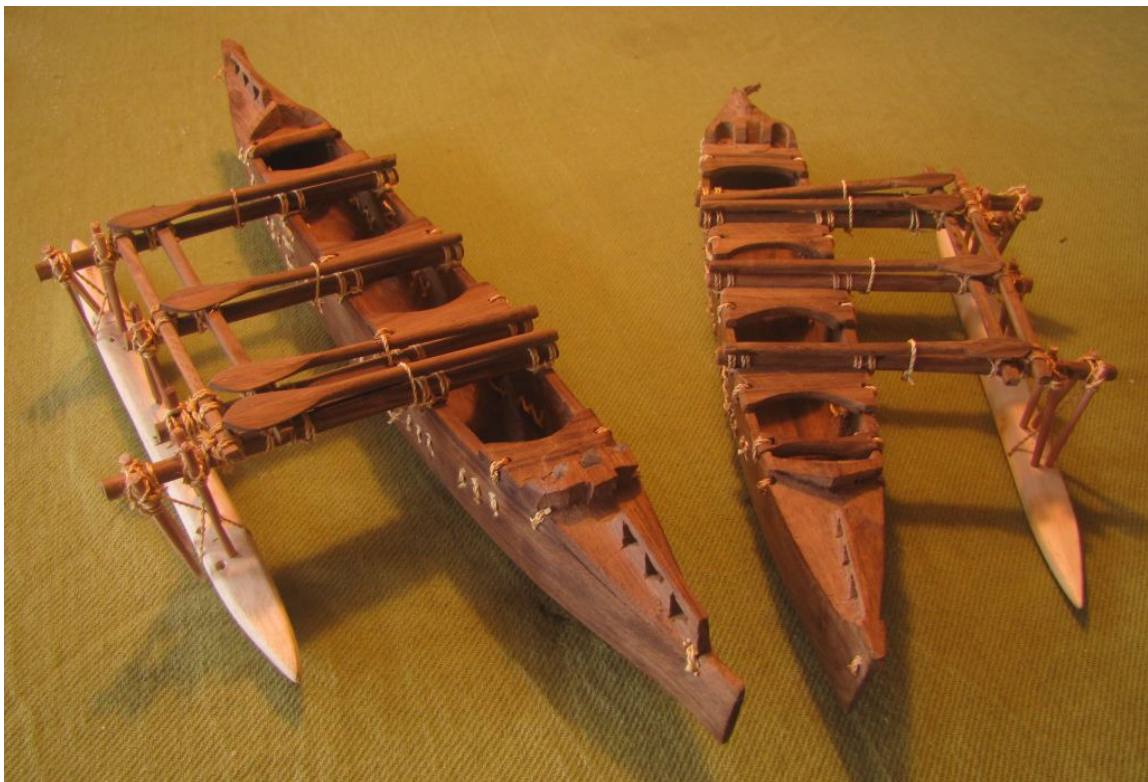


Tokelau:
Economic Support Arrangement (ESA)
Review

“How we sail our canoe”

Final Report



ESA010



CLIENTS | PEOPLE | PERFORMANCE

Kurrajong Hill, 701 Dignams Ck,
Narooma, NSW 2546, Australia

Phone (61) 2 6493 6080

ACN 097 118 566



Cover: the quote is from an interview with Mr Emani Iosefa in Nukunonu. The picture was taken by Alan Burdon.

Foreword

This report describes the activities undertaken by Kurrajong Hill Pty Ltd and GHD to complete the Scope of Services for the Review of the Economic Support Arrangements between Tokelau and New Zealand. Activities undertaken were in accordance with the Scope of Services agreed in the contract between the Ministry of Foreign Affairs and Trade (MFAT) and each of Kurrajong Hill Pty Ltd and GHD. The Scope of Services was defined by MFAT and Tokelau, time and budgetary constraints imposed by the Client, and by availability of access to each atoll.

This Report has been prepared on behalf of, and for exclusive use of, MFAT and the Government of Tokelau, as required for ongoing planning and implementation needs. Kurrajong Hill Pty Ltd and GHD accept no responsibility whatsoever for, or in respect of, any use of or reliance upon this report by any third party.

The views expressed in this report are those of the author responsible for that element of the report and do not necessarily represent the views of the Ministry of Foreign Affairs or the Government of Tokelau except where stated.

Acknowledgements

The support our team received from many has helped us to draw informed conclusions in a short period of time. We would particularly like to acknowledge:

- The support received by the Review Team from the Tokelau Department of Finance who sent numerous background documents well before mobilization. Members of the Department promptly responded to questions we asked and quickly provided additional documents.
- The support received by the Review Team from MFAT officers. They provided over 70 documents for review well before mobilization and quickly provided others as requested. MFAT did all possible to ensure we were well informed prior to mobilization.
- The speed with which Nukunonu responded to our follow-up questions raised by email. Given they were the first village we visited, a number of questions emerged as we learnt more. These were quickly responded to.
- The honesty and openness of all those interviewed. Most interviewed at MFAT, Taupulega, Tokelau Public Service (TPS) and the public in Tokelau, were well aware of deficiencies and weaknesses on their organizations part. They shared these openly.
- The preparation each General Manager had undertaken prior to our arrival. Meetings were well organized. The meeting schedule was full with as many as 12 meetings scheduled for the Evaluation Specialist alone in one day, the days were long.
- The flexibility of all those in Tokelau and Apia in changing their schedule to suit changes in the ships schedule and the Review team's needs.
- The captain and crew of the Nafanua – who 'rescued' us from various locations.
- The captain and crew of the MV Tokelau – who transported us with courtesy, care and generosity between atolls.

While this may not seem exceptional, it has not been the our experience elsewhere. This has done much to maximize what the Team was able to achieve in a very limited time.

The Team

The Review Team comprised:

- Team Leader and Evaluation Specialist: Fiona Kotvojs.
- Public Finance Management Specialist: Andrew Laing.
- Manager Finance Department (Tokelau): Heto Puka.
- Infrastructure Specialist: Alan Burdon.
- Qualitative Research Assistant: Ritesh Shah.
- Quantitative Research Assistant: Tinaye Jani.

The Evaluation Specialist is responsible for Appendix C - F and associated elements of the body of the text (related to Objective 1 of the Terms of Reference). The Public Finance Management Specialist is responsible for Appendix G and associated elements of the body of the text (related to Objective 2 of the Terms of Reference).

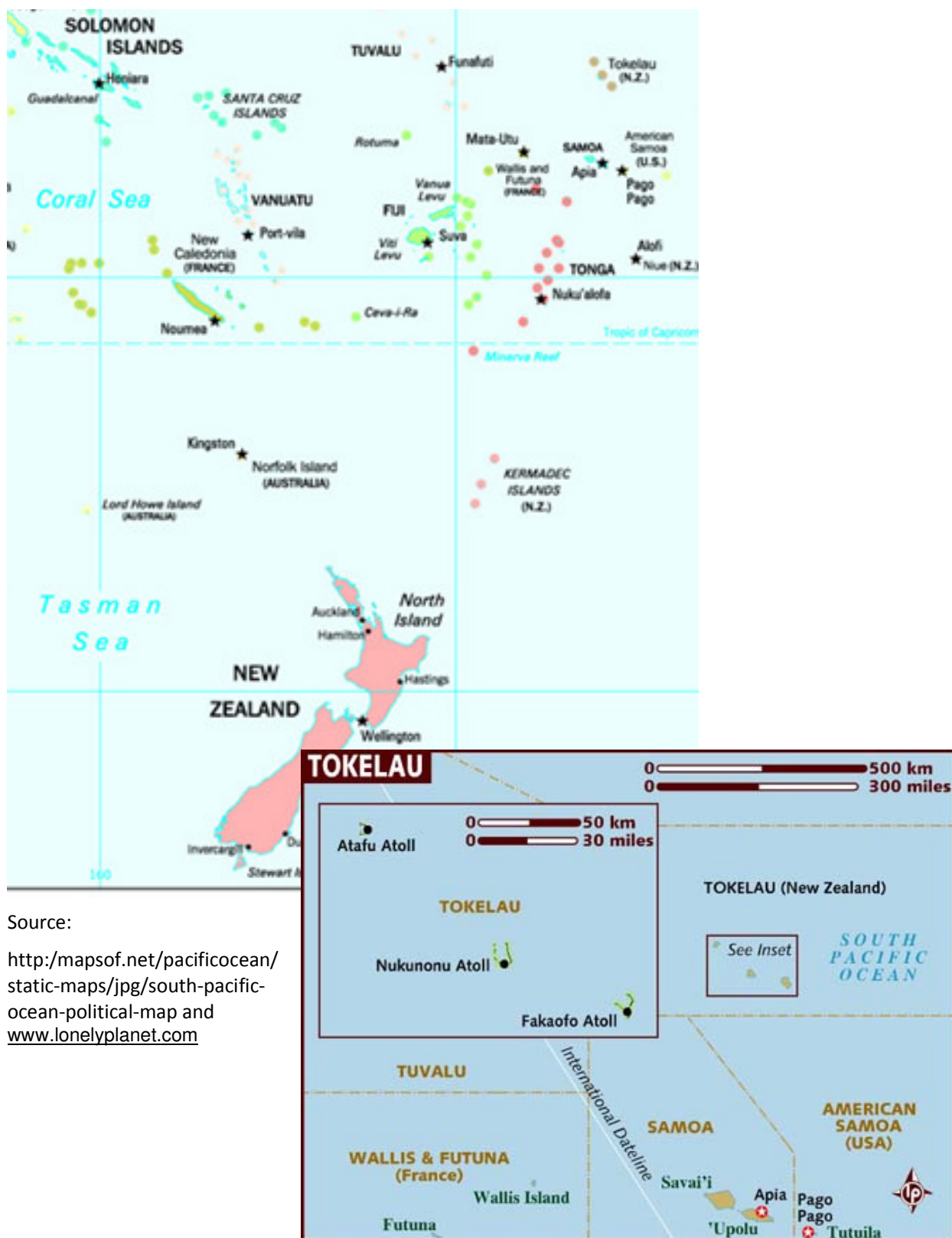
Reports List

Reference	Title	Date
ESA001	Review Plan	September 2010
ESA002	Aide Memoire SMT and MFAT (English language)	October 2010
ESA003	Aide Memoire for Nukunonu (2p) (English and Tokealuan versions)	October 2010
	Draft Report for Nukunonu ¹	
ESA004	Aide Memoire for Atafu (2p) (English and Tokealuan versions)	October 2010
	Draft Report for Atafu ²	
ESA005	Aide Memoire for Fakaofu (2p) (English and Tokealuan versions)	October 2010
ESA006	Final Report for Nukunonu	January 2011
ESA007	Final Report for Atafu	January 2011
ESA008	Final Report for Fakaofu	January 2011
ESA010	Final ESA Report	January 2011
MCS1 (Nukunonu)	Selection panel report for MSC stories from Nukunonu (English and Tokealuan versions)	October 2010
MCS1 (Atafu)	Selection panel report for MSC stories from Atafu (English and Tokealuan versions)	October 2010
MCS1 (Fakaofu)	Selection panel report for MSC stories from Fakaofu (English and Tokealuan versions)	October 2010
MCS2 (Apia)	Selection panel report for MSC stories from Apia (English and Tokealuan versions)	October 2010

¹ This version was provided as an early draft to the Nukunonu Taupulega at the debrief. Final version issued as ESA006.

² This version was provided as an early draft to the Atafu Taupulega at the debrief. Final version issues as ESA007.

Map



Source:

<http://mapsof.net/pacificocean/static-maps/jpg/south-pacific-ocean-political-map> and www.lonelyplanet.com

Abbreviations and Acronyms

ATA	Advisors and Technical Assistance
COI	Commission of Inquiry
CPAP	Country Programme Action Plan
DoF	Department of Finance
DoH	Department of Health
ECE	Early Childhood Education
EEZ	Exclusive Economic Zone
ENDRE	Department of Economic Development, Natural Resource and Environment
ESA	Economic Support Agreement
EU	European Union
FIC	Forum Island Countries
GDP	Gross Domestic Product
FY	Fiscal Year
GNI	Gross National Income
GoNZ	Government of New Zealand
GoT	Government of Tokelau
HMG	Her Majesties Government
IDP	Infrastructure Development Project
M&E	Monitoring and Evaluation
MFAT	Ministry of Foreign Affairs and Trade
MSC	Most Significant Change
MTEF	Medium Term Expenditure Framework
MV	Motor vessel
NCD	Non communicable diseases
NZAID	New Zealand Aid Programme
OC	Oversight Committee
OCOG	Office of Council for Ongoing Government
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PFTAC	Pacific Financial Technical Assistance Centre
PO	Purchasing Order
R&M	Repairs and Maintenance
RMF	Repairs and Maintenance Facility
ROW	Rest of World
SMT	Senior Management Team
SNG	Sub-National Government

TALO	Tokelau Apia Liaison Office
TDB	Tokelau Development Bank
TITF	Tokelau International Trust Fund
TNSP	Tokelau National Strategic Plan
TPS	Tokelau Public Service
TPRS	Tokelau Patient Referral System
TSB	Tokelau Savings Bank
UNDP	United Nations Development Programme
WHO	World Health Organization

Glossary

Absorptive capacity	A country's ability to efficiently utilize aid. Absorptive capacity recognizes that from a development effectiveness perspective there are limits to the amount of aid that a country can absorb efficiently.
Absorptive Capacity Analysis	An analytical approach to quantifying absorptive capacity of country, which involves assessing multiple dimensions of absorptive capacity including, macroeconomic, microeconomic, institutional.
Absorptive capacity limit	The point at which additional aid is associated with declines in its development effectiveness.
Attribution	What is to be credited for the observed changes or results achieved. The establishment of attribution requires the use of methodology such as pre-post intervention comparisons and with/without comparisons. This requires considerable forward planning, and a high level of resources. There are also ethical and technical considerations that constrain the use of these approaches in many development settings. In many cases it is more feasible and cost-effective to assess the contribution of development activities to the achievement of outcomes. (NZAID, 2007)
Aumaga	Each village's male work force. Duties include fishing, village construction, repair and maintenance work, and the loading/unloading of the boat.
Capacity Development	The process by which individuals, groups and organisations, institutions and countries develop, enhance and organise their systems, resources and knowledge; all reflected in their abilities, individually and collectively, to perform functions, solve problems and achieve objectives (DAC, 2006). Thus capacity building requires a range of activities which build capacity of the individual, organisation and networks, in addition to supporting development of an enabling environment (UNDP, 1997) ³ . This report does not distinguish between the terms capacity building and capacity development
Contribution analysis	A specific analysis undertaken to provide information on the contribution of a program to the outcomes it is trying to influence.
Council for the Ongoing Government	Responsible for provide support and advise to the leaders of Tokelau, manage its foreign relations and work closely with the villages in developing and implementing national programmes and activities.

