

## Should New Zealand increase the Pacific focus of its aid?

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This is not a sentence I was expecting to write, but the Maxim Institute's [recently released report](#) [pdf] on New Zealand aid is actually pretty good. Maxim is a conservative think tank and I don't normally find myself agreeing with them.

But the aid report is well researched, reasonably even handed, not overtly ideological, and provides a reasonable overview of New Zealand's aid work. It doesn't always get it right and there are errors of omission. (For example, the section on the relationship between the government aid programme and New Zealand NGOs avoids the role our current Foreign Minister has played in damaging this relationship). But generally the report is quite sound, making defensible recommendations regarding increased specialisation, partnerships with NGOs, migration, and enhancing capacity building.

It also has two notable strengths. First, it explicitly recognises that aid isn't the only tool at our disposal for reducing poverty in developing countries. (The report makes a good case for strengthening New Zealand's temporary migrant scheme). And, second, the report does a reasonable job of acknowledging some of the trade-offs associated with the policy positions it advances. People don't like to talk about trade-offs in aid but they exist, and it's great to see this recognised.

Saying that I like the report isn't the same as saying that I agree with all its recommendations though. One of the report's key proposals is that the New Zealand aid programme should increase the extent to which it focuses its work in the Pacific (a table in the report suggests that 50% of New Zealand's aid currently goes to the Pacific, although this is an underestimate, not taking into account some multilateral, scholarship and NGO aid given to the region). This was the recommendation that [made the headlines on Radio Australia](#) and it's the stated position of the current New Zealand government too.

The idea that New Zealand government should focus its aid primarily on the Pacific isn't patently wrong. But I'm not convinced it's right either.

There are reasonable reasons to favour a strong Pacific Focus for our aid programme, many of them found

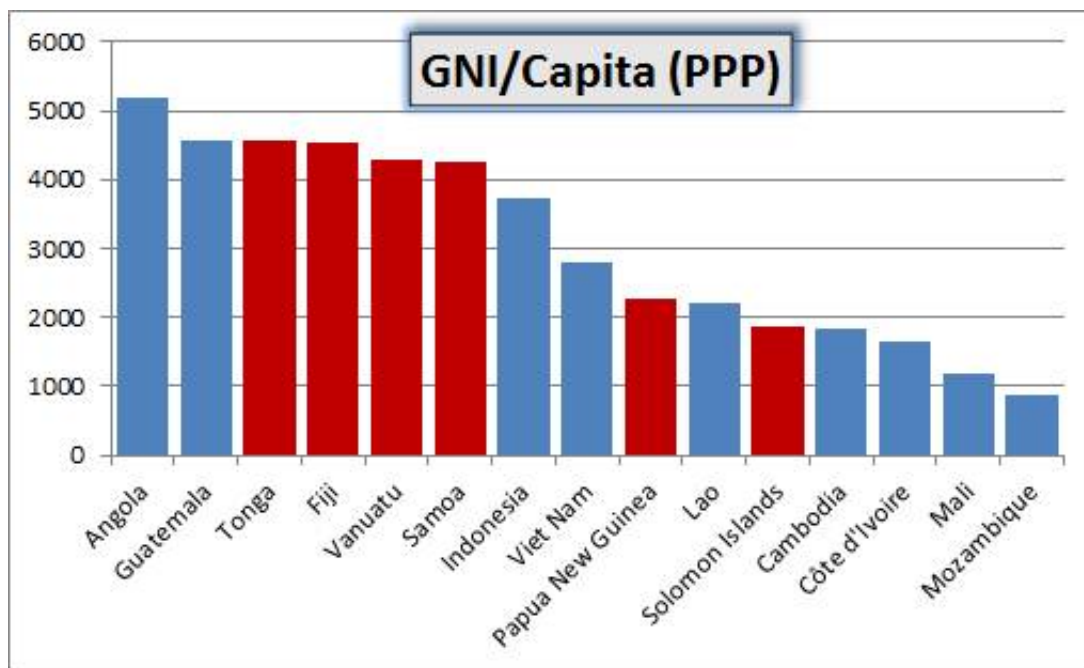
in the Maxim report. Different developing countries have distinctly different contexts, and understanding country context is an essential element of delivering good aid. By adopting a strong focus on one part of the world individual donors should be able to increase their understanding of the particular social, economic, geographical, and political contexts that exist within it.

Also, fragmentation is a perennial problem in aid. Donors that split their work across too many countries may unnecessarily increase their administrative overheads. While countries that receive aid from too many donors will experience significant transaction costs associated with engaging with donors. Where donors proliferate, coordination is harder and the potential for different aid activities replicating or even working at odds with each other also increases.

