CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

Performance audit report

New Zealand
Agency for
International
Development:
Management of
overseas aid
programmes

New Zealand Agency for International Development: Management of overseas aid programmes

Foreword

New Zealand's Official Development Assistance funding programme is one of the main ways the Government contributes to reducing poverty in developing countries. The New Zealand Agency for International Development (NZAID) administers the programme. NZAID often works in politically sensitive and geographically remote locations in the Pacific and South-East Asia. NZAID's work in these areas is valued by its development partners and other international aid agencies.

My staff carried out a performance audit to examine the effectiveness of NZAID's management of overseas aid programmes. The audit focused on how NZAID planned, implemented, monitored, and evaluated its overseas aid programmes. It specifically looked at how NZAID managed three programmes – the Papua New Guinea bilateral programme, the Indonesia bilateral programme, and the Pacific Regional Health programme.

NZAID has a long-term approach to planning and works closely with its development partners and other international aid agencies in setting up its programmes. It monitors performance and evaluates the effectiveness of its programmes, to varying degrees. However, more clarity, consistency, and direction are needed.

A lack of comprehensive, clear, and accessible processes and procedures for putting in place and monitoring funding arrangements for delivering aid programmes was an area of particular concern during the audit. Although NZAID has recently introduced new processes and procedures, it will need to train all relevant staff and regularly monitor and review compliance to ensure that these new processes and procedures are effectively implemented. This issue will be monitored as part of the annual financial audit process.

I thank the many staff in NZAID, development partner organisations, other international aid agencies, and the overseas governments that they work with for their co-operation during the audit.

K B Brady
Controller and Auditor-General

16 January 2008

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Although small by international standards, New Zealand's Official Development Assistance (ODA) programme budget has increased significantly in recent years. For 2007/08, the ODA programme budget administered by the New Zealand Agency for International Development (NZAID) is $428.8 million, an increase of $70 million from 2006/07.

NZAID is a semi-autonomous agency of the Ministry of Foreign Affairs and Trade. It is responsible for managing New Zealand's ODA programme.

We examined the effectiveness of NZAID's management of overseas aid programmes, given the increases in budget since it was established in 2002. We focused on how NZAID planned, implemented, monitored, and evaluated its overseas aid programmes.

We specifically looked at how NZAID managed three programmes – the Papua New Guinea bilateral programme, the Indonesia bilateral programme, and the Pacific Regional Health programme. For each of the three programmes, we examined six aid projects and initiatives.

Our findings

Planning aid programmes

We expected NZAID to have an up-to-date strategic approach to planning how to deliver its aid programmes, and to align aid programmes with its overall strategy. We expected NZAID to align its aid programmes with need by considering the views of communities and working with the governments of the recipient countries. We also expected NZAID to make sure its aid programmes complemented those of other international aid donors, where appropriate, and to have clear objectives for its programmes that reflected changing needs and circumstances in the recipient countries.

NZAID has a long-term strategic approach to planning the delivery of its aid programmes. It aligns its aid programmes with need by considering the views of, and working closely with, its development partners. NZAID also makes sure that its aid programmes complement those of other international aid donors, and that the objectives of the aid programme are consistent with broader international development goals and NZAID's overall focus on eliminating poverty.

NZAID refers to the importance of "strategic partnerships" but has no document or guidance setting out its overall approach to strategic partnerships for all of its programmes. It has not provided staff with guidance explaining how and when strategic partnerships should be entered into. Also, the preparation of NZAID's health strategy has been delayed due to staff vacancies.

In our view, NZAID needs to prepare generic guidance for staff on strategic partnerships with development partners, and give priority to completing its health strategy.

Implementing aid programmes

We expected NZAID to have a sound basis for the funding arrangements it puts in place. We also expected NZAID to promote sustainable outcomes through the funding arrangements it uses, and to work effectively alongside partners and contractors to implement aid programmes.

NZAID works closely with its development partners and contractors to implement its aid programmes, and promotes sustainable outcomes through its funding arrangements in various ways. However, at the time of our audit fieldwork, NZAID did not have comprehensive, clear, and easily accessible processes or procedures for putting in place its funding arrangements. In some cases, it had not completed those processes and procedures. NZAID has since addressed this issue. However, in our view, NZAID needs to regularly monitor and review compliance with its new processes and procedures to ensure that they are effectively applied, and to promote better practice in procurement and contract management. NZAID also needs to train all relevant programme staff in those processes and procedures.

Although there is guidance at a programme level, NZAID has no clear exit strategy for ending aid projects and initiatives. Also, NZAID's staffing capacity is stretched in Head Office and in the overseas posts we visited during our audit. NZAID needs to prepare guidance for staff on exit strategy planning for aid projects and initiatives within programmes, provide training on leadership and people management for staff before they are sent to overseas posts, and provide ongoing training in financial management for local staff in overseas posts. NZAID needs to clarify the responsibilities and accountabilities of staff in Head Office and staff in overseas posts for managing and monitoring funding arrangements.

NZAID also needs to work with the Ministry of Foreign Affairs and Trade to ensure that guidelines for Head of Mission funds are followed at overseas posts. All the relevant information on sources of funding received by development partners from NZAID needs to be held centrally and be easily accessed by all relevant staff.

Monitoring aid programmes

We expected NZAID to have set up funding agreements in a way that enables effective monitoring and management of progress, outputs, and longer-term outcomes. We also expected NZAID to assess how well aid delivery is progressing and take action when aid delivery is not progressing as intended.

However, NZAID has no clear approach to setting up funding arrangements in this way. Funding arrangements set out the monitoring and accountability arrangements, but these are not always clearly specified. The extent of NZAID's monitoring varies, but it usually involves assessing reports on agreed milestones, and communicating and working with development partners and other international aid donors. NZAID has interventions available when aid delivery is not progressing as intended, and usually addresses issues through its working relationships with development partners.

In our view, NZAID needs to set clear objectives, reporting milestones, and relevant performance standards and targets within its funding arrangements. NZAID needs to provide more structured direction and feedback to development partners on monitoring and reporting requirements, and to prioritise and customise the type, level, and frequency of monitoring activity carried out.

Evaluating aid programmes

We expected NZAID to evaluate the effectiveness of its aid programmes and have enough resources and people skilled in development evaluation to do so. We also expected NZAID to improve how effectively it plans, manages, and delivers aid programmes by sharing the evaluation results internally and externally.

NZAID reviews and evaluates the effectiveness of its aid programmes through a range of evaluative activities. It collects, monitors, and analyses data on programme reviews and evaluations carried out throughout NZAID. Although NZAID staff actively take part, most evaluations and reviews are contracted out. The lessons learnt from reviews and evaluations are fed back formally and informally into the management and delivery of aid programmes through various mechanisms.

In our view, NZAID needs to prioritise initiatives and projects within programmes for review or evaluation, and ensure that evaluations at the end of an initiative or project focus on assessing effectiveness. Relevant information on reviews and evaluations needs to be entered consistently into its Activity Management System.

In our view, it needs to be easier for staff to identify external contractors with specialist evaluation skills and experience on the Approved Contractor Scheme database, and NZAID should assess the performance of contractors after they have completed each assignment. Reviews and evaluations of aid projects and initiatives within programmes should focus on lessons learned about how the activity was planned, managed, and delivered, and how the activity contributed to wider programme objectives.

