

**Baseline Alignment Proposal:
Vote Foreign Affairs and Trade
Vote Official Development Assistance**

1. Alignment with Government Priorities

Vote Foreign Affairs and Trade

My priorities *[Deleted in order to maintain the effective conduct of public affairs through the free and frank expressions of opinions]*

The priorities take into account the Government's overarching goal of growing the New Zealand economy in order to deliver greater prosperity, security and opportunities for all New Zealanders in the context of an uncertain international environment - the most uncertain in recent history - and the ongoing impact of the global economic crisis impacts. These are:

- **Strengthen key bilateral relationships** (Australia; Asia with a focus on China, Japan, Korea, Indonesia, India and Vietnam; and the US and Europe)
- **Strengthen New Zealand's leadership role and influence in the South Pacific** to increase security, good governance, economic growth, and sustainable economic development
- Use the **multilateral system** to achieve New Zealand's goals, particularly in the areas of security and resource diplomacy
- Pursuing a **rich agenda of trade negotiations** that will deliver growth opportunities in future;
- Strengthening promotion of export of New Zealand goods and services through a **more determined "NZ Inc"** approach; and
- Pursuing **international climate change negotiations** to ensure our climate change obligations in any agreement to succeed the Kyoto Protocol are balanced with the Government's growth agenda.
- Progress the **nuclear disarmament and non-proliferation agenda** through the Review Conference for the Treaty on the Non-Proliferation of Nuclear Weapons
- Contribute to the work of the **IAEA Board of Governors**
- Contribute to negotiations on **an arms trade treaty**

These priorities remain current. Achieving them will require a continuing diplomatic effort across a range of fronts.

Vote Foreign Affairs and Trade will be used to:

- Engage actively with Australia, the US, Asia, Europe, and the Pacific
- Continue to support the development of an improved model for NZ Inc, including implementing the outcomes of the offshore review
- Advocate for New Zealand's interests in key multilateral forums, in particular those dealing with international security and resource diplomacy
- Continue to pursue free trade agreements as part of the Trans-Pacific Partnership and with Korea, India, the Pacific (PACER-Plus) and to seek entry to new negotiations – eg Japan.
- Work with other NZ Inc agencies to maximise returns to New Zealand from trade and outward investment
- Continue to pursue New Zealand's climate change interests in the aftermath of the Copenhagen conference, in particular through the Global Alliance on Agricultural Greenhouse Gas Emissions
- Advocate for New Zealand's interests in key disarmament and arms control forums, in particular the International Atomic Energy Agency, the Nuclear Non-Proliferation Treaty, and the UN Negotiations on an Arms Trade Treaty.

The external environment is complex, and increasingly uncertain, and New Zealand has to compete for influence and attention against a number of other actors. I am not seeking additional resources and my focus is on reprioritisation of existing Foreign Affairs and Trade and ODA resources to ensure better alignment and improving efficiency and effectiveness to deliver better value for money. The mechanisms for the latter are set out in the Ministry's Performance Improvement Action Plan (PIAP) and will also be informed by the outcomes of the Performance Improvement Framework (PIF) assessment currently underway.

Vote Official Development Assistance

My priorities for Official Development Assistance (ODA) were agreed with Cabinet on 20 April 2009 [Cab Min (09) 13/3c]. Key elements were:

- Supporting sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and

prosperous world. Within this, a core focus on sustainable economic development.

- ODA outcomes should be consistent with and support New Zealand foreign policy and external relations outcomes under the direction of the Minister of Foreign Affairs and Trade
- The Pacific should remain the focus of New Zealand's development cooperation and receive an increased portion of the NZAID Programme
- A continued focus on development effectiveness.
- Closer cooperation with Australia, especially in assisting Pacific nations achieve the Millennium Development Goals.
- Improved efficiencies would be achieved in managing the NZAID programme.