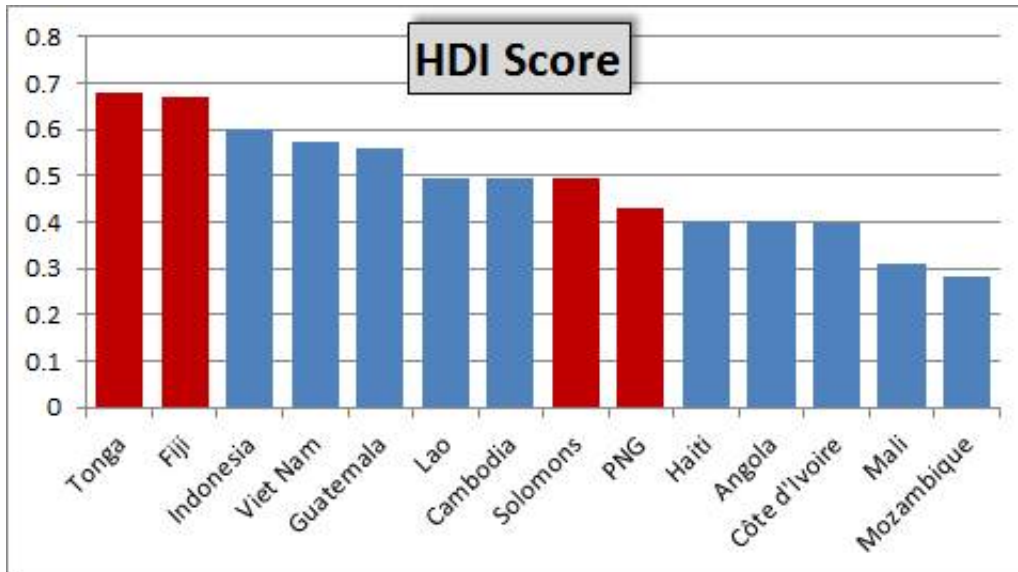
If New Zealand was to focus heavily on the Pacific it would decrease its within organisation fragmentation, and – by pulling out of other crowded aid recipient regions – decrease the fragmentation experienced in these areas.

And yet the arguments aren't all one way. There are at least two good counter arguments.

The first of these is that aid should be focused where it is most needed and that there are poorer parts of the Earth than the Pacific. The chart below shows GNI/capita (adjusted for purchasing power parity) for a series of Pacific aid recipient nations inserted among the same statistic for a range of other developing countries. Data is from 2009.



While the chart below shows the Human Development scores from the 2010 Human Development report for a similar series of countries.



All the usual caveats need to apply to these charts. GNI per capita gives us some idea of the wealth of nations but, because it tells us nothing about the distribution of income within countries, is not a direct measure of poverty. Highly unequal countries can have high GNI/Capita and high levels of poverty, and resource rich countries (like PNG and Angola) can perform deceptively well on GNI measures too. (I can't report on poverty information itself because such data are very patchy in the Pacific). UNDP HDI scores aren't perfect either – they're only as good as their underlying data and value judgements must be used to create aggregate figures from the individual index components.

Nevertheless, the key point still stands. There *is* considerable poverty and need in the Pacific but there are other parts of the world where the need is greater still. This isn't a reason for not providing aid to the Pacific, but it does provide a potential argument for not focusing one's aid too exclusively on the region.

The other argument against an overly exclusive focus on aiding the Pacific is that, while aid can help, too much of it given to any one country might potentially be too much of a good thing. This could happen through the high inflows of foreign currency associated with ODA potentially cause an aid recipient country's currency to appreciate, harming its exporters (something akin to Dutch Disease). Or it might lead to high levels of inflation. In an [Otago University working paper](#) [pdf] David Fielding finds some evidence of these negative impacts already possibly occurring in some Pacific countries.

Another potential problem is that high levels of aid might significantly distort a country's economy or political economy as businesses and political actors focus all their efforts on extracting rents from aid flows. Under this scenario some aid will help a country (tackle diseases, educate children, build infrastructure etc.) but too much aid won't. The results of cross country aid growth regressions provide some support for the existence of such a phenomenon, often showing that aid increases economic growth in recipient countries but with diminishing returns. In a [2008 article in the Pacific Economic Bulletin](#) economists Simon Feeny and Mark McGillvray extrapolate from this phenomenon, using international data to estimate levels of aid to Pacific countries beyond which aid starts to harm economic performance. From their estimates, Feeny and McGillvray conclude that a number of Pacific states already (i.e. in 2008) receive aid at such high levels that each additional dollar will reduce rather than further enhance economic development. Their finding is far from conclusive: aid growth regressions are not good tools for estimating optimal levels of aid. But their study does at least illustrate a potential problem. Particularly for small states, too much aid could be too much of a good thing. And increasing the extent to which New Zealand's aid is focused on the Pacific could contribute to this.

So, what then is a policy maker to do? There are good reasons for focusing New Zealand aid more heavily on the Pacific. Yet there are also good reasons not to.

The most sensible course of action would be to avoid contributing to increased aid fragmentation by not setting up shop anywhere new just yet. But at the same time not automatically withdrawing aid from other parts of the world simply because the Pacific is the place to be. If something's working outside the Pacific then keep funding it. Meanwhile, new aid (the New Zealand aid budget is projected to slowly increase) should simply go wherever the evidence suggests existing aid is working best.

It's fine to focus on the Pacific up to a point (and remember currently more than half of New Zealand's aid already goes there). But the most important focus for any aid agency shouldn't be geographic, it should be performance oriented: giving aid that helps.

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