³ The extract from the UNDP (1997) definition is included as it explicitly includes networks, crucial, but often overlooked as part of "capacity development".

Development effectiveness	In the context of a country program, development effectiveness can be defined in terms of the outcome level objectives of that program. For the ESA this has been considered to be changes in behaviour of people and organizations, service delivery and resulting outcomes for individuals in relation: to village infrastructure, capacity, sustainability, quality health and education services, appropriate transport services, IT, economic development initiatives and population maintenance (based on the focus areas specified in the Draft Strategic Plan).
Development Risk	Development risk is defined as the “risk that the assistance will not achieve its development objectives of economic growth and poverty reduction” and includes reform and capacity development objectives. (Knack and Eubank, 2009)
Evaluation	An assessment of outcomes and/or impact carried out after a project or programme has become fully operational, during the completion stage, or some time after the intervention has been completed. (NZAID, 2007)
Fatupaepae	Women’s group of each village. Fatupaepae refers to a mother or a young lady, who has clearly understood that she is the cornerstone of the family, village and nation and has been taught about her responsibilities as a Fatupaepae within these various sectors. The term “Fatupaepae” and “Sacred Being” literally translate the notion of active responsibility of women towards the extended family together with the freedom to express one’s self with respect (National Policy for Women of Tokelau). The duties, roles and activities of each Fatupaepae vary.
Faipule	One of the male elected members of the village who sits on the Council of Tokelau. Also holds a seat on the General Fono. Has responsibility for acting as liaison between the village and national/external affairs of Tokelau. Each Faipule carries several Ministerial portfolios.
Faka-Tokelau	The traditional way of life and community spirit found in the atolls of Tokelau
Fiduciary Risk	Fiduciary risk is generally defined as the risk that funds are not used for unauthorized purposes; do not achieve value for money; or are not properly accounted for (Koeberle, Stavreski, and Walliser, 2005).
Fiduciary Risk and Development Risk Assessment	An analytical approach to quantifying inherent fiduciary and development risks within a Government’s Public Financial Management (PFM) system, which can be used for various objectives including establishing baselines and targets for PFM reform programs, establishing comparable risk differentials between different forms of aid channels (e.g. soft conditionality-based budget support versus off-budget bilateral aid).
Gender	Gender is the social attributes opportunities and roles associated with being female and male. Gender determines what is expected, allowed and valued in a woman, man, boy or girl in a given context. (NZAID, undated).
General Fono	Comprised of the Faipule and Puluenuku from each of the three villages of Tokelau, in addition to other members from the Taupulega of each village. The number of additional Taupulega members sitting on the Fono from each village is based on population. For each 100 residents, the village sends one additional Taupulega representative. The General Fono meets four times a year.
Goal	The higher - order objective to which an intervention is intended to contribute. It is a long term outcome (usually 7 - 10 years). Analogous to impact.
Impact	The wider, deeper and long-term effects of a development activity. These may be positive or negative; primary or secondary; direct or indirect; intended or

	unintended. (NZAID, 2007)
Impact evaluation	Often associated with the establishment of causal attribution between a development activity and immediate, intermediate or longer-term outcomes or results. (NZAID, 2007)
Inati	A customary equal and free allocation of foodstuffs amongst all village residents. Usually done with the fishing catch of the Aumaga, but is occasionally used to distribute flour, sugar and/or rice.
Indicator	Quantitative or qualitative factor or variable that provides a valid and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor.
Input	The financial, human, and material resources used for the development activity. (NZAID, undated).
Monitoring	The systematic collection of data to provide management and the main stakeholders of an on-going development intervention with indications of how allocated funds are being used and progress towards achievement of expected outcomes. Monitoring may be formal and/or informal. (NZAID, 2007)
MSC	A form of participatory monitoring and evaluation which identifies what stakeholders believe are the most significant changes that have occurred as a result of the activities. These changes may be positive or negative.
Objective	Intended purpose or aim of the activity in contributing to physical, financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more interventions.
Outcome	The short and medium term effects of a development activity. (NZAID, 2007)
Outcome evaluation	The assessment of immediate, intermediate or longer term effects of a programme. A causal attribution between the intervention and the outcome(s) is not fully established but contribution to outcomes can be assessed. (NZAID, 2007)
Output	The deliverable elements of a contract for service. (NZAID, undated).
Pulenuku	A male elected member of the village, who serves as a members on the Council of Tokelau. This individual also holds a seat on the General Fono when it meets. The Pulenuku is responsible for managing and administering internal village affairs on behalf of the Taupulega.
Purpose	Immediate outcome (4 - 6 years). The publicly stated objective(s) to be achieved within the life of the development activity. Now the term objective is used by AusAID.
Review	Describes evaluative activity taking place at key points during the lifetime of an activity to gain a better understanding of what is being achieved and to identify how implementation can be improved. Reviews lie between monitoring and full evaluations. They check that the overall direction is still relevant and ask whether the development activity is likely to meet the purpose for which it was planned. (NZAID, 2007)
Sustainability	The continuation of benefits after major assistance from a donor has been completed.
Taupulega	Village council in Tokelau. Each atoll has one council.
Training	Encompasses the range of delivery mechanisms including (but not limited to): formal training, on - the - job - training, mentoring, coaching, workshops.

Value for Money	An assessment of how the money that has been spent on intervention(s) compares qualitatively with the broad outcomes, impacts or changes brought about by the work. Generally, a evaluation or review should examine value for money in two ways: a) if possible, comparisons of value for money should be drawn with experience or norms in other activities (in the same country/region or internationally), where similar outcomes or impacts have been aimed for and/or achieved. b) the activity's own cost structures should be analysed to identify cost effectiveness issues, including whether savings could have been made (without disproportionately compromising outcomes) through different methods or management, procurement, prioritisation, design, etc. (NZAID, undated).
Ulu o Tokelau	The head of government of Tokelau, shortened often to " <i>Ulu</i> ," rotates yearly between the Faipule of <u>Tokelau's</u> three <u>atolls</u> .
Uto	A stage in the life cycle of the coconut. Refers to a young coconut with no liquid remaining inside of it. The flesh is sweet, spongy and edible, and used regularly in cooking as a delicacy.
Youth	In Tokelau, generally viewed as males between the ages of 15-35. However, each atoll defines its youth population differently. The draft Youth Policy will include a definition (this was not available).

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List of Recommendations

A summary of the recommendations made in this Review follows. Most are efficiency issues and have no cost implication (other than time and travel costs for discussions). They represent improved management practice and should all be done. The exception are recommendations related to the PER which can be costed if GoNZ determine it to be a funding priority at this stage.

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Recommendation 2: New Zealand and Tokelau to clarify the relationship of the funding – as development assistance or public sector funding..... 6

Recommendation 3: ATA requirements be completely reviewed for the next ESA. The starting point should be what areas are of greatest need in terms of capacity and expertise. ATA should address these needs provided that those with whom the ATA will work, want ATA support, are willing to commit people to gain skills from the ATA and recognize the role is an interim, rather than permanent, role.....	12
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Executive Summary

The Economic Support Arrangement (ESA) Review was commissioned by New Zealand's Ministry of Foreign Affairs and Trade (MFAT) to determine the effectiveness, efficiency and relevance of financial assistance provided to the Government of Tokelau by New Zealand through the ESA between 2007/2008 and 2009/2010 and assess the sustainability of any benefits resulting from the ESA.

Data for the review was collected from documents, from MFAT on 11 and 12 October (New Zealand dates) and in Apia and Tokelau from 12 - 27 October 2010 (Tokelau dates) using group interviews, individual interviews, changes identified during the process to collect Most Significant Change (MSC) stories, MSC and MSC selection panel, and observation of infrastructure and equipment.

The funding provided through the ESA has produced good outcomes, generally been efficiently applied and is expected to result in sustainable benefits. Given that a key purpose of this Review is for learning, the focus of the report is on possible improvements and issues. This should not be read to take away from the effectiveness or efficiency of the ESA.

We found activities undertaken which drew on funds from the ESA funds where relevant to the Draft National Strategic Development Plan 2007/2008 to 2009/2010. They were also generally in accordance with MFAT's policy and strategies at that time.

While there was a lengthy review period leading to the development of the Plan, it does not appear that it was developed through a process which included effective consultation at the village level. Despite this, the priorities specified reflect those stated by stakeholders at a village and national level. The only village that had developed a Development Plan for the ESA period was Nukunonu. It was therefore not possible to compare relevance to needs specified at a village level for Atafu and Fakaofu. There is no evidence to suggest that these priorities would differ to those in the Draft National Strategic Development Plan 2007/2008 to 2009/2010. However at a lower level, the priorities within village development do appear different at a village level. The importance of housing, septic tanks and water storage appear to be set higher by those at the village level than is reflected in the planning documents at a national level.

The approach and activities funded through the ESA are broadly in line with MFAT's policies and strategies on gender, human rights, education and the Pacific. The extent of funds spent on the Tokelau Patient Referral System (TPRS) is not in accord with the Health Policy.

The activities supported by funds from the ESA have been generally effective in achieving the outputs and outcomes.

Support provided through the Infrastructure Development Programme (IDP) was neither effective nor efficient. This appears to be largely due to MFAT processes. Support provided through the Adviser and Technical Assistance (ATA) has been effective. However in some cases effectiveness and efficiency are likely to have been improved had the support been based at a village rather than national level.

The support provided through Repairs and Maintenance (R&M) has generally been effective. However, with the exception of Fakaofu, the focus appears to still be on new infrastructure rather than the repair, maintenance or renovation of existing assets. Constraints to effectiveness are primarily related to obtaining spare parts in a timely manner (Taupulega approving the funds for the parts and Support Services procuring and sending the part, or the correct part). In many cases, equipment waiting for spare parts is left exposed which results in its rapid deterioration.

Support through the direct budget at a village level has resulted in improved outcomes in relation to:

- Education. Over the last three years there is improved: number and percentage of qualified teachers; community participation in education; access to, and participation in, Year 12 and 13 education; quality of ECE and pedagogy. An improved curriculum has been rolled out, however its full benefits have not yet been achieved. Significant further professional development is required to achieve this.
- Information Technology and Communication (ITC). The introduction of internet has had the most significant positive impact on people's lives. This impact can not be overstated. However the effectiveness of ITC in offices is mixed with some equipment inoperative or very ineffective due to poor maintenance. The skill levels of those maintaining IT equipment in the offices is generally inadequate to meet Tokelau's needs.
- Waste management. Waste disposal has improved over the last three years. The recycling program is less effective where the motivation is income generation rather than maintaining a clean environment. Disposal of dangerous goods (for example batteries) and large items (construction and white goods) still needs to be addressed.
- Village development. People's quality of life has been improved by the construction of houses, water tanks and septic tanks and relocation of pig sties. Seawalls have contained erosion, but the design of some will exacerbate localised erosion.
- Economic development. Traditional knowledge and skills have been strengthened in all villages. Initiatives to generate income have been trialed and a number of small businesses established (apparently successfully). At a national level, opportunities appear to have been constrained by slow processes within New Zealand and GoT to address issues in relation to the EEZ, stamps and coins.

The effectiveness of ESA support to health is more limited. At a national level, planning and reporting has improved. This does not appear to have been translated into improved health outcomes as joint approaches between the village and Department have not been developed and approved with the Taupulega and General Fono has not approved proposed national strategies.