In line with these priorities, I am overseeing the following changes in the NZAID programme

- **scaling-up of the NZAID programme** to \$600m by 2012/13. This shows the Government's commitment to support international development when budgets are under pressure and recognises the challenging international economic and security outlook, particularly in the Pacific
- **increasing the proportion of resources to the Pacific** – the proportion will rise from 51% to nearly 59% over the next two years. A greater focus on Polynesia, and the performance of multilateral and Pacific regional agencies will be key priorities.
- **targeting the drivers of economic growth** – the NZAID programme will focus more on supporting economic policy reforms, and delivering programmes that generate income (economic policy and regulatory reform, fisheries, energy, tourism, transport, trade facilitation, and private sector development are the priorities)
- **incentivising development coordination** - stronger advocacy for recipients to improve their management of donors and accountability for donor resources; and for donors to improve their coordination and accountability. We will work where our efforts are showing impact and with other donors genuinely interested in pushing the boundary on cooperation. We will foster an even closer development relationship with Australia.
- **achieving management efficiencies** – the proportion of Vote ODA spent on managing the NZAID programme is steadily reducing with the

overall percentage of departmental expenditure expected to fall from 7.9% in 2008/09 to 6.9% by 2012/13.

2. Reprioritisation

Vote Foreign Affairs and Trade

Alignment to government priorities was a significant consideration in budget 2009, which focussed existing and additional resources for Vote Foreign Affairs on the following government priority areas:

- Economic diplomacy - trade and economic outcomes (multilateral, and bilateral) with strengthened onshore legal and specialist support for trade negotiations, and resources added to posts in Asia, South Pacific, Australia, Europe, and US
- Strengthening MFAT NZ Inc leadership and coordination role offshore
- Deepening resources in Pacific Division to pursue our security and trade interests as well as support for ODA, NZDF, INZ
- Strengthening of resources in Asia Division for trade and security outputs and engagement on regional diplomacy
- Deepening support for key multilateral activities, including security and environment diplomacy
- Improving capability to support major events offshore involving New Zealanders, and to respond to offshore emergencies involving New Zealanders
- Modernisation of MFAT IT and communications systems and information management
- Reinforcing selected corporate services, in the short term, to support the modernisation programme, and support NZ Inc, including IDG

These remain key priority areas that will continue to be the focus for improved alignment of Ministry resources in 2010 and drive for effectiveness and efficiency. Key differences in the 2010/11 Financial Year will be:

- Provision for the Global Research Alliance on Agricultural Greenhouse Gas Emissions
- Implementation of the NZAID Organisational Arrangements Review, which fully reintegrates NZAID- now international Development Group- into MFAT
- Implementation of the outcomes from the offshore review

- Implementation of the outcomes of a wider ministry capability review to support other government policy initiatives, and resource whole of ministry organisation change processes to deliver better, smarter, more efficient services, including those arising from the PIF assessment and six major work streams – “Ministry 20/20” – led by the CEO

Global research alliance on agricultural greenhouse gas mitigation

New Zealand, in partnership with a number of other countries, is leading the establishment of a Global Research Alliance on Agricultural Greenhouse Gases [Cab Min (09) 39/25]. The Alliance is focused on research, development and extension of technologies and practices that will help deliver ways to grow more food without growing greenhouse gas emissions. It seeks to increase international investment in this area, strengthen existing research networks and build new ones; enhance scientific capacities; improve understanding and measurement of agricultural emissions; and improve access to and application of agricultural mitigation technologies and best practices. New Zealand has committed \$45 million to the Alliance over four years from FY 2010/11 - a combination of new money and contributions from MFAT, MAF and MoRST baselines. MFAT's contribution comprises a transfer of \$3.5 million from FY 2009/10 split between FY 2010/11 and FY 2011/12.

Offshore Review

As part of the offshore review, I have instructed the Ministry to make a number of changes to its offshore footprint to implement the Government's decisions on the review of NZ Inc's offshore network. These changes are aimed at ensuring a close alignment of our overseas representation with shifting patterns of New Zealand trade and taking advantage of new opportunities in key markets in Asia, the Middle East and Latin America in particular. They involve reallocation of some resources as well as trialling a different mode of operating for posts in some regions, especially Europe.

These changes over four years will be fiscally neutral within the budget forecast period, or able to be met within baselines.

I will also be working with my counterparts in other agencies to implement the Government's expectations for improved planning, coordination and efficiency among NZ Inc agencies onshore and offshore.

Capability Review to support organisational change and delivery of government priorities.

