt off;
- MFAT has acted as a moderator rather than as a facilitator of relationships (we may be able to learn from NZTE on this);
- INGOs have little insight into what other activities and/or parties are being funded and for what activities by other parts of the vote or by other government agencies e.g. NZTE, Health, Police
- Little encouragement for new entrants (e.g. social enterprises) outside the established players
- Little evidence that INGO's contribution to the NZ aid programmes is ending the need for further aid and enhancing growth (e.g. capacity building around taxation and economic development etc)
- Little expectation of reciprocity, i.e. how do we use aid as an instrument of human development and dignity.

Similarly, while necessity is driving innovation e.g. grant to grant match, INGO consortia, most INGOs are still competing to win funds, and shying away from more entrepreneurial approaches to partnering with Government and the private sector. Where innovation is happening, it is typically because of an entrepreneurial CEO rather than a particular market niche. Both INGOs and MFAT are faced with the need to make the same strategic shifts if we are to improve aid effectiveness:

From Funder	to	Investor
From Projects	to	Programmes
From Episodic	to	Sustainable
From Outputs	to	Outcomes
From Competition	to	Collaboration
From Stand Alone	to	Partner for Innovation
From Underwriter	to	Leveraged
From Broker	to	Facilitator
From Risk Aversion	to	Nimble and Failing Forward

2. Steering by the Wake

The aid sector is being buffeted by the same changes assaulting almost every other sector. By 2025 significant changes in demography, ecology, technology, global power balances, economics and public perceptions will profoundly influence where aid is needed, how development is changing, who will be paying for it and what this means for lead actors including governments, public and private sectors and INGOs. Those changes include:

- **Demographic** – an extra 1 billion people, 90% born in less developed regions such as sub-Saharan Africa and South Asia (mostly in urban settings). A high proportion of youth placing added demands on education and employment. Pacific climate change refugees will place huge demands on NZ, Australian and Fiji economies;

- **Ecology** – shortages of clean water, energy and food – exacerbated by climate change, conflict and rising populations;

- **Power** – a more multi –polar world with power transferring from West to East. International system will be less cohesive and existing multilateral agencies will struggle to adapt;

- **Economics** – China and India emerge as the 2nd and 3rd most powerful economies. Developing countries will surpass 50% of global GDP mostly fuelled by south to south relationships while many western economies will struggle with high debt/low growth

- **Technology** – greater reliance on scientific and technological development to address these challenges including poverty alleviation

- **Loss of society consensus on overseas aid** – stories of bad aid, rising awareness of poverty at home, peer to peer giving/lending - challenging the post war consensus that oversea aid is a good thing is under threat.

The SDGs are in part a response to the changing aid landscape and they have helped reframe the global poverty agenda. MDG priority areas remain, but the scope of the agenda has broadened and there is a greater emphasis on governance, inequality, security, jobs, climate and resources.

NZ is slowly responding to these challenges, but the discussions do not appear to be filtering through to the strategic plans of INGOs or to PFID funded projects. Utilising the convening power of the MFAT and broadening the strategic conversation to include more of the key actors (private sector, government agencies, INGOs etc), supported by funding pathways that reinforces these directions is critical. An added advantage of this approach is that it adds legitimacy to the NZ Government’s response to the SDGs.

3. Absence of Systems Thinking

The aid system is not functioning well as an ecosystem, i.e. end to end with a clear value chain from the taxpayer through to the communities receiving the aid:

- Multiple funders (MFAT, NZTE, Police, Corrections, Health etc) each with their own funding strategies
- Within agencies there are different approaches, relationships and priorities eg MFAT and NZTE
- Multiple funding pathways (e.g. bilateral, multilateral, PFID, NZTE etc)
- Multiple objectives
- Welter of informal mechanisms such as remittances, church donations etc.

In addition, the system encourages competition over collaboration as a means of rationing funding with the attendant high transaction costs and short term planning that competition nurtures. This means there is little opportunity to leverage funding, for NGOs to specialise in a particular market niche, while duplication and waste is inevitable. Our failure to map the value chain means we would struggle to assure Ministers and others that every step of the process is adding value to the investments being made.