Village health services have improved. However, with the exception of a few localized issues (eg skin diseases) overall the health outcomes have declined. There is no evidence to suggest public education programs have been effective and or links between sectors to address health established. Outside the Department of Health, there is little understanding (even among many of the village based health professionals) of the seriousness of Tokelau's situation in relation to non-communicable diseases (NCD). This represents a high financial and personal cost to Tokelau which can't be sustained. This is not a Health Department issue alone, support and action from the General Fono and Taupulega is essential to change people's diet and broader life-style choices.

The approach of undertaking labour activities through the Aumaga appears to have had positive outcomes in terms of providing direction, reducing people 'sitting around', and supporting the community culture. Funding of programs through the Fatupaepae was identified as supporting women to become self-reliant and improving their contribution to their own and the broader village development. Where women were employed (rather than receiving a benefit) the same positive outcomes were identified. The two approaches are significantly different.

At the same time, full-time work has limited people's ability to grow, gather and fish for local food thus increasing dependency on store bought food. With availability of power and improved communication, this has increased costs for families. As a result, wages are a

growing issue, and any change will need to be balanced with productivity levels and the present guarantee of employment.

From the people of Tokelau's perspective, the support from New Zealand and the ESA specifically, has resulted in a significantly worse shipping service now than previously. This is because the MV Tokelau can now only carry 12 passengers, no fuel and less cargo. The ship-to-shore transport has improved only on Fakaofu where the Taupulega has constructed a new jetty for cargo. It does not appear that use is being made of the safety equipment provided by the Department.

Efficiency of implementation has been satisfactory except in relation to IDP. However there are improvements that can be made in all areas.

Efficiency issues vary between the different forms of assistance used. The IDP has not been efficiently implemented. There have been a number of flaws in the process, many of which also occurred on the Ship Project. Efficiency would be enhanced if the IDP had been managed by the Taupulega – they have demonstrated the capacity to do this and Tokelau's financial systems were found to have the required levels of financial accountability

ATA support has been relatively efficient. Efficiency could have been improved through: ATA appointments being based on Tokelau's greatest needs to support implementation of their Strategic Plan, improved reporting and Terms of Reference which clearly link to the partner agencies Strategic Planning documents and outcomes. The sector review was of a good technical standard, however it does not appear to have been efficient and it did not build planning capacity as its selection did not reflect a good planning process. A number of ways to improve the effectiveness and efficiency of repairs and maintenance funding and direct support used for village based construction were identified. Villages have been advised of these in discussions and a report provided to each.

From an external perspective, efficiency gains can be made in a number of areas at a village level. However this would have significant impacts on the way society works and are a matter for the Taupulega to determine.

At a national level, the major issue with respect to efficiency is in relation to the growing expenditure on the TPRS. This is a significant proportion of the health budget, limiting what is available for other aspects of health care. All these costs are carried at a national level. As a result, villages are not encouraged to address the cause of the problem. Consideration of some form of cost sharing may improve efficiency.

It is likely that efficiency could be improved by: relocating Departments (or positions) from Apia to villages where key stakeholders and functions are not in Apia; improved coordination between departments within the national level, the village level and between the two levels; and reviewing the allocation of funds between the national and village levels.

Efficiency gains would be made through improved planning. Most Corporate Plans are overly ambitious and can not achieve what is identified with the available funds or staff. It also appears that some items have been included in Corporate Plans on the basis that they were proposed by an external consultant or politician. Corporate Plans would provide improved direction if priorities were identified using an evidence based decision making process and a more realistic scope established.

Reports often focused at a task level, duplicate previous reports and are too long to be of value to the reader. Determining what reporting Tokelau SMT needs to effectively manage their resources and monitor implementation of Strategic, Corporate and Work Plans is likely to significantly improve effectiveness and efficiency. This content is likely to meet MFAT needs.

Many aspects of the ESA management have focused on the detail rather than the big picture (such as planning, risk management and reporting). This has led to important matters being lost in detail, discussions focused on detail rather than the big picture, and less being achieved with the available resources than could be.

Sustainability of most benefits appears likely but can be improved by addressing the issues with the TPRS and a focus on skills.

While benefits appear sustainable, a greater focus on increasing and retaining skilled trades people and staff would improve sustainability. Available opportunities to upgrade trade skills are not maximized as they were rarely planned. The most common reasons skilled people are likely to leave appears to be opportunities for increased wages and improved education for children overseas.

The greatest issue in relation to sustainability of benefit is the level of expenditure on the TPRS. Unless this is reduced, health benefits will not be maintained. Tokelau will also find it necessary to redirect an ever increasing proportion of its budget to tertiary health.

Tokelau's prospects for growth and reducing aid dependency are potentially good in the longer-run...

Tokelau has achieved much including many of the Millennium Development Goals (MDGs) and a "good enough" Public Financial Management (PFM) system. That said, these achievements have been at the cost of institutionalizing aid-dependency, with Tokelau having the one of the highest aid dependency ratios for a middle-income status territory.

Breaking aid-dependency is theoretically achievable through good PFM and trade-related industry policies. If implemented over time, such policies have the power to produce high levels of revenue and economic growth, with growth slow in the early stages but picking up significantly in later years. Tokelau has a number of untapped growth opportunities (possible examples include fisheries, tourism, deep sea mining). Such growth would allow Tokelau to reach high income country status over the medium-long term. The secret will be overcome Tokelau's constraints to growth: primarily being: i) remoteness and undeveloped transportation industry arrangements impacting on viability of boutique tourism; ii) uncertainty around existence/level of mineral reserves; iii) barriers to small business entry and disincentives surrounding trawler and high value fishing; and iv) a lack of medium perspective in the budget and policy development systems.

... because the Public Financial Management System features relatively low inherent fiduciary and development risks...

Tokelau has a relatively respectable fiduciary and development risk profile. Figures a - c demonstrates the assessed fiduciary and development risks of Tokelau's PFM sub-systems and provides a 2006 world average and the average for Forum Island Countries (FICs) scores for comparison. These risk profiles constitute a real achievement.

... though absorptive capacity remains weak ...

Analysis of absorptive capacity reveals Tokelau is both aid dependent and very high aided. In terms of ODA-GNI, Tokelau is the highest aided country ... ever ... in the history of international record keeping (see Figure c). Accounting for size, Tokelau remains one of the highest aided middle income country or territory ranking the second highest recipient of ODA as at 2008 when accounting for GNI in per capita terms (250%). Nauru, the world's smallest island nation, had a peak aid (population adjusted) significance ratio of just 22%. Tokelau would also be in the top 10 aid dependent states if compared to Low Income Countries (LICs).

Figure a: Tokelau's Inherent Development Risks (by PEFA Grouping)

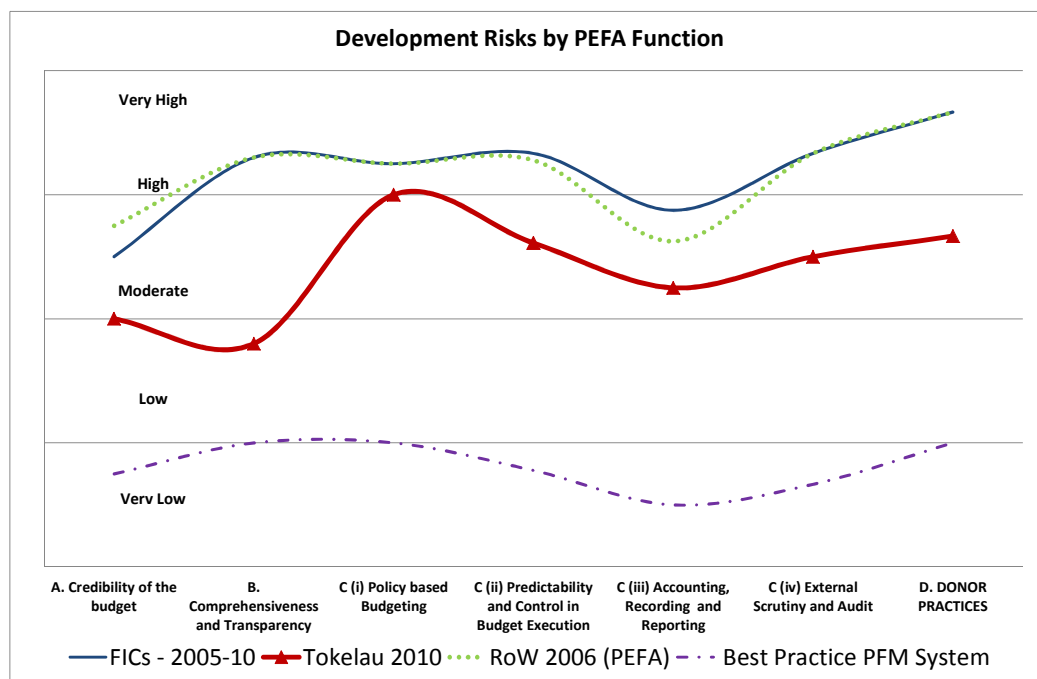


Figure b: Tokelau's Inherent Fiduciary Risks (by PEFA Grouping)

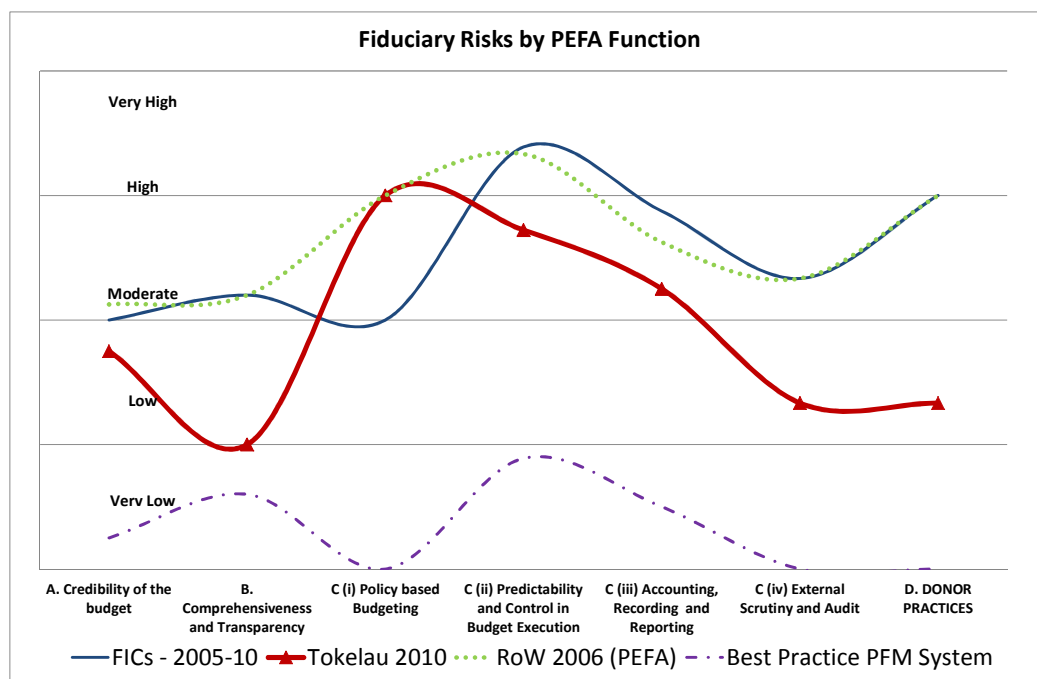
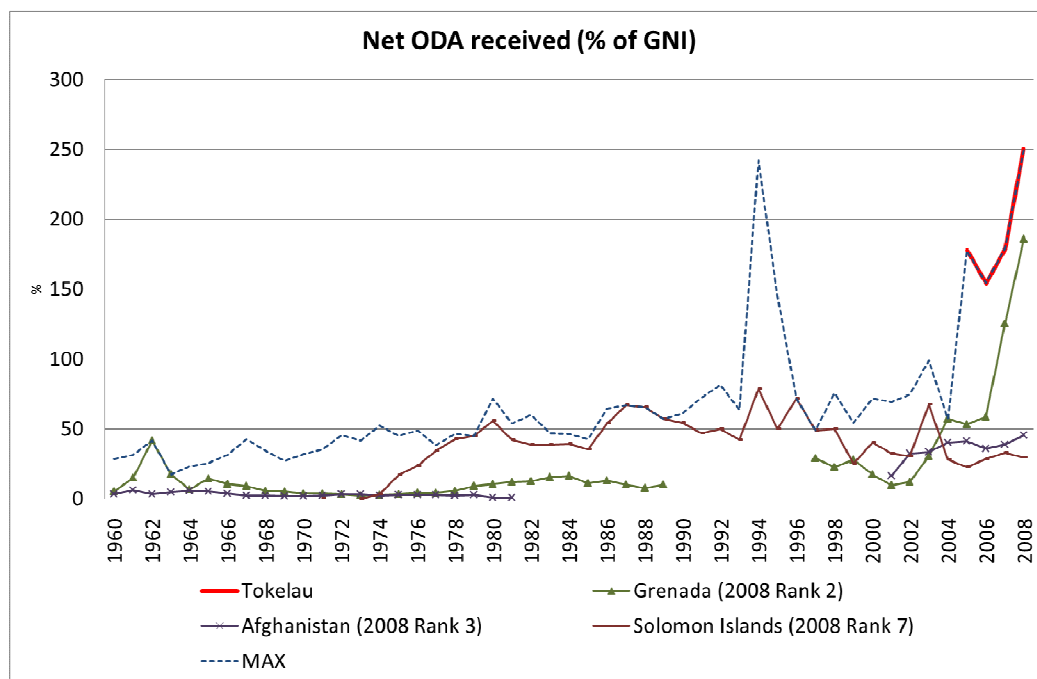