Our recommendations

We recommend that the New Zealand Agency for International Development:

Planning aid programmes

1. prepare generic guidance for staff on strategic partnerships with development partners;

2. give priority to completing its health strategy;

Implementing aid programmes

3. regularly monitor and review compliance with its processes and procedures for funding arrangements;

4. regularly train all relevant programme staff in its processes and procedures for funding arrangements;

5. prepare guidance for staff on exit strategy planning for aid projects and initiatives within programmes;

6. provide training focused on leadership and people management skills for staff before they are sent to overseas posts;

7. provide ongoing training in financial management for local staff working in overseas posts;

8. clarify the responsibilities and accountabilities of its Head Office staff and overseas staff for managing and monitoring aid programme funding arrangements;

9. work with the Ministry of Foreign Affairs and Trade to ensure that guidelines for Head of Mission Funds are followed;

10. hold centrally all relevant information on sources of funding received by development partners, and make that information readily available to all relevant staff;

Monitoring aid programmes

11. set clear objectives, reporting milestones, and performance standards and targets within its funding arrangements for aid projects and initiatives;

12. provide more structured direction and feedback to its development partners on their monitoring and reporting requirements;

13. prioritise and customise the type, level, and frequency of monitoring activity for the development partners who need the most advice and assistance;

Evaluating aid programmes

14. prioritise aid projects and initiatives for review or evaluation, and ensure that evaluations focus primarily on assessing effectiveness against objectives and relevant outcome measures;

15. ensure that information about aid project or initiative reviews and evaluations is entered consistently into its Activity Management System;

16. review the performance of contractors in the Approved Contractor Scheme after they have completed each assignment; and

17. focus reviews and evaluations of aid projects and initiatives within programmes on lessons learned.

Part 1
Introduction

1.1   In this Part, we briefly describe the role of the New Zealand Agency for International Development (NZAID) and outline why and how we carried out the audit.

New Zealand Agency for International Development

1.2   NZAID is a semi-autonomous agency of the Ministry of Foreign Affairs and Trade (the Ministry). It was formed in July 2002 and is based in Wellington. NZAID is responsible for New Zealand's Official Development Assistance (ODA) programme, which provides funds to developing countries to promote their economic development and welfare. Previously, a division within the Ministry administered New Zealand's ODA programme. NZAID was formed after a Ministerial review[1] concluded that aid delivery should have a more distinct identity and be administered by an autonomous agency.

1.3   NZAID distributes New Zealand's ODA programme budget through different programmes and agencies. NZAID manages bilateral aid programmes (those agreed between the New Zealand government and the government of the country receiving the aid) for specific countries and regional programmes (targeted at groups of countries in a particular region).

1.4   NZAID has 16 bilateral programmes, including 10 programmes with specific programme strategies and dedicated staff. These are the most important in terms of addressing poverty. Of the 10 programmes, NZAID has prioritised its relationships with Solomon Islands, Papua New Guinea, Vanuatu, and Indonesia, and has constitutionally framed relationships with Niue and Tokelau. NZAID also has five key regional programmes in the Pacific. These regional programmes focus on governance, health, education, economic growth, and environment and vulnerability.

1.5   NZAID supports regional agencies and organisations in the Pacific. NZAID also distributes ODA programme funds through multilateral agencies and programmes of the United Nations, international financial institutions (for example, the World Bank and Asian Development Bank), and New Zealand non-government organisations (NGOs) that work in different regions, countries, and sectors. Although NZAID has small regional programmes in South Asia, the Greater Mekong sub-region, Africa, and Latin America, most of NZAID's larger programmes are in the Pacific and South-East Asia.

1.6   To address poverty and its underlying issues, NZAID focuses on long-term programmes. Its approach to development is moving away from project-based aid funding to long-term programmes designed to deliver fewer, but more strategic, activities.

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1   Ministerial Review Team (March 2001), *Toward Excellence in Aid Delivery: A Review of New Zealand's ODA Programme*, Wellington.

1.7   NZAID's Executive Director reports to the Ministry's Chief Executive. There are
        five groups in NZAID, each led by a Director who reports to the Executive Director
        – the Pacific Group; Global Group; Strategy, Advisory and Evaluation Group;
        Management Services Group; and Executive Director's Group. The Pacific and
        Global Groups are responsible for managing NZAID's aid programmes, with advice
        and support provided by the Strategy, Advisory and Evaluation and Management
        Services Groups.

1.8   The Pacific Group and Global Group programme teams include a team leader,
        development programme managers, and development programme officers and
        administrators based in Head Office. For the bilateral programmes described
        in paragraph 1.4, there are also NZAID managers based in overseas posts and
        supported by local staff (as development programme officers and administrators).
        For the regional programmes in the Pacific described in paragraph 1.4, there is an
        NZAID manager based in Suva (Fiji), supported by local staff.

Why we carried out the audit

1.9   There have been two broad reviews of NZAID since it was formed in July 2002,
        and both were published in 2005. One was a peer review of New Zealand's
        development co-operation programme by the Development Assistance
        Committee of the Organisation for Economic Co-operation and Development
        (OECD),[2] and the other a Ministerial review of NZAID's progress since its was
        formed.[3] Both reviews supported the way that NZAID had been established, its
        policy development, programme direction, and approach to partnership. We
        examined how effectively NZAID manages its overseas aid programmes, rather
        than its overall strategic direction or approach to development.

1.10   Although small by international standards, the ODA programme budget has
        increased significantly in recent years. In 2001/02, the ODA programme budget
        administered by NZAID was $242.1 million. For 2007/08, it is $428.8 million, an
        increase of $70 million from 2006/07. The number of staff (in Wellington and in
        overseas posts) in NZAID has also increased, from 131 staff in 2002 to 195 staff
        in 2007. Given the increase in ODA programme funding and staff since NZAID
        was formed in 2002, we wanted to examine how effectively NZAID manages its
        overseas aid programmes.

How we carried out the audit

1.11   To conduct the audit, we reviewed NZAID's aid strategies, plans, procedures, and
        guidance documents. We interviewed staff at NZAID's Head Office in Wellington,

2   Development Assistance Committee (2005), *DAC Peer Review: New Zealand*, Organisation for Economic Co-
     operation and Development.

3   Dr Marilyn Waring (July 2005), *Ministerial Review of Progress in Implementing 2001 Cabinet Recommendations
     Establishing NZAID.*

and at overseas posts in Port Moresby (Papua New Guinea), Jakarta (Indonesia), and Suva (Fiji). We also interviewed development partners[4] and key stakeholders in those overseas locations.

1.12   As part of the audit, we specifically examined the Papua New Guinea bilateral programme, Indonesia bilateral programme, and Pacific Regional Health programme. Figure 1 provides an overview of each programme.

Figure 1
Overview of the Papua New Guinea bilateral programme, Indonesia bilateral programme, and Pacific Regional Health programme

Papua New Guinea bilateral programme

Almost 40% of Papua New Guinea's 6.1 million people live in poverty, with half living in remote rural areas. Papua New Guineans have low average life expectancy rates and high maternal and infant mortality rates. Many deaths are a result of preventable diseases such as malaria, pneumonia, tuberculosis, and diarrhoea. Malnutrition, HIV/AIDS, and the use of tobacco and alcohol are also becoming problematic. Papua New Guinea was ranked 139th out of 177 countries on the 2006 Human Development Index of life expectancy, literacy, education, and living standards.

The goal of the Papua New Guinea bilateral programme is to contribute to eliminating poverty by supporting the economic and social development of the country. NZAID is supporting projects and initiatives focusing on rural economic development, health, education, law, justice and governance, and civil society organisations.*

The Papua New Guinea bilateral programme is the second largest NZAID bilateral programme. In 2007/08, New Zealand's ODA programme allocation to Papua New Guinea was $21.5 million.

Indonesia bilateral programme

Development in Indonesia is uneven. Wealth is concentrated in the western islands of Sumatra, Java, and Bali. The numbers of people living below the poverty line are highest in Aceh, the eastern provinces of West Nusa Tenggara, East Nusa Tenggara, Maluku, and the Papua region. The earthquakes and tsunami that hit parts of Aceh and North Sumatra provinces in December 2004 and the island of Nias in March 2005 left 170,000 dead and 550,000 homeless. Indonesia was ranked 108th out of 177 countries on the 2006 Human Development Index of life expectancy, literacy, education, and living standards.