We are failing to develop our human capital e.g. opportunities for the sharing of knowledge and expertise, career pathways (e.g. secondments between MFAT/INGOs etc are limited.

We are almost certainly playing too small. Separate, discreet, funding pots ensures that INGOs and other actors invest in short term discrete projects eg building a school in Vanuatu rather than partnering with other agencies for longer term programmes and outcomes e.g. lifting literacy rates across Vanuatu.

Lack of sector wide forums to share best practice works against the rapid scaling of innovation and adoption of standardised approaches.

An agreed value chain would help the wider sector identify where there are opportunities to realise value and reduce costs.

4. Limited INGO Capacity, Capability and Opportunity

As a percentage of overall aid spend, INGOs are very small players. The NZ Partnerships for International Development represents a small per cent of total aid and increasingly INGOs are competing with CRIs, tertiary organisations and the private sector for those funds. Few INGOs (except Red Cross, VSA) access funding outside the PFID scheme. Private funding of INGOs (eg major donors, child sponsors etc) vastly inflate the INGO contribution, however, much of this funding is independent of wider sector priorities.

NZ based INGOs are typically under-capitalised, lacking in both capability and capacity to be anything other than part time actors in the system (see JB Were Cause report).

Competition works against collaboration and the sharing of best practice and duplication of back office functions e.g. IT, Finance, payroll etc is rife.

INGOs are struggling to define their added value – apart from being a source of considerable additional funds and moral legitimacy. The comparatively limited funding through PFID discourages some of the bigger players (e.g. Oxfam, UNICEF, World Vision) from bringing their global technical "A teams" to the table because the prize is too small.

As part of a value chain exercise, it would be helpful to canvas the INGO CEO Group on the added value INGOs bring to the sector. At the very least they offer insights from the communities they work with, a nimbleness in implementation and relatively low-cost aid delivery, local standing in their communities, as well as the opportunity to leverage funds.

5. Funding Outputs rather than investing for Outcomes

The holy grail of development is the search for robust outcome measures. The development sector is lagging behind other sectors such as health and education in this quest. If left, however, solely to development practitioners, the search for outcomes will end in tears with endless debates about baselines and attribution.

The lessons from the healthcare include:

- The conversation about outcomes (with all the actors present) and the behaviour change it engenders is almost as important as the outcome measures themselves
- Focus on a few measures rather than the many
- For the initial stage – payment without penalty.

Next Steps

Some sector priorities could possibly include:

1. **Developing options to re-engage the private sector** including strengthening partnerships with NZTE and reviewing the DFAT framework for its application to NZ.

2. **Strengthening INGO Governance and Leadership:** Many INGOs are constituted under the Trustees Act. For such a large sector, there are few exemplars of good governance. In practice accountability is poor. Few hold public annual general meetings, many (such as World Vision) do not have members and thus are not accountable to others outside the organisation. Secondly the NGO sector is seldom seen as an attractive sector for skilled governors to operate – most NGO governance roles are voluntary, capacity and capability is patchy, while stories abound of group think, circle of friends' appointments and overly intrusive boards or the opposite. This is a much wider issue the INGO sector. Look to develop a NGO governance programme in partnership with Sports NZ (separate paper to follow)

3. **Review INGO governance arrangements under the Trustees Act** – limited accountability, in partnership with the Charity Services Review of its legislation.

4. **Renewing a Societal Consensus on Aid and Development** – developing a programme to inform and re-engage New Zealanders – especially school children with the NZ story of development:
    - Develop PR campaign include storytelling, curricula resources etc.
    - Develop on line platform for school children to learn about poverty alleviation, justice, NZ's role in the world etc. and to make their first 'investments' into development (i.e. the kiwigiver model)
    - Initiate discussions with Ministry of Education re. possible input into a wider civics curriculum for schools. (NB – suggested schools champion – Roger Moses (current head of Wellington College – retiring end of term one next year).

5. **Remittances (Family to Family, church to church).** Many small island economies are reliant on these largely informal funding mechanisms. Is their potential to work with banking partners e.g. ANZ which has a large footprint in the Pacific to reduce fees and ensure the money is deposited where intended? Similarly, in an emergency can we create a mechanism whereby remittances attract government support akin to INGOs?