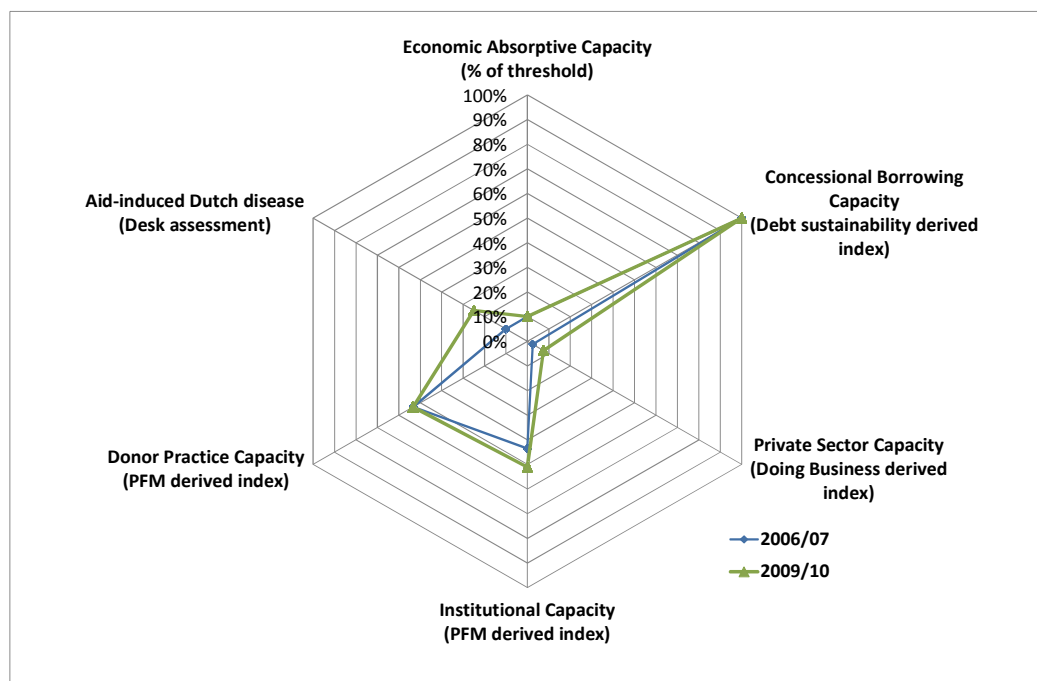
Figure c: Tokelau – Highest Aided State ... ever ...*



Source: World bank (WGI and GDI) * in the history of international record keeping of ODA and national income statistics (excludes countries or territories not reporting data)

Absorptive capacity analysis also reveals areas where absorptive capacity is weakest are associated with the following: i) limited power of the private sector to efficiently utilize additional development resources; ii) institutional PFM capabilities have improved but are still too weak to ensure all key fiduciary and development risks are minimized; and iii) there is room for improvement in donor practices, including aid predictability, reporting and dialogue⁴ (see Figure d). The analysis also reveals that Tokelau is receiving high but arguably sufficient aid in aggregate given the quality of governance and public financial management, levels of GDP and social indicators. The analysis also indicates that there is capacity to carefully introduce some form of concessional borrowing when the time is right and that there is evidence of aid-induced resource curse.

⁴ Based on information provided by the authorities, Operation Tropic Twilight appears to be a prima facie example of poor dialogue and donor driven agenda. While extensive dialogue occurred, information provided to the team indicated that it occurred well after budget allocations had been determined and scope for utilization for original intended purposes was limited.

Figure d: Tokelau Absorptive Capacity Space

... but system strengthening is needed to further reduce fiduciary and development risks ...

In order to reduce inherent fiduciary and development risks further a focus on the highest risks is warranted. The review found five of the highest fiduciary and development risks that would need to be included in a medium term PFM system modernization program (Table 1).

Table1: Modernization priorities: Seven Highest Risks

PFM Element	Significance
1. Procurement	Procedures are not in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.
2. Unified medium-term top-down budgeting	This form of budgeting has been shown to provide the best basis to allocate all resources efficiently and effectively
3. Weak Administration of Non-Tax Revenue	Administration of certain non-tax revenues (e.g. electricity charges), are inadequate.
4. Commitment Control	Lack of controls in the number and size of short to long term commitments being made constitutes a fiduciary risk.
5. Oversight and scrutiny	The General Fono is not sufficiently scrutinizing budgets and final accounts and internal audit is not working well.

... including a medium term perspective in policy development, planning and budgeting ...

As demonstrated in Figures a and b (see policy based budgeting), one of Tokelau's highest development risks is the absence of a medium term perspective in policy development, planning and budgeting. The report identifies how this can be addressed through PFM system strengthening.

Analysis of budgets and reported final outcomes reveal the following:

- Budget revenue forecasts are highly conservative with consistently high budget surpluses and unique arrangements to manage urgent and unforeseen expenditures;

- Deconcentration policy appears to be working to increase control and size of sub-national government allocations;
- Almost 50% of government expenditure is for employee compensation, which is high in comparison to other countries and many other non-Pacific Small Island Developing States and is squeezing out operational funding;
- Depreciation funding is not working to incentivize better management of non-financial assets (though earmarking repairs and maintenance budget allocations is proving successful) and may be contributing to perverse budgeting incentives;
- Reporting of central and sub-national government budgets is insufficient with multi-dimensional approaches to reporting not being utilized.

... Development of medium term economic policies need to be re-considered to test for growth potential ...

Trade-related economic policies are needed if Tokelau's is to have any real growth potential. Tokelau currently has no trade-related industries. The construction industry that is developing is a low-growth industry as nearly all inputs are imported and products are generally not export orientated. Industry policies will also need to be linked with micro-Private Sector Development objectives, which will require establishing, inter alia, private sector leadership. Such linkages can be achieved by, for example, ensuring equity stake provisions in emerging small-industries are associated with larger scale donor funded procurement. While there is likely to be some controversy over this approach, it should be noted that no country has ever grown without a business elite.

Industry development policies that may deserve greater attention within the context of within a medium term fiscal setting include transport, fisheries, tourism and extractives.

... Enhancing Donor-Country Dialogue will need to continue ...

The governments of New Zealand and Tokelau have a good system for dialogue. The pre-Budget talks held between the two governments and the ESA arrangements are consistent with world best donor practices. There are, however, opportunities to further strengthen arrangements. These include:

- More timely provision of project related financial and non-financial information for inclusion in budget papers and end-of-year accounts;
- More strategic use of soft-conditionalities (e.g. maximum and minimum resourcing thresholds for at risk fiscal policies) with less focus on micro-management;
- Greater use of PFM system outputs to manage political, development and fiduciary risks (e.g. budget talks could involve discussion around audit management reports, fiscal policy trends, long-term development objectives including private sector and trade-related industry development and medium term PFM system modernization program);
- Introduction of annual economic and public financial management supervision missions focusing on system risks and economic performance; and
- Careful introduction of debt-related financing instruments after a credible medium term perspective has been established in Tokelau's budget system (as building capacity to utilize debt well is a critical to any fully functional national governance system).

... What is required? ...

It will take time and effort to successfully grow Tokelau's economy, reducing aid dependency and providing better living conditions for Tokelauans. A proposed three point plan is detailed in the report.

Tokelau has a number of concerns about the ways things have progressed in regard to their relationship with New Zealand.

The benefits of flexibility of the 2007/8 – 2009/10 ESA were recognized. However there is a high level of concern about the relationship between Tokelau and the New Zealand government. There is a strong feeling that New Zealand makes decisions with little consultation or understanding of the realities on the atolls. Commitments made are not seen as being kept and New Zealand is seen as not trusting Tokelau. The failure to achieve outcomes through the IDP, Ship-to-Shore Project and replacement of the MV Tokelau contributed to this. Communication styles and the failure of representatives of the current Government to visit Tokelau and see the realities have compounded it.

The perception of many in Tokelau was that New Zealand does not attend to matters that require New Zealand's action to enable Tokelau to progress its economic development. This specifically related to legislative change in relation to the EEZ and actions to enable Tokelau's production of stamps and coins recommence. It is also important for Tokelau to consider how its own plans and internal processes can be improved. Critical self-reflection is essential. The impact of GoT's slow response to New Zealand's requests for comment in relation to fishing licenses was not recognised. There often does not seem to be a sound understanding that all budgets are limited: if the budget is increased in one area it must be decreased in another. A number of expectations of people in villages appear unrealistic. As New Zealand has, and always will have, a limited budget, expectations of what New Zealand can fund must be realistic.

The evaluation team recognizes that we have only been in Tokelau a short time and the experts on Tokelau are those there permanently. The findings of this report are not to be read as direction as to what Tokelau should, or should not do. It is important that the people of Tokelau, through the General Fono, Taupulega and broader discussions, consider the issues raised and determine how they can be addressed in a way appropriate to Tokelau. This should then be reflected in the relevant planning documents.

1 Introduction

1.1 Background

1. The three atolls of Tokelau (Atafu, Nukunonu and Fakaofu) are situated between 500 - 600 kms to the north of Samoa each separated by some 60 kilometres of open ocean. Access is solely by a 25 - 30 hour sea voyage from Apia. Tokelau's isolation, small population and low - lying character impose significant challenges for its people and the provision of essential services. Many are captured in our experience in travelling to and from Tokelau (Box 1).
2. Tokelau has been a non - self governing territory of New Zealand since 1926. Tokelauans are New Zealand citizens. The Joint Statement on the Principles of Partnership between New Zealand and Tokelau, signed in 2003, summarises the current understanding of the political relationship between New Zealand and Tokelau. At the New Zealand end of the relationship, a government - appointed Administrator of Tokelau, located in the New Zealand Ministry of Foreign Affairs and Trade (MFAT) heads a group that manages the day - to - day relationship with Tokelau.
3. The Government of Tokelau is structured in reverse to most countries including New Zealand: the village level government (Taupulega) is the highest government level (referred to as sub-national in this Review) and the national level government (General Fono) is the lower level. The Taupulega have delegated a number of functions to the national level of government. A majority of the functions of government for Tokelau have been transferred to the atolls and a small national level administration Tokelau operates.
4. The 2007/08 - 2009/10 ESA was put in place following a gradual process in which Tokelau has moved to full responsibility for managing budget allocations. The Government of Tokelau (GoT) and the Government of New Zealand (GoNZ) agreed on four specific forms of assistance making up the ESA:
 - Direct budget support. This is used to provide core services relating to each of the priorities. Funds were transferred to the GoT in three tranches during the year.
 - Targeted budget support: 'ring - fenced' funding for the following specific activities:
 - Advisors and Technical Assistance (ATA). Long term advisors in key sectors (legal, education and financial management) and short term technical assistance for specialist support.
 - Repairs and Maintenance Facility (RMF). Repair and maintenance of assets identified by the GoT, and in village and departmental maintenance plans, as needing attention.
 - Sector Review. A sector or activity review which was agreed to by the GoT and the GoNZ was to be carried out each year to guide Tokelau's planning and decision making.
 - Additional budget support. An incentive payment for improvements in Tokelau's working capital of up to \$175,000 over a five year period.
 - Case by case funding. This was for large scale, mutually agreed infrastructure initiatives implemented through the Infrastructure Development Programme (IDP).
5. The main support payments were direct and targeted budget support (\$13.2 million in 2007/08, \$14.7 million in 2008/09 and \$15.3 million in 2009/10). Upgrade of Tokelau's transport service, additional shipping charters and contributions to Tokelau International Trust Fund were additional.
6. The purpose of this Review was to achieve an independent, detailed assessment of the effectiveness of the programme of assistance provided under the ESA and the financial management of this assistance in contributing to Tokelau's core development needs and

strategic priorities. It has a focus on learning, accountability and efficiency. The findings will be used to:

- strengthen the GoT's budget management processes,
- inform discussions for the next multi-year package of GoNZ assistance to Tokelau,
- provide recommendations for alignment of the next multi-year package of GoNZ assistance to Tokelau with the Tokelau National Strategic Plan (TNSP) 2010-15, and
- provide recommendations for a medium term budget/revenue framework for the next five years.

Box 1: Extract from Three Medivacs and a Funeral (Appendix A)

7. Funding provided through the ESA has produced good outcomes, generally been efficiently applied and is expected to result in sustainable benefits. As learning is a key purpose of this Review, the report focuses on issues and possible improvements. This should not be read to take away from the effectiveness or efficiency of the ESA.
 8. Further details on the context can be found in Appendix A.
- 1.2 Methodology**
9. The Plan for this Review Plan was assessed by the Oversight Steering Committee (OCS). Revisions were incorporated and a final Review Plan approved (Appendix J). Prior to mobilization MFAT and the Government of Tokelau (GoT) provided the team almost 100 background documents for review.
 10. The Team Leader/Evaluation Specialist (TL) and Public Financial Management (PFM) Specialist were briefed by MFAT and the Tokelau Administration and Liaison Office (TALO) representative in Wellington on 11 and 12 October (New Zealand dates). On 12 October (Samoa dates) they briefed and interviewed Senior Management Team (SMT) members in Apia.
 11. Interviews continued on Wednesday. The planned interview schedule was interrupted as the MV Tokelau had to depart earlier than expected (Box 1). The TL, Infrastructure

Three Medivacs and a Funeral:

(reflecting the realities of transport in Tokelau and consequent challenge in providing essential services to Tokelau and undertaking this Review).