The Indonesia bilateral programme gives priority to eliminating poverty by supporting the economic and social development of Indonesia. NZAID is supporting projects and initiatives focusing on basic education, sustainable rural livelihoods, governance, peace building and human rights, study awards, cross-sector support, and rehabilitation and reconstruction in Aceh and Nias.

The Indonesia bilateral programme is the largest bilateral programme in Asia and the fourth largest NZAID bilateral programme. In 2007/08, New Zealand's ODA programme allocation to Indonesia was $13 million.

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4   For the purposes of this report, "development partners" includes all of the individuals and organisations that collaborate with NZAID to achieve mutually agreed objectives.

Pacific Regional Health programme

Life expectancy rates in the Pacific region have improved, and the incidence of malaria has reduced. However, new diseases such as diabetes, tuberculosis, sexually transmitted diseases, and HIV/AIDS threaten to overwhelm the health services.

The objective of the Pacific Regional Health programme is more efficient and high quality primary and public health care regional services in the Pacific, through improved planning, delivery, and management. NZAID focuses on strategic partnerships and multi-year initiatives.

The Pacific Regional Health programme is the second largest Pacific regional programme. In 2007/08, New Zealand's ODA programme allocation to the Pacific Regional Health programme was $8 million.

* NZAID defines civil society organisations as non-government groups – community-based groups, women's or youth groups, professional organisations, rights organisations, business groups, activist groups, and media organisations.

1.13   We chose these programmes from a wide range of aid programmes managed by NZAID. They were within the areas of geographical focus for NZAID, were among the largest programmes by value, have experienced increased funding and resources, and represent a wide scope in focus, location, and the types of initiatives and projects within them.

1.14   We examined six aid projects and initiatives from each of the three programmes, with various areas of focus. Those areas included rural economic development, health, education (including basic education), law and justice, strengthening civil society, sustainable rural livelihoods, governance, peace and human rights, study awards, forming strategic partnerships, and multi-year programme initiatives (see Figure 2).

Figure 2
The aid projects and initiatives examined within each of the three programmes we examined

Papua New Guinea bilateral programme	Sector/area of focus
Fresh Produce Development Agency	Rural economic development
Health Sector Improvement Programme	Health sector
East Sepik Women and Children's Health	Health sector
School Journals Project	Education sector
Bougainville Community Policing Project	Law, justice, and governance sector
Civil Society Organisation Support Fund	Civil society sector
Indonesia bilateral programme	**Sector/area of focus**
Social and Community Development Fund	Sustainable rural livelihoods
Creating Learning Communities for Children	Basic education
Partnership for Governance Reform	Governance
Conflict Prevention and Peace-Building Fund	Peace and human rights
Human Rights Facility	Peace and human rights
NZAID Study Awards	Awards and cross-sector support

Pacific Regional Health programme	Sector/area of focus
United Nations Children's Fund	Strategic partnerships
Fiji School of Medicine	Strategic partnerships
HIV/AIDS Strategy Implementation Plan	Multi-year programme initiatives
HIV/AIDS Small Grants Project	Multi-year programme initiatives
Masculinity, Mental Health and Violence	Multi-year programme initiatives
Asia Pacific Leadership Forum	Multi-year programme initiatives

1.15   Parts 2, 3, 4, and 5 of this report set out our expectations and findings on how NZAID plans, implements, monitors, and evaluates aid programmes.

Areas outside the scope of our audit

1.16   We did not examine:

- humanitarian and emergency aid funding administered by NZAID;
- funding administered by NZAID for New Zealand NGOs through the *Kaihono hei Oranga Hapori o te Ao: Partnership for International Community Development* scheme;
- funding administered by NZAID for multilateral agencies; or
- ODA programme funding administered by other government departments.

Part 2
Planning aid programmes

2.1   In this Part, we outline our expectations of:

- NZAID's strategic approach to aid planning;
- how NZAID works with recipient countries;
- how NZAID works with other aid donor countries; and
- NZAID's objectives for its aid programmes.

2.2   We then present our findings on the extent to which NZAID met those expectations.

Our expectations

2.3   In planning aid programmes, we expected NZAID to:

- have an up-to-date strategic approach to planning how it would deliver its aid programmes and to align programmes with its overall strategy;
- align its aid programmes with need by considering the views of communities and working with the government of the recipient country;
- complement the programmes of other aid donors, where appropriate; and
- have clear objectives for its aid programmes, reflecting changing needs and circumstances in the recipient country.

Summary of our findings

2.4   NZAID has a long-term strategic approach to planning the delivery of its aid programmes. It aligns its aid programmes with need by considering the views of, and working closely with, its development partners. NZAID also makes sure that its aid programmes complement those of other international aid donors, and that objectives of the aid programmes are consistent with broader international development goals and NZAID's overall focus on eliminating poverty. NZAID refers to the importance of "strategic partnerships" but has no document or guidance setting out its overall approach to strategic partnerships for all of its programmes. It has not provided staff with guidance explaining how and when strategic partnerships should be entered into. Also, the preparation of NZAID's health strategy has been delayed due to staff vacancies.

2.5   In our view, NZAID needs to:

- prepare generic guidance for staff on strategic partnerships with development partners; and
- give priority to completing its health strategy.

2.6   We would expect the scheduled programme reviews for the Indonesia bilateral programme and Pacific Regional Health programme to consider NZAID's *Five Year Strategy 2004/05 to 2009/10* (the *Five Year Strategy*) and relevant regional strategies.

Strategic approach to aid planning

2.7   NZAID's aid programme planning framework includes the *Five Year Strategy* and long-term multilateral, regional, and bilateral strategies and plans, supported by several policies. They support NZAID's overarching policy statement – *Towards a safe and just world free of poverty*.[1]

2.8   NZAID's focus on eliminating poverty and its strategies and policies reflect a long-term commitment to working with development partners and the international aid community to achieve the millennium development goals and international development targets agreed by world governments at the United Nations Millennium Summit in 2000. The focus of the Papua New Guinea and Indonesia bilateral programmes on health, basic education, and supporting peace and human rights initiatives, and the Pacific Regional Health programme's focus on primary and preventative health care, are consistent with the millennium development goals.

2.9   Although the Papua New Guinea and Indonesia bilateral programmes pre-date the *Five Year Strategy*, they are both consistent with NZAID's priority areas for its strategic outcomes – in particular, the focus on health, basic education, sustainable rural livelihoods, peace building and conflict prevention, and humanitarian support. The Pacific Regional Health programme is consistent with the priority areas in the *Five Year Strategy*.

2.10   NZAID uses a "strategic partnerships" approach to support civil society organisations in Papua New Guinea and regional health organisations in the Pacific. NZAID has identified eight civil society strategic partners in the Papua New Guinea bilateral programme and four strategic partners in the Pacific Regional Health programme. This approach seeks to foster long-term relationships between NZAID and the strategic partner organisations. NZAID has said that strategic partnerships provide the partner organisation with the ability to plan with greater certainty of funding, and an opportunity for NZAID to increase the effect and sustainability of its funding.

2.11   NZAID has an internal document that sets out NZAID's approach to strategic partnerships with civil society organisations in Papua New Guinea. The document includes criteria and a process for initiating a strategic partnership. Although there is some guidance on developing strategic partnerships within other aid

1   New Zealand Agency for International Development (2002), *Policy statement: Toward a safe and just world free of poverty*, Ministry of Foreign Affairs and Trade, Wellington.

programmes (for example, the Pacific Programme for Strengthening Governance) and projects (for example, the Social and Community Development Fund within the Indonesia bilateral programme), there is no document or guidance setting out NZAID's overall approach to strategic partnerships for all of its aid programmes.

2.12   We reviewed three NZAID funding arrangements with organisations identified as strategic partners within the Papua New Guinea and Indonesia bilateral programmes and the Pacific Regional Health programme. The organisations were:

- Leitana Nehan Women's Development Agency;
- Fiji School of Medicine; and
- United Nations Children's Fund (UNICEF).