The Ministry has underway a significant organisational change process, “Ministry 20/20”, in order to modernise its management systems, and review its business models. Ministry 20/20 makes up a key part of the Ministry's

Performance Improvement Action Plan (PIAP), along with the NZAID organisational arrangements review, and the offshore review, and will also be informed by the PIF assessment in March.

Ministry 20/20 consists of six streams of work:

- Strategy; Measures; People; Culture and Values; Technology; Organisational Structure

These work streams require investment in some corporate services functions in the short term to effect change and improvements. Over the medium term, they are likely to lead to further shifts in the Ministry's resources, including unwinding some of the short term investment in corporate services, and changes in the way the Ministry operates in New Zealand and offshore.

The capability review carried out in February ensures that adequate resources are allocated to the change process and supports existing and new government foreign policy priorities in Afghanistan, Asia and the Pacific. These resources have been reallocated by shifting marginal resources from lower priority areas.

The work streams supporting organisational change and capability adjustments are being met from within the Ministry's baselines.

Vote Official Development Assistance

Several new pressures or needs have emerged since Budget 2009.

- New Zealand's international climate change commitments following Copenhagen mean we now have a political in addition to a moral obligation to do more in helping vulnerable developing countries build resilience to the adverse effects of climate change. As part of an international effort, and in discussion with Climate Change Ministers, I have indicated that the NZAID programme will aim to support a range of climate change and climate-proofed activities. Though the level of support has yet to be agreed, I anticipate this is likely to be around \$90m over the next three years.
- The Pacific region's economic performance remains weak. There are risks of instability and fiscal crisis. There are significant fiscal challenges facing the Solomon Islands and Tonga. Tonga, in particular, may require intervention by aid donors to stabilise budgets in the coming year. Both countries also have scheduled elections where security and stability issues will be monitored and may require a NZ response.
- Tonga, Samoa and the Cook Islands continue to require assistance as they undertake reconstruction following the Pacific Tsunami in 2009 and cyclones early in 2010. \$11.5m was allocated within existing baseline for reconstruction in Tonga and Samoa. This is being managed through reallocations and re-prioritisation. An allocation of \$6 million is

proposed for the Cook Islands, to be managed through re-prioritisation. Further reallocations of this scale are unlikely without disrupting existing long-term development interventions. The frequency and severity of natural disasters appears to be growing with demand now placing pressure on the \$7.6m available.

- The future direction of our engagement with Fiji remains an unknown but medium term may be large. The economic outlook appears challenging with external donor support likely to be required. At present we have a small targeted programme. Changes in our relationship with Fiji would see an expectation that New Zealand would scale its aid programme back up to assist in reversing the economic decline
- The Tongan Ferry disaster has reinforced the poor quality generally of the transport infrastructure servicing many parts of Polynesia. I intend to prioritise more of our aid money to systematically address these weaknesses – including a transport solution for Tokelau.

The number of new and unexpected demands are high relative to recent years. This suggests a higher than average risk profile for demands on the Vote, particularly if major support is required to Pacific nations. They are being managed currently through re-prioritisation and refocus. I believe that they can currently be managed within existing Vote ODA baselines, using the previously approved \$25m increase and future outyear changes.

No appropriation transfers are proposed at this stage – though these may be required depending upon how the potential pressures and needs detailed above proceed in practice.

NZAID Organisational Arrangements Review- Integration of NZAID

For the last seven years, NZAID has been a semi-autonomous body and MFAT has charged NZAID for the provision of shared services on a marginal costing basis. Now that NZAID has been reintegrated back into MFAT as a division of the Ministry- International Development Group, the ministry will need to undertake an exercise to recalculate the cost of services provided to IDG. In line with Treasury instructions, this will necessarily be on a full cost basis. This exercise will be fiscally neutral as far as the combined baselines of Vote FAT and Vote ODA are concerned, but is likely to see a significant increase in the reported cost of the IDG to MFAT as direct costs are recalculated and a standard share of indirect costs are ascribed to the International Development Group within the ministry.

This recalculation will take time to complete and is expected to lead to fiscally neutral changes between Vote FAT and Vote ODA being proposed in the October Baseline Update process later this year.