Just prior to the start of the review, the MV Tokelau schedule had been interrupted by a search and rescue mission for three boys who had gone missing in a dingy off Atafu. The MV Tokelau was then diverted en route to Apia to collect a patient on Fakaofu, who later passed away.

Upon reaching Apia the MV Tokelau was redirected back to Nukunono to medivac a patient who had suffered head injuries. Half the team left Apia early to Nukunono. That night the Samoan patrol boat was also sent for the medivac. The review team made a mid-sea transfer to the patrol boat. Both vessels continued onto Nukunono, as the MV Tokelau needed to transport passengers from Nukunono back to Apia.

The schedule for the team's return to Apia changed to enable the patient who had passed away earlier in the week to be returned to Fakaofu for burial. The MV Tokelau made an additional trip back to Apia to collect the body. Half the team returned to Apia on the ship earlier than expected, while two members stayed behind on Fakaofu.

One of the ships' two engines broke down on the way back to Apia and the trip took almost 40 hours. This delayed the ships' return to Fakaofu with the corpse. The late arrival of the ship delayed the funeral until the following morning.

There was a 4-tonne crane in Apia to be delivered to Fakaofu. It required calm seas and a spring tide to get it ashore. As these conditions were met, it was understood that the ship had brought the crane. When the ship arrived it was dark and the crane could not be off loaded safely. The manifest had not been sent in advance. The off-loading of the crane was delayed until after the burial.

In the morning, Atafu called to medivac a patient suffering sudden paralysis below the waist. Over almost six hours, it was decided to send the MV Tokelau to Atafu to collect the patient after the cargo was unloaded. At some point it was found that the crane had not been sent on the MV Tokelau.

The MV Tokelau brought the patient back to Fakaofu. In the mean time, the Samoan police patrol boat arrived to collect the medivac as it could travel back to Apia more quickly. When the MV Tokelau arrived in Fakaofu, the patient along with the review team, were transferred onto the Samoan police patrol boat and returned to Apia, four days later than planned.

It was subsequently found that neither medivacs were required. The condition of both patients meant that they could have travelled on the scheduled ship visit.

Specialist and Qualitative Research Assistant travelled to Nukunonu on the MV Tokelau. The PFM and Quantitative Research Assistant remained in Apia. The PFM Specialist joined the team in Atafu and the Quantitative Research Assistant remain in Apia to analyse PER data, obtain additional data from the Tokelau Public Service (TPS) and undertake literature searches.

12. The schedule changed several times (Box 1) during the visit. The team actually visited:
 - Nukunonu from 15 to 17 October 2010;
 - Atafu from 18 to 19 October 2010; and
 - Fakaofu from 20 to 24 October 2010.
13. In each village an initial briefing was held with the Taupulega. The team then broke into groups with the TL and/or PFM interviewing SMT, TPS, Fatupaepae, Aumaga (and on Fakaofu, Youth, Sports and church leaders). The Infrastructure Specialist inspected construction (new and renovations) and machinery and the Qualitative Research Assistant implemented the Most Significant Change (MSC). The GoT Finance Manager supported team members and prepared translations of all Aide Memoire and MSC feedback brochures.
14. Prior to departure, a debriefing meeting was held with the Taupulega. The team provided a verbal presentation, a two-page written aide memoire and a copy of the MSC brochure (these were emailed to Nukunonu due to printing problems). A translated copy was provided where we had time, otherwise it was emailed to the Taupulega within a few days. A draft copy of each villages Report was also provided to the General Manager.
15. On return to Apia, a debriefing meeting was held with the SMT. The team provided a verbal presentation and written aide-memoire. A national level MSC selection panel was held and the MSC feedback brochure provided that night to all SMT members by email.
16. The TL provided a debrief to MFAT on 29 October (New Zealand date). This included a verbal presentation and written aide-memoire. A MSC selection panel was not held with MFAT as the relevant participants had departed for the General Fono in Tokelau.
17. In summary, over 300 people were interviewed individually or in groups from MFAT, SMT, each village, and two ships (Appendix I)⁵; almost 200 changes were identified by individuals and groups interviewed as part of the MSC process (Appendix J); 46 MSC stories were collected (Appendix J); four MSC selection panels held (Appendix J)⁶; 100 documents reviewed (Appendix H); infrastructure and equipment inspected in three villages (Appendices D, E and F), statistical data analysed from schools, hospitals and the Department of Education (Appendix C); and three years of financial records analysed (Appendix G). The evidence for statements in the reports is specified in Appendix C or G.
18. Over the last three years, approximately 68% of the Tokelau's budget has been funded through the ESA⁷. Most of this has formed direct budget support⁸. This means that it is rarely possible to separate out items and say that this item was 'funded by' the ESA. Rather, approximately 68% of funds for all activities have been sourced from the ESA. For this Review, this means that the Review is essentially looking at the relevance, efficiency, effectiveness and sustainability of all activities funded through Tokelau's budget. The exceptions to this are those activities which are completely funded by other donors. We have therefore taken a contribution analysis

⁵ The list of those interviewed is more extensive than this. A number of people did not record their name in the register during meetings.

⁶ This data will be available from Clear Intent through the web site (www.mostsignificantchange.com) for three years.

Data collected through the MSC story process is available in the MSC database

⁷ This is the average of Tokelau's whole budget funded by New Zealand over the last three audited accounts.

⁸ Funding through targeted budget support covered 100% of the costs of the activity.

perspective (Mayne, 2001). We have asked, would this outcome have occurred if the ESA funds were not available? If the answer is yes, we have not included the outcomes in this Review. However if the outcome was dependent on funds from the ESA, we have considered the ESA as having contributed to this outcome.

19. The methodology followed for the Public Expenditure Review component is detailed in Appendix G.
20. It was based on a methodology developed by the Australian Government for the assessment of inherent fiduciary and development risks. This system is based on approaches developed by the United Kingdom Government, European Union and the World Bank. The approach focuses on performance indicators provided under the Public Expenditure and Financial Accountability (PEFA) program's Public Financial Management (PFM) performance measurement framework (www.pefa.org). Additional performance measures are included in the assessment to enable deeper analysis and include: i) indicators for subnational governments as described in a PEFA exposure draft on the topic of decentralized arrangements (PEFA Secretariat, 2008), ii) indicators drawn from a sector PFM assessment framework that is based on the PEFA framework (Aubakirov et al, 2009); and iii) gender indicators derived from UNIFEM work on gender responsive budget initiatives (UNIFEM, 2001).
21. A shared understanding of Tokelau's PFM system and its performance provides the platform for an informed assessment of fiduciary and development risks and a forward program for system strengthening. For the assessment, information was drawn from a wide range of existing and primary sources including formal and informal interviews with government officials and civil society. A rapid PEFA-like assessment was required due to the short-timeframe for review. It was explained that the assessment should not replace a full and properly conducted PEFA assessment in accordance with the "Strengthened Approach to PFM Reform".
22. The quantitative approach to this risk assessment is supplemented by judgments on more detailed knowledge of the functioning elements and other available PFM system performance information. The approach taken is in recognition of the differences in country circumstances that would affect the relative importance of individual indicators. In order to capture sectoral and other key issues, additional non-standard indicators were included in the quantitative element of the assessment. The approach may appear over engineered, however it proved to be simple, systematic, evidence based and useful in securing interest in the "riskier" areas of a system rather than the "poor performing" areas of a government. Moreover, through the use of a PEFA-like approach, a greater appreciation of PFM issues at the sector and subnational levels could be promoted.
23. The rationale for using a PEFA-like framework to help with the risks assessment include: i) to recognize the importance of drawing a common information base and agreed performance scores on the partner country's PFM system; ii) to promote the use of a common language for government officials and non-PFM specialists involved in PFM strengthening at the central agency, sector and subnational levels⁹; iii) to improve alignment of central agency, sectoral and subnational programs; iv) to support efforts to follow strengthened approaches to supporting PFM reform; and v) to help identify information gaps.
24. To maximize the use of the report by the key stakeholders, separate, stand alone reports have been prepared and provided to each village. Each executive summary was translated into Tokelaun. Each section of this report has been provided to the relevant sector stakeholders for comment.

⁹ The PEFA framework is a generally accepted international framework for assessing PFM systems that can be referred to for clarification of terminology etc.

25. Recommendations for the GoT and GoNZ for improving the next multi-year package of support have been integrated in the text where they relate to learning from this ESA. They are also consolidated in Section 6.
26. This report summarises the findings of the review. Due to space constraints, details and evidence are included in Appendices C and G. Paragraph numbers have been included for ease of reference at the direction of the OSC.

1.3 Limitations of the Review

27. It had been planned to document the program logic behind the allocation of ESA funds. This was not possible as insufficient planning had been undertaken and/or documented during the ESA period about the intended outcomes of investment.
28. There are a number of limitations in relation to this Review:
- The Review team (with the exception of the GoT Finance Manager) did not know Tokelau before this assignment. It took some time for us to gain even a limited understanding of Tokelau.
 - Benchmarking, current position, gap analysis and Capacity Review that GoT undertook in 2006 or 2007 were not available. They could not be used to determine changes at an outcomes level.
 - The only documentation of plans or priorities at a village level was the Nukunonu Development Plan (GoT, 2007g). It was not possible to source these for Atafu or Fakaofu.
 - The time available for data collection in Atafu was extremely limited (compounded by Atafu not providing much of the additional information subsequently requested) and the time the TL had to collect data in Apia was insufficient.
 - The time allocated to analyse and prepare the report has been insufficient.
 - The quantitative data set is small. This means that a 'larger' difference is required to show statistically significant than would be required with a much larger data set.

2 Assessment of the success of the assistance funded by the ESA

2.1 Relevance

We found activities undertaken which drew on the ESA funds where relevant to the needs and priorities of the people of Tokelau as articulated in the Draft National Strategic Development Plan 2007/2008 to 2009/2010. However, the approach used by Tokelau to identify these priorities was not as inclusive as desired. The activities were also generally in accordance with MFAT's policy and strategies at that time.

29. The needs and priorities of the people of Tokelau over the ESA period are expressed in the Tokelau's Draft Strategic Plan for 2007/8 to 2009/10. These priorities were identified as:
- Population maintenance.
 - Village infrastructure including school and hospital buildings.
 - Capacity building and sustainability.
 - Provision of quality education and health services.
 - Provision of appropriate transportation services
 - Improved IT capacity and capability
 - Implementation of economic development initiatives.
30. Overall, ESA funding was directed at these priorities.

31. The Draft Strategic Plan for 2007/8 to 2009/10 drew on a 2006 Capability Review. As this document is not available it is not possible to determine whether the ESA addressed the capacity gaps. The Draft Strategic Plan also drew upon the 2007/8 – 2009/10 Funding Requirements Review Document (GoT, 2007a). This document focused at a national level. It doesn't clearly capture the priorities at a village level. In comparing it with the Nukunonu Development Plan (GoT, 2007e) it became evident that while the priorities were fundamentally the same, there were significant differences in the detail in relation to village development. This has not impacted the relevancy of expenditure of funds from the ESA as the villages used a large portion for houses, septic tanks and water supplies (reflecting village development priorities in Nukunonu's Development Plan but not the Funding Requirements Review Document).
32. At a village level, the Taupulega contributed to the development of the Draft Strategic Plan. While representatives of the Fatupaepae attend Taupulega meetings, they rarely contribute and often leave it to the male head of family to do so. Youth are not members and participate only if they have a proposal. While this means that the direction at a village level is set by a representative body, it is not clear that specific needs and priorities of women and youth are captured by the Taupulega, or were captured in the Draft Strategic Plan.

Recommendation 1: Ensure wide consultation at a village level during planning and that village needs and priorities are captured..

33. The ESA is well aligned with Tokelau's strategies. In broad terms, it also aligns with MFAT strategies for gender, human rights, education and the Pacific. However there is a significant misalignment with MFAT's Health Policy (NZAID, 2005) which recognises primary health care and health promotion as the most important aspects of improving people's health. In line with this, support towards primary health care is to be increased while support for secondary and tertiary health care is intended to remain relatively constant. However expenditure on the Tokelau Patient Referral System (TPRS) has increased and now represents over 60% of Tokelau's health budget. This is not in accordance with MFAT's Health Policy.
34. The Joint Statement of the Principles of Partnership between New Zealand and Tokelau provides a reasonable base for the MFAT country programme for Tokelau. The ESA describes a funding mechanism and as such does not provide a base for the country programme. It is not clear that there is a specific or even consistent approach to Tokelau. We believe this to be because fundamental aspects of the relationship between New Zealand and Tokelau have not been defined. For example, whether the relationship between New Zealand and Tokelau is one in which funds are provided as development assistance or whether New Zealand funds are provided for the delivery of government services in the same way as it would to an area in New Zealand.