2.13   Figure 3 provides more information about the Leitana Nehan Women's Development Agency, the Fiji School of Medicine, and UNICEF.

Figure 3
Examples of strategic partners in the Papua New Guinea bilateral programme and Pacific Regional Health programme

Leitana Nehan Women's Development Agency

The Leitana Nehan Women's Development Agency is an NGO. It was founded in 1992 and is based in Bougainville, Papua New Guinea. Initially, its purpose was to provide humanitarian aid to women and children during the Bougainville conflict. From 1995, the Leitana Nehan Women's Development Agency has shifted its focus from humanitarian aid to peace building and community rehabilitation. It aims to strengthen families and communities in Bougainville to deal with domestic violence, rape, and child abuse, through a network of village counsellors in 13 districts within Bougainville. NZAID provides funding to the Leitana Nehan Women's Development Agency for essential operational and programme implementation costs.

Fiji School of Medicine

The Fiji School of Medicine was established in 1885 and is based in Suva, Fiji. The Fiji School of Medicine provides training in medical services, including clinical specialisation, dentistry, public health services (including nutrition, dietetics, environmental health, and epidemiology), and allied health disciplines (including pharmacy, physiotherapy, medical imaging, and medical laboratory technology). NZAID provides funding to the Fiji School of Medicine for activities that include professional training and development, the health professionals' education unit, support for programme upgrades, graduate tracking, alumni activities, and research.

United Nations Children's Fund

The United Nations Children's Fund (UNICEF) in the Pacific is based in Suva, Fiji, with field offices in Solomon Islands, Vanuatu, and Kiribati. UNICEF works in 14 Pacific countries and focuses on child protection, advocacy for children's rights, and integrated child health and adolescent development, including HIV/AIDS prevention. NZAID provides funding to UNICEF for three parts of UNICEF's Pacific Programme – strengthening Pacific immunisation programmes, preventing the mother-to-child transmission of HIV, and Pacific youth health and development.

2.14   Although UNICEF (as a multi-lateral agency) had been examined for the compatibility of its financial and reporting systems with NZAID, we found no evidence that NZAID had examined the capacity or capability of the Leitana Nehan Women's Development Agency or the Fiji School of Medicine to be long-term strategic partners before the arrangements were put into place.

2.15   In our view, NZAID needs to prepare guidance for its staff on strategic partnerships with development partners. The guidance should include:

- a statement of what a strategic partner is;
- a statement of how such partnerships contribute to programme objectives and NZAID's overall focus on eliminating poverty; and
- a framework for assessing the capability and capacity of potential partners (particularly civil society organisations).

2.16   The guidance would allow for consistency in NZAID's funding arrangements for all its aid programmes, help NZAID achieve its long-term development outcomes with its strategic partners, and help NZAID decide how best to direct its support for strategic partners.

Recommendation 1

We recommend that the New Zealand Agency for International Development prepare generic guidance for staff on strategic partnerships with development partners.

Working with recipient countries

2.17   NZAID's overarching policy statement (see paragraph 2.7) reflects its long-term commitment to working closely with its development partners. NZAID aligns its aid programmes with national development priorities in recipient countries through high-level consultations with partner governments and by working with development partners in designing its aid programmes (see Figure 4 for an example of an NZAID project aligned to the national development priorities of a recipient country). Consultation with external stakeholders is one of the requirements set out in NZAID's draft guidelines for preparing a programme strategy.

Figure 4

Example of an NZAID project aligned to the national development priorities of a recipient country

Creating Learning Communities for Children programme

The Creating Learning Communities for Children programme (the programme) is a project within NZAID's Indonesia bilateral programme. The programme has been supported by NZAID since 2002. The aim of the programme is to improve the quality of primary education through more effective school management, introducing student-centred learning, and greater community participation. The programme is a joint initiative between the Government of Indonesia, the United Nations Children's Fund, and the United Nations Educational, Scientific and Cultural Organisation. It operates in 12 provinces and 42 districts in Indonesia. Support for basic education is a focus area for NZAID in Indonesia, and represents a high development priority for the Government of Indonesia as outlined in its National Plan of Action for Achieving Education for All and Strategic Plan for Education.

2.18   The *Bilateral Strategic Framework for Indonesia 2002-2007* notes that, to implement the framework, interventions will be implemented in full co-operation, consultation, and partnership with relevant Indonesian authorities. The *Papua New Guinea Strategy 2002-2007* notes that NZAID's partners for the ODA programme in Papua New Guinea are the Papua New Guinea government at national and provincial levels, and civil society organisations. The *Papua New Guinea Strategy 2002-2007* also refers to Papua New Guinea's own development strategy.

2.19   NZAID may also carry out or commission specific research or analysis to assess how best to focus aid (for example, *Supporting Rural Livelihoods in Papua New Guinea 2007-2016: Strategic Directions Paper* and *NZAID Health Sector Strategy Team: Issues Paper*). Preparing issues papers, background literature searches, data gathering, and desktop studies are part of the analysis and field work requirements set out in NZAID's draft guidelines for preparing a programme strategy.

Working with other aid donors

2.20   NZAID ensures that its programmes complement those of other aid donors, where appropriate, when designing aid programmes. NZAID's overarching policy statement highlights the importance of co-ordination, particularly with other aid donors, as one of its key operating principles. This is also an important part of NZAID's desired outcomes in its *Five Year Strategy*. Consultation with other international development agencies is another of the required steps set out in NZAID's draft guidelines for preparing a programme strategy.

2.21   NZAID staff noted that they work closely with other international aid donors, consulting on strategy development and working directly with one another on joint contracts and shared programmes and projects. During our fieldwork,

Australian Agency for International Development (AusAID) staff in Papua New Guinea and Fiji indicated that there was a close working relationship with NZAID at operational, technical, and strategic levels.

Aid programme objectives

2.22   There is a strategy or framework for each of the three programmes we looked at. They are the *Papua New Guinea Strategy 2002-2007*, *Bilateral Strategic Framework for Indonesia 2002-2007*, and *Pacific Regional Health Programme Framework*. Two of the three strategies pre-date NZAID's *Five Year Strategy*, and all three pre-date the preparation of wider relevant regional and sector strategies, including the *Pacific Strategy 2007-2015*, the *Asia Strategy*, and the health strategy (which has yet to be prepared).

2.23   The *Papua New Guinea Strategy 2002-2007* and *Bilateral Strategic Framework for Indonesia 2002-2007* each cover a period of five years. The *Pacific Regional Health Programme Framework* does not have a specified time limit because it was meant to be an interim measure until NZAID completed its health strategy. NZAID told us that preparing the health strategy was delayed because of staff vacancies that have recently been filled.

2.24   In our view, NZAID needs to complete the health strategy to guide the co-ordination and focus of its aid programmes.

Recommendation 2

We recommend that the New Zealand Agency for International Development give priority to completing its health strategy.

2.25   Objectives within the strategies and framework for each of the three programmes we looked at focus on eliminating poverty. The objective for the Papua New Guinea bilateral programme is to contribute to eliminating poverty by supporting the economic and social development of the country. For the Indonesia bilateral programme, it is to give priority to eliminating poverty by supporting the economic and social development of Indonesia. The objective of the Pacific Regional Health programme is to support the growth of more efficient and high quality regional primary and public health care services.

2.26   NZAID is currently reviewing the *Papua New Guinea Strategy 2002-2007*. The *Pacific Regional Health Programme Framework* and *Bilateral Strategic Framework for Indonesia 2002-2007* were to be reviewed in late 2007. The terms of reference for the *Papua New Guinea Strategy 2002-2007* review include considering its alignment with NZAID's *Five Year Strategy* and relevant regional and thematic strategies.