Recommendation 2: New Zealand and Tokelau to clarify the relationship of the funding – as development assistance or public sector funding.

2.2 Effectiveness

The activities supported by funds from the ESA have generally been effective in achieving the outputs and outcomes. This has been particularly so in relation to governance (financial management and planning), education, and village development.

35. This section addresses outcomes the ESA has contributed to. The outputs achieved are set out in Appendix C. Determining effectiveness during the ESA was difficult as the planning documents relating to the period did not specify intended outcomes. The Corporate Plans prepared early in the ESA period tended to be ambitious and could not be achieved with the available resources. It was therefore not possible to use these as a guide.

36. **Education.** Over the last three years there is improved: number and percentage of qualified teachers; community participation in education; access to and participation in Year 12 and 13 education; quality of ECE and pedagogy; and planning at a Departmental and school level. An improved curriculum has been rolled-out, however its full benefits have not yet been achieved. This is to be expected as this is a long-term initiative. Significant further professional development is required to achieve improved student outcomes.
37. Professional development approaches do not seem to have been particularly effective. There was no evidence to suggest that access to TVET or for special needs students had improved. Resources at schools are perceived to have declined.
38. **Health.** The activities and outputs undertaken during the ESA period have resulted in a number of improved health outcomes. The quality of health planning and reporting has improved at the national level. However this does not appear to have been translated into improved health outcomes. The constraint is that joint approaches between the village and Department to address each village's health needs have not been developed and approved with the Taupulega. Proposed national strategies have not been approved by the General Fono. As a result, the Department is implementing more limited activities to support identified needs.
39. The presence of qualified health professionals in each hospital has increased, except for Registered Nurses in Atafu. However the skill level of health professionals was not maintained or upgraded during the ESA period through ongoing professional development. Health professionals communicate by email, and to a lesser extent, phone to gain input into the diagnosis and planning of treatment for cases. This has only been possible over the last three years.
40. The equipment available at hospitals has improved. It was identified that this had improved the effective management of health issues. It was unclear whether the supply of pharmaceuticals had improved or not during this period. However health infrastructure has deteriorated as a consequence of the planned IDP work not being implemented and Taupulega being reluctant to invest heavily in maintaining buildings that were identified as requiring replacing.
41. People in villages felt that delivery of health services had improved over the ESA period. Weekly NCD clinics had now been introduced by all hospitals. Health status is perceived to have improved in terms of fungal infections of the hair and skin and diarrhoea due to improved environmental health. Knee and back problems have decreased as more of the cargo handling has been mechanised. No cases of H1N1 flu were recorded in Tokelau, one of only three countries to achieve this.
42. Other health outcomes have declined. There is no evidence to suggest public education programs have been effective and or links between sectors to address health established nor that public education campaigns funded through WHO and SPC have changed behaviour or improved health outcomes. There was no evidence to indicate a change in behaviour which would reduce the risk of NCD. It appears as though several risk factors (alcohol consumption, smoking, lack of fruit and vegetables) are increasing. The extent to which they have resulted in changes in attitudes by health professionals is also questionable.
43. The Department of Health knows the health problems and challenges for Tokelau. The challenge seems to be developing and implementing joint strategies between the village and Department.
44. **Village infrastructure.** The Aumaga have largely been employed full time to progress village development. As a result, there has been significant progress in meeting the infrastructure needs of Tokelau over the ESA period. People's quality of life has been improved by the construction of houses, water tanks and septic tanks and relocation of pig sties (Box 2). It is likely that these have contributed to the reductions in fungal infections of the hair and skin and

diarrhea. Seawall construction has provided each village more security, however these have exacerbated localized erosion in some places.

Box 2: MSC Selected for Nukunonu: Developing More Comfortable Houses in Nukunonu

45. The quality of infrastructure has improved, but further improvement in design and construction practice is required. Each village now has the capacity to identify skill gaps; and then source, contract and manage contractors to fill these. Training opportunities are not being maximized through current approaches.

46. **Economic development.** At a national level, opportunities to generate international revenue appear to have been constrained by both GOT and MFAT's slow processes in addressing issues in relation to the EEZ, stamps and coins.

47. The funds from the ESA have resulted in increased incomes for people in villages. This has led to the establishment of a number of small businesses which are seemingly successful. A range of initiatives to generate foreign income at a village level have been trialed. These include exports of foodstuffs and handicrafts. It is too early to determine whether these were effective in supporting establishment of new markets. Other initiatives such as visits from cruise ships have had local success. It is unclear whether the ESA made any contribution to these.

Developing More Comfortable Houses in Nukunonu

When I was younger, and it was the dry season we used to have no water on the island. My mother would have to go with me to another island where there was a big well to wash our clothes. Otherwise we relied on a big tank that was controlled by the pulenuku, and there was never enough water to go around to all of the community. During these days we had to collect water in big metal drums that sat beneath our roofs.

Over the past few years, the Taupulega has funded and helped to install about six new water tanks in houses that had been built previously. They have also helped to fund the construction of about four toilets in houses. This is in addition to the additional six houses that the Taupulega has built with toilets and water tanks as part of them over the past three years. Now most of the houses have a toilet and they also have their own water tank. The problem now is that some of the tanks that have been put in now have holes in them.

I believe that the most important thing is that people have a comfortable home to stay in. If they are not comfortable they will not want to stay in their homes. Having a good water supply and a clean toilet are very important parts of this. And it also means they will have less sickness. A clean, safe and comfortable home is a priority for everybody on Nukunonu.

48. It is important to recognize that when Tokelau speaks of economic development, this includes an element of maintaining traditional knowledge and skills along with increasing financial returns. As such there is a strong focus on traditional culture, knowledge and skill within most economic development activities. It was unclear whether support to revive traditional skills and knowledge (particularly in relation to weaving and carving) achieved this objective, however it did help prevent these skills and knowledge being lost. It also increased income generation opportunities among women.

49. The approach of undertaking labour activities through the Aumaga appears to have had positive outcomes in terms of providing direction, reducing people 'sitting around', and supporting the community culture. Funding of programs through the Fatupaepae was identified as supporting women to become self-reliant, and improving their contribution to their own and the broader village development. Where women were employed (rather than receiving a benefit) the same positive outcomes were identified. The two approaches are significantly different.

50. At the same time, full-time work has limited people's ability to grow, gather and fish for local food thus increasing dependency on store bought food. Many of the new/improved services established in villages in the ESA period have resulted in increased costs. This particularly relates to power and in Fakaofu, the relocation of pig sties and increased employment on the second island. This has adversely impacted people as salaries and wages have not increased during this period. There is also evidence of a growing disparity (in terms of income, expectations for health and education standards) and division between the salaried and waged workers, and between balancing family, community and work commitments. Tokelau will need to address these to avoid them adversely impacting the society and culture. Change will need to be balanced with productivity levels and the present guarantee of employment.
51. **Transportation:** From the people of Tokelau's perspective, the support from New Zealand and the ESA specifically, has resulted in a significantly worse shipping service now than previously. This is because the MV Tokelau can now only carry 12 passengers, no fuel and less cargo. The frequency of access between villages, and with Apia has declined although the regularity of the service has improved. The cost of transport has increased due to the need to charter a ship for passengers. In addition, costs for health and other departments have increased as people can not return to the village/Apia as quickly as previously. This increases costs for accommodation and allowances.
52. Ship-to-shore transport has improved only on Fakaofu where the Taupulega has constructed a new jetty for cargo (Box 3).

Box 3: A Big Relief. MSC Story selected by Panel in Fakaofu.

A Big Relief.

Until recently, the people living in Fenuafala have had to go to Fale and transport building materials from the bulk store to their homes. This is often difficult on the small boats we have and costs us both time and petrol. Also, when the channel at Fale is too rough for the barge to go through, the MV Tokelau would berth off of Fenuafala. The barge would drop goods from the ship onto the coral rocks. There was no other place for them to leave things. For the Aumaga, this was a problem, because they had to carry the items offloaded off the uneven and dangerous coral rocks to the storage shed, and they often struggled in doing this.

The Taupulega decided that it was necessary to have a new barge landing built at Fenuafala. They set aside funds from the budget, and construction started in the middle of this year. The landing has now been open for a month or so.

Since the landing has opened, the Aumaga has used this new landing to offload items from the barge once. Cars and trucks were driven right up to the landing and it saved them the challenge of carrying materials over the rocks on their backs. Materials can be loaded onto trucks and taken to the shed from there. This new landing makes it easier to get building materials to Fenuafala, because now the MV Tokelau can berth off the island and deliver things directly to us. We should no longer have to go to Fale to transport these items. I am one of the men who would help offload the cargo from the boat. I could see and experience the difficulty of carrying the materials off the rocks. It is much easier now and much safer.

The Fakaofu panel selected this story because it reflects how we as a community have utilised the funds from New Zealand to improve the working conditions, safety and health of our Aumaga, which was a shared concern amongst all of us. It is an example of how our community has been proactive in seeking solutions to issues related to ship to shore transfer that we are facing. Our one existing channel was not adequate or safe for the transfer of goods. We utilised the Taupulega budget to complete an infrastructure project that would provide a viable alternative for the delivery of bulk goods and construction materials, and improve our community's access to ship transport, now and into the future.

53. While the major activities to improve transport have not progressed largely due to MFAT processes, there are areas within Tokelau's control where transport service could have been improved.
54. **Waste management.** Waste disposal has improved over the last three years. The recycling program is less effective where the motivation is income generation rather than maintaining a clean environment. Disposal of dangerous goods (for example batteries) and large items (construction and white goods) still needs to be addressed.
55. **Information Technology and Communication (ITC).** Teletok is self-funding and therefore ESA funds have not supported the introduction of internet and telephones. However the funds used to pay for the services are all dependent on the ESA. The introduction of internet has had a significant positive impact on people's lives, this impact can not be overstated. Because of Tokelau's isolation, internet access has made a significant difference to people's lives through increasing communication with distant relatives (and reducing the cost of this) and enabling more accessible distance education.
56. The effectiveness of ITC in offices is mixed with some items inoperative or very ineffective due to poor maintenance. The skill levels of those maintaining IT equipment in the offices is generally inadequate to meet Tokelau's needs.
57. **Population maintenance.** It is unclear whether population levels have been maintained. There was a sense that more people were now starting to return to Tokelau for the short or long term. The main barrier people identified to returning is education for children. The main reasons people identified for leaving are income and work opportunities and better education for children.
58. **Capacity development¹⁰:** The outcomes of training are relatively weak. This appears to be primarily due to a lack of focus on planning for capacity development, little training occurring, and what training occurred often lacked a mix of theory and practice. The lack of follow-up (particularly workplace follow-up) reduced the effectiveness of training. It is also a concern that the training budget is regularly cut from budgets as a means of saving funds – this is a short term solution.
59. **Governance.** There have been significant outcomes in terms of governance, particularly in relation to financial management (Box 4) and planning. The improvements in financial management are discussed in detail in Section 3. However a major weakness is that the General Fono does not make timely decisions on critical issues (such as funding issues associated with the TPRS).
60. The planning process has changed significantly. The Taupulega have a greater understanding of the importance of planning and are now more actively seeking input from all stakeholders. At a village level it was reported that as a result *"Now everyone seems more together, supporting the same vision. Once they make a decision people don't sit about and moan about it. There is more cohesion"* ¹¹. The attitude of many Senior Managers to plans has changed, they now see their value, and are more confident in developing and using them. It is recognised that this is still at the very early stage but there has been very clear progress.
61. In some villages, the Taupulega's understanding of their role has increased and with this, has come a growing recognition that the Taupulega are moving into new areas outside their traditional management expertise. In future they will need to call on more technical expertise

¹⁰ Used here to refer to capacity of individuals.

¹¹ A12

and consider new approaches in leadership and management. While in the early days, clear progress has been made.

62. Law and justice has improved through ESA support. For example, it was reported that over the last three years people's awareness of their rights has grown through the Law Commissioner's work. And Court proceedings improved.

Box 4: Financial systems in the atolls. MSC selected by the Selection Panel in Apia.

Financial systems in the atolls

Prior to 2008, there were few links between the National Finance Office and the villages. At the village level, there were different financial systems in place for the Taupulega, co-op and bulk stores. This resulted in a lot of problems in terms of knowing where money was actually going, and how inventories and stocks were managed at the stores. In general the issue was that at a village level, there was a lack of proper record keeping, an issue that was verified in a 2008 stock-take done by the National Office. ...

There have been substantial changes in how finance operates since 2008. There is now a new computerized retail system operating in all the bulk stores and co-ops now, with data linking directly into the village finance system. All systems in the village are now linked together. You can walk into the finance office at the village and pull out whatever records are needed. As a result both national and village offices are much more able to track sales and stock, and produce monthly financial reports much earlier than we used to before under the manual system. Also there is more transparency of how financial decisions are being made. ...

We have systems in place now to prevent "mysterious" losses in stocks or funds at the village level. The new finance mechanisms provide checks and balances of how we are using funds. This story is reflective of how we can work together between national and village offices, under devolution, in a successful way.