Part 3
Implementing aid programmes

3.1   In this Part, we set out our expectations for how NZAID:
- arranges funding for delivering programmes;
- promotes sustainable outcomes;
- works alongside development partners; and
- co-ordinates funding.

3.2   We then set out our findings on the extent to which NZAID met those expectations.

Our expectations

3.3   We expected NZAID to:
- have a sound basis for the funding arrangements it puts in place;
- promote sustainable outcomes through the funding arrangements it uses; and
- work effectively alongside partners and contractors to effectively implement aid programmes.

Summary of our findings

3.4   NZAID works closely with its development partners and contractors to implement its aid programmes, and promotes sustainable outcomes through its funding arrangements in various ways. However, NZAID does not have comprehensive, clear, and easily accessible processes or procedures for putting in place its funding arrangements. In some cases, it had not completed those processes and procedures. NZAID has no clear exit strategy for ending aid projects or initiatives, and its staffing capacity is stretched in Head Office and at the posts in Port Moresby, Jakarta, and Suva.

3.5   In our view, NZAID needs to:
- regularly monitor and review compliance to ensure that its processes and procedures are consistently applied to all funding arrangements;
- regularly train all relevant programme staff in these processes and procedures;
- prepare guidance for staff on exit strategy planning for aid projects and initiatives;
- provide training on leadership and people management for staff before they are sent to overseas posts;
- provide ongoing training in financial management for local staff in overseas posts;
- clarify the responsibilities and accountabilities of NZAID staff at Head Office and staff in overseas posts for managing and monitoring funding arrangements;

- work with the Ministry to ensure that guidelines for Head of Mission funds are followed; and

- ensure that all relevant information on sources of funding received by development partners from NZAID is accessible centrally to reduce the risk of duplication in funding.

Funding arrangements for delivering programmes

3.6   To deliver its programmes, NZAID uses funding arrangements that generally fall under two categories – contracts for services and grant funding. NZAID programme teams, with advice from the Management Services Group, explore and decide on the most suitable options and criteria for programme funding.

3.7   At the time of our fieldwork, NZAID had a set of processes and procedures for putting in place its funding arrangements. However, they were not comprehensive, clear, easily accessible, or held in one place. In some cases, they were not finalised.

3.8   At the time of our fieldwork, NZAID had:

- an operational handbook, which included NZAID's procurement policy and several financial management, contracting, and finance guidelines;

- draft budget policy and operational guidelines for contracting and grant funding;

- a series of operational guidelines to support a new contracts workflow information system;

- a series of standard instruction forms (including a conflict of interest declaration relevant only for contracts for services); and

- an Approved Contractor Scheme (ACS) handbook that sets out processes and procedures for contractors appointed under the ACS.

3.9   NZAID had a process that was sometimes used instead of the approved procurement process. It was called the "exceptional/non-standardised procurement process", and through it the Executive Director or a Director could approve variations from the usual procurement process.[1] In our view, the existence of this alternative process increased the risk of poor practice and could, without clear guidance, undermine the processes and procedures that NZAID had put in place.

3.10   NZAID's operational handbook sets out the formal "exceptional/non-standardised procurement process". The operational handbook also included some guidelines

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1   Staff can seek a Director's variation to depart from the NZAID policy or procurement rules in exceptional circumstances. Staff at Director level or higher approve the variation. Executive Director's variations are usually used when approval is sought to not carry out an open tender for procuring goods or services worth more than $100,000. Only the Executive Director can grant such approval.

about Executive Director's variations and Directors' variations, but provided no detailed guidance on the circumstances in which variations would be acceptable.

3.11   We reviewed a sample of nine NZAID funding arrangements (including two ACS assignments, one contract for service, and six grant arrangements) within the three programmes we looked at. We found poor practice in six of the nine funding arrangements.

3.12   Of the six funding arrangements where we identified poor practice, three arrangements had been approved through Director's variations and exemptions. The poor practices included:

- contractors being contracted before a search was carried out on the ACS database;
- management of conflicts of interest not being documented;
- contractors starting work before a contract was in place;
- contracts not being tendered when the contract value exceeded the stated limits;
- contractor fee rates increasing during the contract without a clear documented reason for the increase; and
- contract variations for retrospective funding.

3.13   We interviewed NZAID staff responsible for managing the funding arrangements. Although they told us that contract management was a large part of their work, they said that there was often limited time and training available to do the work properly.

3.14   After our review of a sample of funding arrangements and similar work carried out by Audit New Zealand as part of the annual financial audit, NZAID carried out a project to strengthen its contract management.

3.15   As a result of the project, a new Procurement, Contracting and Grant Funding Policy and Procedures Manual was finalised in November 2007. The manual includes a conflict of interest policy for staff that covers all procurement, contracting, and grant funding; a statement on using exceptions to public sector rules; and NZAID policy requirements and good practice. An internal risk and assurance function has begun to be implemented, and NZAID staff at Head Office have attended a workshop on public sector contracting principles and the results of the annual financial audit work on funding arrangements.

3.16   In our view, to ensure that the new processes and procedures are effectively applied and to promote better practice in procurement and contract management, NZAID needs to regularly:

- monitor and review compliance to ensure that those processes and procedures are consistently applied to all funding arrangements; and

- train all relevant programme staff in its processes and procedures for funding arrangements.

Recommendation 3

We recommend that the New Zealand Agency for International Development regularly monitor and review compliance with its processes and procedures for funding arrangements.

Recommendation 4

We recommend that the New Zealand Agency for International Development regularly train all relevant programme staff in its processes and procedures for funding arrangements.

Promoting sustainable outcomes

3.17   NZAID promotes sustainable outcomes through the funding arrangements it puts in place in various ways, including:

- contractors working directly with local consultants as part of wider teams;

- local membership of governing boards for particular assignments;

- providing direct support, assistance, and training for local organisations; and

- directly strengthening local organisations and partner government organisations to build human resource capacity and deliver local programmes, projects, and services.

3.18   Local involvement and strengthening local capabilities to deliver aid programmes is also provided for through NZAID's strategic partnerships (see paragraphs 2.10-2.16) and sector-wide approaches, with funding aligned to development partners' objectives and priorities. Figure 5 provides more detail on sector-wide approaches and the Health Sector Improvement Programme within the Papua New Guinea bilateral programme.

Figure 5

Sector-wide approaches and the Health Sector Improvement Programme within the Papua New Guinea bilateral programme

Sector-wide approaches

A sector-wide approach is a way of co-ordinating assistance from aid donors that strengthens local ownership. It relies on a locally appropriate sector plan and the use of partner government governance and financial systems for sustainable outcomes throughout the

whole sector. A "sector" can include a wide range of thematically linked activities involving government, non-government, and private organisations.

Health Sector Improvement Programme

The Health Sector Improvement Programme (the programme) is a sector-wide approach that has been around since the late 1990s. Aid donor funds from development partners are managed through the programme, using government systems rather than stand-alone projects and external management companies. Key elements of the programme include:

- a government-defined policy framework;

- a medium-term expenditure framework and sector strategic plan that define specific sector priorities;

- twice-yearly government and development summits that discuss and agree on sector policy and financing issues;

- a partnership agreement signed between the government and development partners;

- common financing arrangements for the receipt, use, and accounting of development partner funds in the form of a trust account; and

- a sector-based performance monitoring framework and an independent monitoring and review process.

NZAID provides core funding to the programme trust account and has also provided funding for technical assistance to support management, policy development, planning, and monitoring.

3.19   An important part of promoting sustainable outcomes is planning for the end of aid projects or initiatives. Such plans are known as "exit strategies". The sustainability of aid projects and initiatives is improved if funding is reduced gradually as the capacity and capability of local communities and organisations increases. Managing exit strategies is the responsibility of the NZAID programme teams. Although programme strategy guidance and operational procedures provide direction on when and how to develop a strategy to phase out a bilateral programme and on the length of a contract agreement, NZAID staff noted that formal strategies for ceasing funding for aid projects and initiatives were rare.