63. **Gender.** Tokelau has finalised a National Policy for Women and funded the Fatupaepae. The Miss Tokelau pageant was established and met its objective of celebrating women. Women are becoming more empowered and taking a greater role in development of the community. This has been achieved through different approaches on Nukunonu and Fakaofa, both approaches having different disadvantages.
64. **Youth.** It is unclear how effective the limited support to youth was. Those who attended the World Youth Day identified benefits of their participation. However there is statistical evidence that among youth there is an increase in alcohol consumption and smoking (WHO, 2007) and suicide (Tavite & Tavite, 2009).
65. **Sports.** There is no sports strategy in Tokelau and no formal sports program in any village. Funding has been provided for participation in the Tokelau Games and South Pacific Games. It is unclear whether there have been any lasting outcomes from this. If there is, it is most likely on Nukunonu where there seems to be some ongoing participation in sports as a result.
66. **Culture and language.** The translation of the New Testament into Tokelaun was completed in this ESA period. This will help sustain the Tokelaun language.

2.3 Efficiency

Efficiency of implementation appears satisfactory (except in relation to IDP) but can be improved in specific areas.

67. Efficiency issues relate to different forms of assistance provided through the ESA. In terms of expenditure of the direct budget support, the main efficiency issue is the cost of the TPRS and medivac. This is a significant proportion of the health budget, limiting what is available for

other aspects of health care. All these costs are carried at a national level. As a result, villages are not encouraged to address the cause of the problem. Consideration of some form of cost sharing may improve efficiency.

68. ATA support has been relatively efficient. The outcomes made in the area's they have supported are a clear testament to this. However efficiency of the overall ATA support could have been improved by:

- Ensuring ATA requirements were based on Tokelau's greatest needs to support implementation of their Strategic Plan rather than a 'first in – first served' basis.
- Clearly linking ATA Terms of Reference to the partner agencies strategic planning documents and outcomes.
- Reporting on outcomes and issues rather than activity. Current reports add little value.
- Increased focus of ATA support on the village rather than the national level.

Recommendation 3: ATA requirements be completely reviewed for the next ESA. The starting point should be what areas are of greatest need in terms of capacity and expertise. ATA should address these needs provided that those with whom the ATA will work, want ATA support, are willing to commit people to gain skills from the ATA and recognize the role is an interim, rather than permanent, role.

Recommendation 4: ATA Guidelines provide a clear linkage: between the Terms of Reference and the partner agencies Strategic Plan, and all outputs and outcomes.

Recommendation 5: Reporting be revised to ensure it meets the needs of the intended audience. It is expected that Reports will involve identify exceptions to planned progress and budgets, issues arising, progress towards outcomes (reflecting the partner agencies Strategic Plan) and progress in planned skills transfer. This should generally be able to be done in two pages.

69. The only sector review¹² undertaken met the Terms of Reference specified and was of a good standard technically. However it does not appear to have been efficient: it does not reflect any of the priorities or key areas of focus identified in the Draft Strategic Plan (though it does impact health); only part of it (waste management) is mentioned in the strategies identified in the Draft Strategic Plan or in any of Tokelau's Corporate Plans; and none of the elements in the Health Departments Strategic Plan in relation to water quality and waste were addressed by the Review or Action Plan. No documentation of a change in Tokelau's priorities in relation to this was provided to the ESA Review team and water quality and sanitation were not mentioned in all the interviews conducted. This disjunction is a consequence of Terms of Reference not aligning with Tokelau's planning documents.
70. The choice of this sector to review fails to support building planning capacity as it goes against the approach that would be taken if good planning practices were applied.
71. The final report contains a list of over 30 recommendations which have not been costed or prioritised. Given the resource constraints in Tokelau (both human and financial) it would be useful for some indication of relative priority and cost to have been provided.

Recommendation 6: Selection of, and Terms of Reference for, sector reviews should reflect priorities specified in Tokelau's planning documents.

Recommendation 7: Terms of Reference for sector reviews should require prioritization of recommendations and indicative (order of magnitude) budgets to assist future decision making in Tokelau.

¹² The Integrated Waste Management, Water and Sanitation Review and Action Plan.

72. The IDP was not efficiently implemented. Some of the issues (many common to the Ship Project) were:
- Poor concept designs. For example the concept designs included many features that were not relevant in Tokelau.
 - Recognising that there were problems with the initial steps, but deciding to progress regardless and fix these later. It must be noted that this decision was made to try and speed progress. It is only in hindsight that it is possible to say that had the problems been fixed at that time, the process may have been more efficient.
 - Lack of focus on designing within the budget and expectations that the budget would automatically be increased.
 - Lack of consideration of the cost and benefit of 'additional' features.
 - Lack of recognition that the total funding New Zealand can provide is limited – an increase in one area will result in a decrease elsewhere.
 - Difficulties in communication because the Project Coordinator was in New Zealand.
 - Engaging people outside Tokelau to undertake activities within Tokelau's capacity.
 - Not anticipating the potential impact of a change of Government in New Zealand.
 - Not drawing on the expertise available in Tokelau (and Samoa).
 - Poor risk management – the highest risks all eventuated¹³.

73. Efficiency would be enhanced if the IDP had been managed by the Taupulega – they have demonstrated the capacity to do this and Tokelau's financial systems were found to have the required levels of financial accountability. It is surprising that the decision was made to manage IDP outside Tokelau given the 2007/8 – 2009/10 Funding Requirements Review Document (GoT, 2007a) identified that *"A project 'run' from New Zealand or Apia has in the past been shown to be fraught with difficulty"*.

Recommendation 8: Infrastructure that is within Tokelau's management capacity should be managed by Tokelau. For other works, contractors in Samoa should be used wherever possible.

74. The use of incentives and conditionality in the ESA was an efficient way to support Tokelau achieve agreed priority outcomes. Discussions with a number of leaders indicated that they support the use of incentive payments based on agreed priorities from Tokelau's plans. There was also a desire that incentive payments should not penalize one village/Department where another doesn't achieve its targets.

Recommendation 9: Incentive payments for villages and Departments be considered as part of the future ESA. These should be based on Tokelau's Strategic Plan and Village Plans and focus on the aspects which are agreed by GoT and MFAT to be of strategic significance for Tokelau (for example: implementation of a sustainable approach to the TPRS).

75. The efficiency and effectiveness of construction and R&M undertaken at a village level can be improved. Ways to do this are set out in detail in Appendices D, E and F. Copies of these reports were provided to each village. Despite this, significant gains were made in terms of repairs and maintenance which would not have been possible without the ESA funds.

¹³ It appears to the Evaluation Specialist that the risk matrix for both projects got caught up in the detail and lost sight of the strategic issues.

Recommendation 10: A ring-fenced pool of funds for R&M be continued. However it may be more efficient (and better support planning) if it was part of the direct budget support rather than artificially separated.

76. From an external perspective, efficiency gains could be made in the way in which activities are implemented by the Taupulega. However this would have significant impacts on the way society works and are a matter for the Taupulega to determine.
77. At a national level, it is likely that efficiency could be improved by relocating Departments (or positions) from Apia to villages where the key stakeholders and functions are not in Apia; improving coordination between departments within the national level, the village level and between the two levels; and reviewing the allocation of funds between the national and village levels. Further approaches are included in Section 3.
78. Improved planning and reporting would improve efficiency. Most Corporate Plans are overly ambitious. It is not possible to achieve what is identified with the available funds or staff. Some items have been included in Corporate Plans on the basis that they were proposed by an external consultant or politician rather than using an evidence based decision making process. Corporate Plans would provide improved direction if priorities were identified and a more realistic scope established.
79. Reports often focus at a task level, duplicate previous reports and are too long to be of value to the reader. Determining what reporting Tokelau SMT needs to effectively manage their resources and monitor implementation of Strategic, Corporate and Work Plans is likely to improve effectiveness and efficiency. This content is likely to meet MFAT needs.
80. In terms of ESA implementation, inefficiencies have been created by the focus on detail in areas such as planning, risk management and reporting rather than the big picture. This has led to important matters being lost in detail, discussions focused on detail rather than the big picture, and less being achieved with the available resources than could be.

Recommendation 11: Future ESA management focus on strategic issues, ensure that the processes applied support this, and all agree outcomes are realistic.

2.4 Sustainability

Overall, the benefits derived from ESA appear largely sustainable. In general, the sustainability issues related to specific outcomes are relatively minor. The exceptions to this are in relation to the impacts of the level of expenditure on the TPRS and social issues emerging as an indirect outcome of increased income levels.

81. If there were only one issue addressed in regards sustainability, it would need to be the level of expenditure on the TPRS. Department of Health is aware of this, but the General Fono does not recognize the importance or urgency of addressing this issue. Unless this is reduced, health benefits will not be maintained. Tokelau will also find it necessary to redirect an ever increasing proportion of its budget to tertiary health. This will adversely impact sustainability of all benefits. Other issues are minor in comparison.

Recommendation 12: Future ESA support be conditional upon, or include incentives to support, action towards a sustainable approach to the TPRS.

82. There is evidence of a number of social issues emerging as a negative outcome of the activities undertaken. These include: increased disparity and division between the waged and unwaged earners, and the TPS and the labourers; a growing difficulty for women in balancing family, community and work commitments; increased conflict between youth and elders as more western influences are introduced; and change in diet and consequent health issues. These are

likely to adversely impact the social fabric of Tokelau, reducing the value of many of the benefits gained.

83. The level of skills available within Tokelau will impact sustainability. A greater focus on increasing and retaining skilled teachers, health professional, administrators and trade's people would improve sustainability. Available opportunities to upgrade skills are not maximized as they are rarely planned and lack follow-up.

Recommendation 13: GoT and MFAT consider ways the next ESA can to increase skills development and support retention of skilled people in Tokelau.









Other sustainability issues are relatively minor:

- Professional development for teachers is essential if the benefits of the curriculum development are to be achieved and then sustained.
- Purchase of better quality tools would increase their life and be more efficient in the long term.
- Minimising use of sand and aggregate from Tokelau (and in particular areas more vulnerable to erosion) will minimize erosion.
- Improved seawall design would improve their sustainability and minimize localized erosion.

3 Assessment of the efficiency and equity of GoT public expenditure

Tokelau's prospects for growth and reducing aid dependency are good...

Table 1: Comparator Statistics and MDGs: Will MDGs be achieved by 2015?

MDG		Samoa 2006	Cook Islands 2006	Niue 2006	Tokelau	
					2006	2010 preliminary
	MDG 1: Eradicate extreme poverty and hunger	On target	On target	Already achieved	[no data]	Primary obj already achieved
	MDG 2: Achieve universal primary education	Potentially	On target	Already achieved		Primary obj already achieved
	MDG 3: Promote gender equality and empower women	Potentially	On target	On target		Potentially
	MDG 4: Reduce child mortality	Already achieved	Already achieved	Already achieved		Primary obj already achieved
	MDG 5: Improve maternal health	Already achieved	Already achieved	Already achieved		Primary obj already achieved
	MDG 6: Combat HIV/AIDS, malaria and other diseases	On target	On target	Already achieved		Primary obj already achieved
	MDG 7: Ensure environmental sustainability	Unlikely	Potentially	Potentially		Primary obj already achieved
	MDG 8: Develop a global partnership for development	Potentially	Potentially	Potentially		On target
	MDG 9: Improved governance (specific to Cook Islands)	[Not applicable]	Potentially	[Not applicable]		On target (if applied)
	MDG 9: Population development/ retention (specific to Niue)	[Not applicable]	[Not applicable]	Potentially		Potentially

Adapted from source: 2006 UNDP grey literature.

84. **Tokelau has achieved much** including many of the Millennium Development Goals (MDGs) (Table 1) and a "good enough" Public Financial Management (PFM) system (see Figures 1-5).

That said, these achievements have been at the cost of institutionalizing an aid-dependent economy, with Tokelau having the one of the highest, if not highest, aid dependency ratios for its middle-income status.

85. Tokelau is both aid dependent and high aided. Relative to other lower middle income countries or territories, Tokelau is one of the highest recipients of ODA as at 2008. Out of the 41 countries in this group with reported data, Tokelau remained in the top three countries that received the most amount of aid as a percentage of GNI. Moreover, while officially Tokelau is currently a lower middle income country for ODA reporting purposes, it would be due to graduate to Upper Middle Income Territory status in 2011 as it has been above the US\$3,705 (2007) for the last three years, which is the criterion for graduation¹⁴. Should Tokelau graduate next year, Tokelau will have the unenviable title as clear leader in terms of aid dependency, with aid levels over five times that of the nearest state. This fact exposes Tokelau to an uncertain aid future, as most governments will only provide high subsidies for so long.
86. **Breaking aid-dependency is theoretically achievable** through good PFM and trade-related industry policies. If implemented over time, such policies have the power to produce high levels of revenue and economic growth, with growth slow in the early stages but picking up significantly in later years. Tokelau has a number of untapped growth opportunities (possible examples include fisheries, tourism, deep sea mining). Such growth could allow Tokelau to reach high income country status over the medium-long term. The secret will be overcome Tokelau's constraints to growth: primarily being: i) remoteness and undeveloped transportation industry arrangements impacting on viability of boutique tourism; ii) uncertainty around existence/level of deep sea mineral reserves; iii) barriers to small business entry and disincentives surrounding trawler and high value fishing; and iv) a lack of medium perspective in the budget and policy development systems.

... The Need for Policy Change and Improved Governance Remains ...