3.20   We recognise that NZAID is moving from project-based aid funding to long-term programmes designed to deliver fewer but more strategic activities. This brings a long-term perspective to planning exit strategies. However, in our view, well-planned exit strategies for aid projects and initiatives within programmes would promote more effective sustainable outcomes and inform ongoing decisions about the direction and nature of the support provided by NZAID. They would also inform the design and implementation of NZAID's aid projects and initiatives, including the types of funding arrangements NZAID puts in place and the nature of the relationship and support required for NZAID's development partners.

Recommendation 5

We recommend that the New Zealand Agency for International Development prepare guidance for staff on exit strategy planning for aid projects and initiatives within programmes.

Working alongside development partners

3.21   NZAID works with its development partners in supporting aid programmes. Despite practical difficulties associated with the location, capacity, and capability of some development partners, the partners we spoke to in Papua New Guinea, Indonesia, and Fiji indicated that NZAID staff were accessible and supportive. However, NZAID staff capacity in Port Moresby, Jakarta, and Suva was stretched during our fieldwork.

3.22   In Port Moresby, there were two seconded NZAID staff members and one local staff member. There were meant to be four local staff assigned to the post. In Jakarta, there was one seconded NZAID staff member and three local staff managing several funds and initiatives based at the post, as well as the unanticipated and continuing rehabilitation and reconstruction support for Aceh and Nias. In Suva, there was one seconded NZAID staff member and three local staff managing in-country engagement for all of the Pacific Regional programmes, including the Pacific Regional Health programme.

3.23   NZAID staff working in overseas posts have access to the information needed to support the aid programmes. Generally, the NZAID staff we spoke to during our audit felt comfortable with the support provided to them, but some pointed out the need for specialist support (particularly financial management support).

3.24   Some aspects of the management and support arrangements in place for NZAID staff working in overseas posts could be improved. In our view, there is a need for more effective management supervision (particularly with work prioritisation and planning, and managing staff) and administrative support. NZAID has recently reviewed the roles in overseas posts that have two NZAID managers, and recommended that the capacity and capability of these posts be increased to meet projected workload increases.

3.25   NZAID staff told us that the level and extent of training and support for staff at overseas posts has increased, but training needs to be more focused on the roles and responsibilities of the positions within those posts.

3.26   Basic training is available for NZAID staff before they are posted overseas, and professional training and opportunities for local staff are also available. Although management training has been made available to some staff, basic training does not specifically prepare NZAID staff to manage teams at posts overseas, because it does not focus on leadership and people management skills. Although local staff are often responsible for managing programmes and monitoring the financial management and accountability systems for aid initiatives and projects, they do not have access to ongoing financial management training.

Recommendation 6
We recommend that the New Zealand Agency for International Development provide training focused on leadership and people management skills for staff before they are sent to overseas posts.

Recommendation 7
We recommend that the New Zealand Agency for International Development provide ongoing training in financial management for local staff working in overseas posts.

3.27   At the time of our audit, there were two NZAID programme managers responsible for the Papua New Guinea bilateral programme, one programme manager responsible for the Indonesia bilateral programme (who was also responsible for the Timor Leste bilateral aid programme), and one programme manager responsible for the Pacific Regional Health programme (who also had Pacific Regional Education programme responsibilities).

3.28   Staff in NZAID's Head Office are responsible for strategy, programming, policy development, programme management, financial management, managing relationships, and Ministerial and interdepartmental support. NZAID staff at overseas posts are responsible for in-country management, including programme implementation, financial management, managing relationships, and managing staff. NZAID Head Office staff report directly to the team leader of the programme group. NZAID staff overseas report directly to the post's Head of Mission.

3.29   NZAID Head Office and overseas staff work collaboratively when designing and implementing aid programmes. NZAID staff we spoke to said that there was close communication between Head Office and overseas posts, mainly by email but increasingly through the Ministry's formal messaging system. Although responsibilities for financial and contract management are shared between NZAID Head Office staff and staff at overseas posts, it is not clear who is responsible and

accountable for managing and monitoring the funding arrangements. In our view, these responsibilities and accountabilities need to be clarified.

Recommendation 8

We recommend that the New Zealand Agency for International Development clarify the responsibilities and accountabilities of its Head Office staff and overseas staff for managing and monitoring aid programme funding arrangements.

Co-ordinating funding

3.30   NZAID has no central mechanism to gather information on all its funding arrangements with development partners throughout its bilateral and regional programmes and contestable funding managed by overseas posts (for example, Head of Mission Funds and Small Project Funds).

3.31   We looked at the guidelines for, and the recipients of, Head of Mission Funds in Port Moresby, Jakarta, and Suva from 2003 to 2007. We also looked at how the Small Projects Fund (part of the Papua New Guinea bilateral programme administered by the post at Port Moresby) had been used from 2003 to 2007.

3.32   The Head of Mission Fund in Port Moresby was used to contribute to individuals (contrary to the guidelines for using that fund) and initiatives involved in, or carried out by, organisations already funded within the wider Papua New Guinea bilateral programme. The Small Projects Fund in Port Moresby was also used to contribute to an initiative by a civil society organisation already funded by a grant arrangement.

3.33   Head of Mission funds can be used to complement and support relevant NZAID strategies, objectives, and priorities. Grants from the Small Projects Fund can be used as co-funding with other NZAID programmes. However, there is a risk of duplication when development partners receive more than one source of funding from NZAID.

3.34   In our view, to reduce the risk of duplication in funding, NZAID needs to work with the Ministry to ensure that overseas posts follow the guidelines for Head of Mission funds. NZAID could better co-ordinate its own bilateral programme funding, regional programme funding, and other contestable funding managed by overseas posts by ensuring that all relevant information on sources of funding received by development partners is held centrally and is easily accessed.

Recommendation 9

We recommend that the New Zealand Agency for International Development work with the Ministry of Foreign Affairs and Trade to ensure that guidelines for Head of Mission Funds are followed.

Recommendation 10

We recommend that the New Zealand Agency for International Development hold centrally all relevant information on sources of funding received by development partners, and make that information readily available to all relevant staff.

Part 4
Monitoring aid programmes

4.1　In this Part, we set out our expectations for how NZAID:

- sets performance expectations;
- monitors performance; and
- responds when aid is not progressing as intended.

4.2　We then set out our findings on the extent to which NZAID met those expectations.

Our expectations

4.3　We expected NZAID to:

- have set up funding agreements in a way that enables it to effectively monitor and manage progress, outputs, and longer-term outcomes;
- monitor performance under funding agreements to assess how well aid delivery is progressing; and
- take action when aid delivery is not progressing as intended.

Summary of our findings

4.4　NZAID has no clear approach to setting up funding arrangements in a way that enables it to effectively monitor and manage progress, outputs, and longer-term outcomes. Funding arrangements set out the monitoring and accountability arrangements, but these are not always clearly specified. The extent of NZAID's monitoring varies, but usually involves assessing reports on agreed milestones, and communicating and working with development partners and other international aid donors. NZAID has interventions available to it when aid delivery is not progressing as intended, and usually addresses issues through its working relationships with development partners.

4.5　In our view, NZAID needs to:

- set clear objectives, reporting milestones, and performance standards and targets within its funding arrangements;
- provide its development partners with more structured monitoring direction and feedback; and
- prioritise and customise the type, level, and frequency of monitoring activity carried out with development partners.

Setting performance expectations

4.6　NZAID does not have a clear approach to setting up funding arrangements in a way that enables it to effectively monitor and manage progress, outputs, and longer-term outcomes.

4.7   NZAID programme teams are responsible for preparing objectives and milestones as part of the funding arrangements they put in place. We reviewed a sample of 12 funding arrangements for aid projects and initiatives within the Papua New Guinea and Indonesia bilateral programmes and the Pacific Regional Health programme, focusing on project or initiative objectives, performance standards, targets, and milestones. While all the funding arrangements had clear objectives and most had reporting milestones, only one arrangement outlined performance standards and only two arrangements outlined specific performance targets.

4.8   In our view, to effectively monitor performance, NZAID needs to set clear objectives, reporting milestones, and relevant performance standards and targets within its funding arrangements. Doing so would enable it to effectively monitor and manage progress, outputs, and longer-term outcomes.

Recommendation 11

We recommend that the New Zealand Agency for International Development set clear objectives, reporting milestones, and performance standards and targets within its funding arrangements for aid projects and initiatives.

Monitoring performance

4.9   Generally, NZAID requires grant recipients and contractors to report regularly on progress and performance through the funding arrangements it sets up with them. Monitoring and reporting arrangements vary and are established through different mechanisms, including partnership agreements, memoranda of understanding, memoranda of arrangements, specific fund guidelines with monitoring and evaluation frameworks and requirements, contribution arrangements, and funding agreements with international aid organisations.

4.10   NZAID's guideline on activity monitoring sets out the principles and practices underlying the monitoring of development activities. In practice, NZAID carries out monitoring primarily by assessing reports on agreed milestones, and communicating and working with development partners, other international aid donors, and contractors.

4.11   Monitoring is also carried out through:

- high level talks;
- monitoring visits conducted by NZAID staff;
- providing specific technical support; and
- NZAID membership of relevant governance bodies.

4.12   NZAID generally requires funding recipients to report every six months or every year on how the funding has been spent. NZAID reporting requirements are increasingly aligned with the recipients' own reporting requirements. NZAID usually requires contractors to report on agreed milestones within the ACS assignment or contract for services.

4.13   NZAID's development partners in Papua New Guinea, Indonesia, and Fiji told us that NZAID was a flexible aid donor in terms of reporting requirements compared with other international aid donors – an approach that was appreciated. However, development partners also noted that, to build their own capacity, more feedback from NZAID on their reporting was important, particularly on the quality of their financial and activity reporting, and programme design and structure. In our view, to improve performance and capability, NZAID needs to provide more structured monitoring direction and feedback to its development partners.

Recommendation 12

We recommend that the New Zealand Agency for International Development provide more structured direction and feedback to its development partners on their monitoring and reporting requirements.

4.14   As already noted, NZAID's staffing capacity is stretched, particularly at overseas posts (see paragraphs 3.21 and 3.22). Because of this, NZAID cannot always regularly assess how well aid delivery is progressing by site visits or working closely with development partners. In our view, NZAID needs to ensure that its monitoring focuses on the development partners that need the most advice and assistance, particularly when resources are scarce.

Recommendation 13

We recommend that the New Zealand Agency for International Development prioritise and customise the type, level, and frequency of monitoring activity for the development partners who need the most advice and assistance.

Taking action when aid is not progressing as intended

4.15   NZAID has several interventions available to it when aid delivery is not progressing as intended. Most commonly, where appropriate, it withholds payments if key outcomes have not been met.

4.16   NZAID usually reconsiders funding arrangements only after a wider review or evaluation of the specific initiative, activity, or programme. NZAID staff said

that issues associated with aid delivery are usually dealt with through close communication or working directly with development partners.

4.17   We found examples within the three programmes where NZAID took effective action with two projects that were not progressing as well as intended, involving the Leitana Nehan Women's Development Agency and the Fiji School of Medicine.

4.18   With the Leitana Nehan Women's Development Agency and Fiji School of Medicine projects, there had been continuing issues with governance, staff management, and financial reporting. Although there had also been issues with the continuity of NZAID's support and delays in receiving funding, NZAID provided direct technical support through a contractor to address the issues identified with the Leitana Nehan Women's Development Agency. It continues to provide this support through a new position to support civil society organisations in Papua New Guinea. NZAID directly supported a governance review and implementation plan to address the issues associated with the Fiji School of Medicine.

Part 5
Evaluating aid programmes

5.1 In this Part, we set out our expectations for how NZAID:

- evaluates the effectiveness of aid programmes;
- provides resources for evaluation; and
- uses evaluation to improve aid programmes.

5.2 We then present our findings on the extent to which NZAID met those expectations.

Our expectations

5.3 We expected NZAID to:

- evaluate the effectiveness of its aid programmes in terms of how well they are implemented, and their outputs and longer-term outcomes;
- have enough resources and people skilled in development evaluation to evaluate the effectiveness of its aid programmes; and
- use evaluations to improve how effectively aid programmes are planned, managed, and delivered by sharing the results and lessons learned internally and externally with its aid partners and others.

Summary of our findings

5.4 NZAID reviews and evaluates the effectiveness of its aid programmes through a range of evaluative activities. It collects, monitors, and analyses data on programme reviews and evaluations carried out throughout NZAID. Although NZAID staff actively take part, most evaluations and reviews are contracted out. The lessons learned from reviews and evaluations are fed back formally and informally into the management and delivery of aid programmes through various mechanisms.

5.5 In our view, NZAID needs to:

- prioritise initiatives and projects within programmes for review or evaluation;
- ensure that evaluations at the end of an initiative or project focus on assessing effectiveness;
- enter relevant information on reviews and evaluations consistently into its Activity Management System (AMS);[1]
- ensure that external contractors with specialist evaluation skills and experience on the ACS database are more easily identified;
- assess the performance of contractors after they complete each assignment; and

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1 The Activity Management System is the software used to plan and manage NZAID's activities and budgets.

- ensure that reviews and evaluations of initiatives and projects within programmes focus on lessons learned from how the activity was planned, managed, and delivered and how the activity contributed to wider programme objectives.

Evaluating the effectiveness of aid programmes

5.6   NZAID reviews and evaluates the effectiveness of its aid programmes through a range of evaluation activity. Evaluations and reviews are carried out of:

- programmes;

- initiatives and activities within programmes;

- all activity within a sector (for example, education or health); and

- all activity within and across programmes to address thematic and cross-cutting issues (for example, sustainable rural livelihoods or human rights).

5.7   Figure 6 provides more information about the reviews of the Papua New Guinea and Indonesia bilateral programmes.

Figure 6
Reviews of the Papua New Guinea and Indonesia bilateral programmes

Papua New Guinea programme review

The ODA programme for Papua New Guinea was reviewed in June 2002. The key recommendations of the review were that:

- the overall goal of the strategy should be to contribute to eliminating poverty and associated deprivations in Papua New Guinea;

- the four main intervention areas of the strategy should be education, health, women's development, and rural development; and

- NZAID's principal partner for the delivery of ODA programme funding in Papua New Guinea should be the Papua New Guinea government at national and provincial levels.

Indonesia programme review

The ODA programme for Indonesia was reviewed in June 2005. The key findings and recommendations of the review were that:

- there was a strong rationale for a New Zealand ODA programme in Indonesia for developmental, political, economic, and strategic reasons;

- Indonesia and other international aid donors considered New Zealand's ODA programme contributions so far to be of a high quality, and welcomed them;

- the overarching strategic direction should be "to give priority to poverty reduction in supporting the economic and social development of Indonesia"; and

- programme activities should focus on six main areas – basic education, community development, natural resource management, governance, conflict resolution and humanitarian assistance, and human and institutional capacity building.

5.8   NZAID has an evaluation framework that includes an overarching policy statement and various evaluation practice guidelines and standards. NZAID's evaluation policy statement provides direction for evaluation activities within NZAID, and is guided by the OECD Development Assistance Committee's principles for evaluating development assistance and evaluation criteria.

5.9   NZAID programme teams are responsible for ensuring that the aid programmes they manage, and initiatives and projects within those aid programmes, are evaluated and reviewed. However, there is no clear approach throughout NZAID to prioritising initiatives and projects within programmes for evaluation or review, or ensuring that evaluations at the end of an initiative or project focus on assessing effectiveness against objectives and relevant outcome measures.

5.10   In our view, to support consistency and the analysis of evaluation activity carried out throughout aid programmes, NZAID needs to prioritise projects and initiatives across programmes for review or evaluation. The primary focus needs to be on assessing effectiveness against objectives and outcome measures. Unintended outcomes may also need to be considered as part of assessing effectiveness.

Recommendation 14

We recommend that the New Zealand Agency for International Development prioritise aid projects and initiatives for review or evaluation, and ensure that evaluations focus primarily on assessing effectiveness against objectives and relevant outcome measures.

5.11   NZAID collects, monitors, and analyses data on reviews and evaluations of programmes and the initiatives and projects within programmes.

5.12   So far, three summary review reports have been prepared – for July 2002 to December 2004, January to December 2005, and January to December 2006. These reports are desk-based studies that summarise findings and draw lessons from reviews and evaluations carried out by NZAID during those periods. However, NZAID staff noted that it was difficult to get an accurate picture of all the evaluation activity carried out throughout NZAID because the information is held within programme teams and not entered consistently in its AMS.

5.13   We reviewed a sample of 19 programme activity authority sheets held in NZAID's AMS for initiatives and projects within the Papua New Guinea and Indonesia bilateral programmes and the Pacific Regional Health programme. Programme activity authority sheets contain information on each initiative or project within

the programme, including specific fields for "monitoring" and "evaluation", and team leaders or Group Directors use these for review purposes. NZAID staff noted that the "evaluation" field had been added in the AMS recently.

5.14   Although information about reviews and evaluations was contained in some "monitoring" fields, it was not entered consistently. Only two of the 19 programme activity authority sheets contained any detail within the "evaluation" fields that showed when the reviews or evaluations were scheduled to take place.

5.15   In our view, NZAID needs to ensure that all relevant information about aid project or initiative reviews and evaluations is consistently entered into its AMS.

Recommendation 15

We recommend that the New Zealand Agency for International Development ensure that information about aid project or initiative reviews and evaluations is entered consistently into its Activity Management System.

Resourcing evaluations

5.16   NZAID has a small evaluation team within the Strategy, Advisory and Evaluation Group that is responsible for providing advice on evaluation activity throughout NZAID. The evaluation team focuses on providing advice to development programme managers on the terms of reference for, and peer review of, evaluations and reviews.

5.17   Although NZAID staff actively take part, external contractors carry out most evaluations and reviews of programmes, and of initiatives and projects within programmes. NZAID considers that external reviews and evaluations provide a useful level of independence. External contractors often lead collaborative evaluation or review teams, and are appointed under NZAID's ACS. The ACS focuses on individuals who are chosen for their specific skills and experience, including evaluation. Figure 7 provides more information about the ACS.

Figure 7
NZAID's Approved Contractor Scheme

The Approved Contractor Scheme provides NZAID with a mechanism for retaining a pool of competitively tendered, pre-selected specialist contractors to carry out assignments on request. The Approved Contractor Scheme replaced NZAID's Period Contract scheme.

Tenders for contractors to be part of the Approved Contractor Scheme pool are called for periodically. Once tenders have been assessed, successful contractors agree a Standing Offer arrangement with NZAID. The Standing Offer sets out the agreed fee rates, the process for contracting an assignment, and NZAID's standard contract terms and conditions. Approved contractors are not paid a retainer, and there is no guarantee of work.

Individual contractors are chosen for their specific skills and experience. Approved contractors are entered into the Approved Contractor Scheme database. The database outlines the skills and categories of expertise for each consultant within the pool. Contractors identify their skills and experience themselves. NZAID staff search the database for appropriate external contractors for each assignment, determining the skills required to carry out the work.

5.18   Because of a shortage of suitably experienced evaluators in development internationally, NZAID staff noted that there were few contractors in the ACS database with specialist evaluation skills and experience. Those contractors on the database with evaluation skills and experience were often difficult to find. There is no formal assessment or review of ACS contractors after they have completed an assignment.

5.19   In our view, because external contractors carry out most NZAID evaluations and reviews, NZAID should review the performance of those contractors after they have completed each assignment.

Recommendation 16

We recommend that the New Zealand Agency for International Development review the performance of contractors in the Approved Contractor Scheme after they have completed each assignment.

Using evaluation to improve aid programmes

5.20   Lessons learned from reviews and evaluations are fed back formally and informally into the management and delivery of aid programmes through various mechanisms, including:

- NZAID's Internal Evaluation Committee;
- presentations by evaluation teams; and
- periodic cables to overseas posts.

5.21   NZAID's guidelines for disseminating and using evaluations notes the value of disseminating evaluations, and NZAID staff have said that evaluation summaries will soon be published on NZAID's website.

5.22   NZAID has reviewed evaluations carried out across its programmes. Three summary review reports have been prepared (see paragraph 5.12) that summarise findings and draw lessons from reviews and evaluations carried out throughout NZAID.

5.23   The evaluation summary report for January to December 2005 summarised lessons learned from the reviews and evaluations, and identified the strengths and weaknesses of the reviews and evaluations carried out. On the quality of the evaluations carried out, the report noted that the 17 reports considered as part of the review were of "very mixed quality".

5.24   Common programme issues identified in the report included:
- weaknesses in design;
- inadequate use of participatory approaches;
- lack of gender analysis;
- inadequate attention to issues of sustainability and replication, particularly with setting up parallel structures and systems rather than strengthening existing structures and systems; and
- a lack of focus on poverty.

5.25   The evaluation summary report for January to December 2006 also noted that the quality of the 16 review and evaluation reports that were assessed varied considerably from comprehensive, clear, credible, and useful reports to reports that were too brief, too general, or incomplete.

5.26   We reviewed a sample of 15 review and evaluation reports commissioned by NZAID or wider stakeholder or aid donor groups for aid projects and initiatives within the Papua New Guinea and Indonesia bilateral programmes and the Pacific Regional Health programme. Of the 15 reviews and evaluations, 11 focused on projects and initiatives, and four focused on a particular sector or issue (for example, health and immunisation).

5.27   Collaborative evaluation or review teams led by external contractors carried out most of the reviews and evaluations, and many involved consultation with development partners, stakeholders, and selected local communities.

5.28   The reviews and evaluations varied in their focus and objectives, and it was often not clear in the reports when the reviews or evaluations occurred during the activity cycle. Many review and evaluation objectives included considering increased support in the future, but few focused on or considered lessons from how the initiative or project was planned, managed, or delivered or how the project or initiative contributed to wider programme or NZAID objectives.

5.29   In our view, NZAID needs to ensure that reviews and evaluations of aid projects and initiatives within programmes focus on lessons learned from how the activity was planned, managed, or delivered, and how the activity contributed to wider programme objectives.

Recommendation 17

We recommend that the New Zealand Agency for International Development focus reviews and evaluations of aid projects and initiatives within programmes on lessons learned.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Liquor licensing by territorial authorities
- Implementing the Māori Language Strategy
- Management of conflicts of interest in the three Auckland District Health Boards
- Annual Report 2006/07 – B.28
- Turning principles into action: A guide for local authorities on decision-making and consultation
- Matters arising from the 2006-16 Long-Term Council Community Plans – B.29[07c]
- Local government: Results of the 2005/06 audits – B.29[07b]
- Effectiveness of the New Zealand Debt Management Office
- Statements of corporate intent: Legislative compliance and performance reporting
- Department of Labour: Management of immigration identity fraud
- Assessing arrangements for jointly maintaining state highways and local roads
- Sustainable development: Implementing the Programme of Action
- New Zealand Customs Service: Collecting customs revenue
- Ministry of Health and district health boards: Effectiveness of the "Get Checked" diabetes programme
- Guidance for members of local authorities about the law on conflicts of interest
- Managing conflicts of interest: Guidance for public entities
- Te Puni Kōkiri: Administration of grant programmes

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