87. **Weaknesses remain** in certain key areas as follows: i) policy based budgeting, especially in relation to medium term budgeting including well costed and tracked medium term policies and strategies; ii) certain internal procedures including establishment and commitment controls, procurement procedures and processes and tax and non-tax revenue administration; iii) oversight including lack of a well-functioning internal audit and insufficient time provided and taken for detailed review of budgets and results.
88. **Trade-related economic policies are needed** if Tokelau is to have a real growth potential. Tokelau has no real trade-related industries (the developing construction industry is a low-growth industry as nearly all inputs are imported and products are generally not export orientated). New micro-industry policies would also need to be linked to building a Private Sector business "elite". This would require establishing, inter alia, consideration of policies that promote private sector leadership. Such linkages can be achieved for example by ensuring equity stake provisions in emerging or potential small-to-large businesses are linked to relatively large scale aid funded procurement. While there is likely to be some controversy over this approach, it should be noted that no country has ever grown without a business elite.
89. **The lack of a cost-effective micro-transportation industry is a binding constraint** to Tokelau's growth prospects. Transport options will need to be revisited by the authorities. There are potentially relatively large opportunities in fisheries, especially given the profitability of a single trawler in such an unexploited location. The tourism market is also untapped, primarily as a

¹⁴ It should be noted that preliminary estimates of GDP and GNI were calculated to support trend analysis. This was found to be required as there had not been any real official or unofficial forecast of GDP available. Previous estimates found were extreme: from very small reflecting an implicit adjustment for budget support or very large (relatively) being total budget aid (as used by WHO). The consultant used the expenditure approach to calculate GDP, which allows for budget support to be included but adjusts for imports, which are significant in Tokelau's case.

result of the inadequate transportation industry. Tokelau could be well placed to secure a reputation for “boutique tourism”.

90. The potential of extractive industries to remove aid dependency is considerable. Deep sea mining has become much more cost-effective in recent years. Consequently, new prospecting and assessment of industry potential is warranted. This could be developed through a cross-portfolio approach where, just for an example, environment and energy policy (e.g. “Tokelau first to be 100% run on renewable energy country”, is linked to Tourism policy (e.g. “Visit Unique Tokelau”), and deep sea extractive industry policy (industry be encourage to prospect and seen to be part of the 100% renewable policy). It should be noted, that while, extractive industries may provide a rapid pathway off aid dependency if cost-effective reserves are proven, it may be a case of “out of the frying pan and into the fire” as the resource curse (see below) is very real. That said, avoiding the resource curse is possible through long-term commitment to good policies as described in the working paper. While the Crown in Right of New Zealand still retains ownership of Tokelau’s seabed minerals, there remains a strong prima facie case for a revenue sharing arrangement should deep sea mining prove cost-effective. It is assumed that this would be a likely outcome should cost-effective reserves be located.
91. Tokelau is suffering from an aid-induced resource curse and could be at risk of suffering from a deep sea mining resource curse (if reserves are found and extraction proved cost-effective). Traditionally, the resource curse (previously known as the paradox of the plenty) is the observed experience that certain countries rich in natural resources demonstrate lower economic growth rates and poorer returns from development investment: i.e. it has kept people in poverty that would have otherwise been drawn out of poverty.
92. While the Dutch Disease is the best known theory to explain the curse, there is general consensus that it is incentives around a “large common pool” of government controlled funds that are not sourced via taxation (i.e. citizens paying out of their pocket) that has the most serious impact on growth. I.e. common pools cause corruption temptations that most humans cannot resist. It has been argued that a strong PFM system, with strong levels of accountability, transparency and fundamentally a broad and deep tax base, is key to breaking this.
93. The resource curse phenomenon applies also to economies where the composition of GDP is dominated by a single sector. In Tokelau, this is the case in the Government sector, where Government activities and Government related construction accounts for most GDP. Moreover, should deep sea mining prove to be cost-effective in Tokelau waters, Tokelau would be at risk of suffering the worst effects of the resource curse, which could arguably have far worse impacts on the residents of Tokelau.
94. There is no real secret to success from a policy perspective to avoiding the worst effects of the resource curse: good and bad policies are well known. Good policies and properly sequenced long-term investments and reforms for Tokelau are best demonstrated by a summary of the good policies that should be able to break a resource curse. Table 2 provides a summary of the good governance and macroeconomic policies required to avoid and/or break different types of resource curses. The trick is to get the good policies adopted and implemented well over time.

... DoF Technocratic Leadership is solid and reformers are increasingly empowered ...

Table 2: Good Polices to Mitigate the Risk of the Tourism and Resource Curses.

Good Governance Policies
<ul style="list-style-type: none"> • Achieving a well-functioning PFM system that promotes good sustainable fiscal policies that can help detect and follow-up on poor performance. • Having a broader and deeper tax base avoids the common pool problem and delivers real bottom up accountability (underpinned by a good public finance system). • A highly enabled private sector environment to make it really easy for business to operate,

<p>thereby reducing rent seeking incentives.</p> <ul style="list-style-type: none"> • Improving transparency in private sector engagement to reduce opportunities for mismanagement and corruption. • Well informed negotiating positions on risk sharing and approaches to maximising government revenues from large state contracts. • Using stabilization or savings Funds to safeguard resources until the conditions are right
Good Macroeconomic Policies
<ul style="list-style-type: none"> • Supporting high growth tradeable industries by creating other comparative advantages by: i) promoting a highly enabling environment for the private tradeable sector that allows exporters to do business; and ii) controlling wage growth. • Using off-shore stabilization of savings funds to keep excess tourism resource rents out of the economy until the macroeconomic, fiscal and institutional conditions are right. • Ensuring macroeconomic stability through use of other policy levers. • Not applicable in Tokelau under a dollarized economy: <i>Slow the appreciation of the currency and control inflation</i> through monetary and foreign exchange policies. Not generally sustainable but <i>useful to delay appreciation to allow time for other policies to take effect</i>

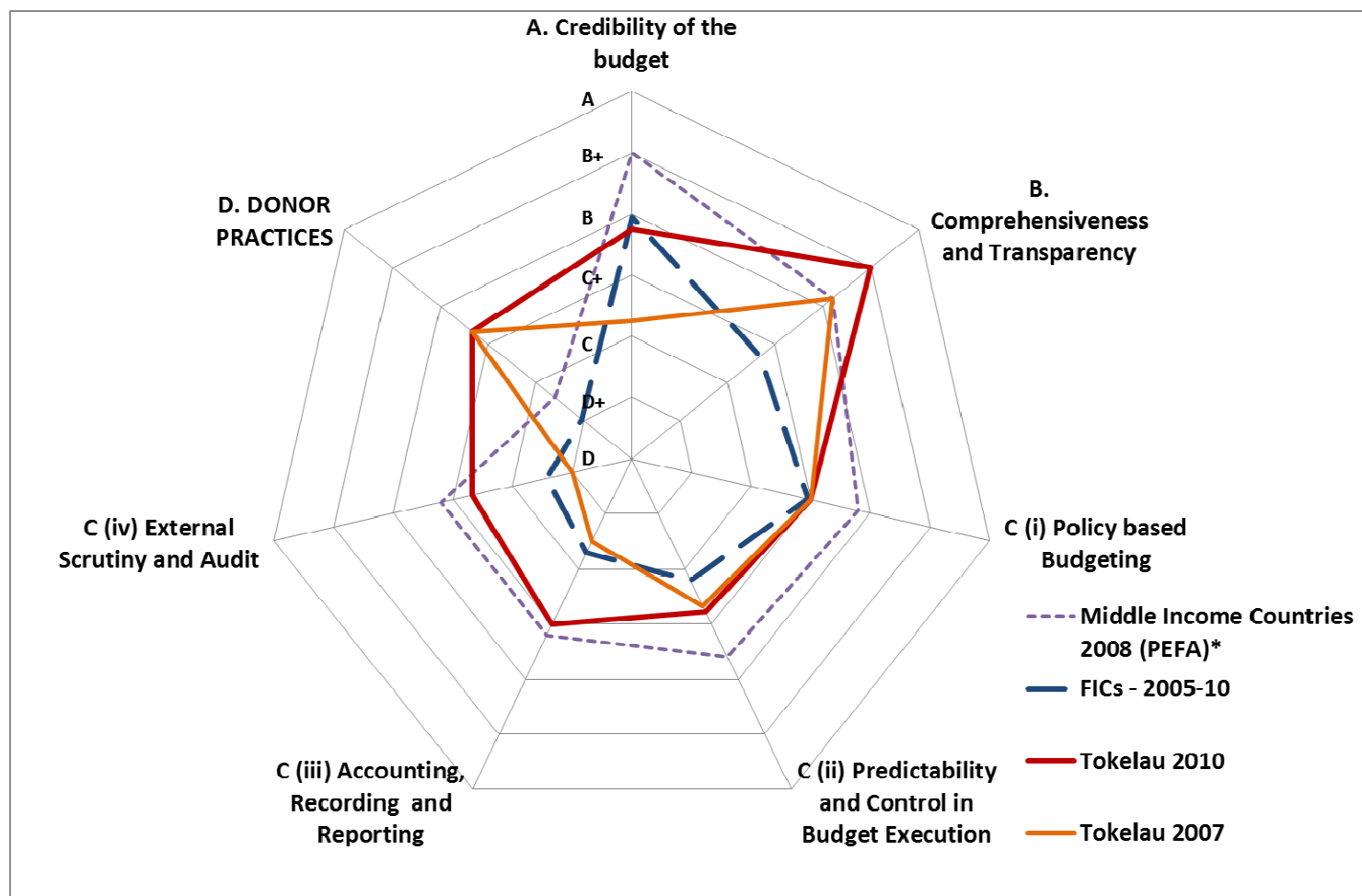
95. **Tokelau's technocratic leadership has made remarkable progress** under current governing arrangements. Key achievements include establishment of world class fiduciary risk management measures addressing high fiduciary risks in accounting and reporting as demonstrated by the history of unqualified audits of financial accounts. The institutional assessment undertaken here reveals that Tokelau's PFM systems are now of sufficient quality to ensure aid is absorbed efficiently and Tokelau's limited resources are spent well enough. Further work will be necessary to increasingly empower reformers, especially in the areas of Tokelau's PFM system that focus on ensuring development objectives are efficiently met.

... A Solid Platform is Laid...

96. **A good enough PFM system has been established that provides the foundation to move to more complex systems** designed to ensure development objectives are efficiently met. The PFM system is now well set to move to medium term budgeting and enhanced inter-government dialogue.
97. **The rapid PFM assessment found that the GoT's system has improved** since 2007. In particular, the budget is more credible, the system is more transparent, accounting and reporting is more timely and accurate, and audit is now functioning much better¹⁵. Figure 1 illustrates the generalized improvement in the PFM system since 2007. Overall, three high level PEFA PI scores moved from D's to A and one PI moved up to C. In terms of lower level PEFA dimension scores, eight scores graduated to A with a further two graduating to B. The improvements to the system sees Tokelau's PFM system compare relatively favourably to other assessed PFM systems. The major comparable weakness is in the area of policy based budgeting, while a minor weakness outlier is associated with lower budget credibility compared to other middle income economies.

¹⁵ It should be noted that the results need to be treated with caution due the time frame allowed for the assessment. The methodology used to assess the system in 2007, was based largely on available financial and certain non-financial data (such as dates of audits and budget hearings) for those PFM system dimensions amenable to analysis like budgets, accounts, audits. Assessments were also made based on semi-structure interviews with officials and advisers who were in Government at the time.

Figure 1: Assessment Comparison of PEFA-like Assessment with full PEFA assessments



98. The governments of New Zealand and Tokelau have a good system for dialogue. The pre-Budget talks held between the two governments and the ESA arrangements are consistent with world best donor practices. There are, however, opportunities to further strengthen arrangements. These include:
- More timely provision of project related financial and non-financial information for inclusion in budget papers and end-of-year accounts;
 - More strategic use of soft-conditionalities (e.g. maximum and minimum resourcing thresholds for at risk fiscal policies) with less focus on micro-management;
 - Greater use of PFM system outputs to manage political, development and fiduciary risks (e.g. budget talks could involve discussion around audit management reports, fiscal policy trends, long-term development objectives including private sector and trade-related industry development and medium term PFM system modernization program);
 - Introduction of annual economic and public financial management supervision missions focusing on system risks and economic performance; and
 - Careful introduction of debt-related financing instruments after a credible medium term perspective has been established in Tokelau's budget system (as building capacity to utilize debt well is a critical to any fully functional national governance system).

... Reducing Perceived and Real Fiduciary and Development Risks Remains a Priority...

99. The challenge facing Tokelau donors and potential lenders and investors is that the perceived risk of investing in Tokelau is significant or too difficult. This paper is only intended to provide better information on the fiduciary and development risks inherent in Tokelau's PFM systems in order that decision makers are better informed on issues such as degree and timing for investment and support.
100. The highest fiduciary and development risks assessed in Tokelau's PFM system are summarized in Figure 2 to Figure 4 and Table 3. The analysis reveals seven areas of highest risk are associated with: i) Procurement; ii) Unified medium-term top-down budgeting and fiscal risk management; iii) Weak Administration of Non-Tax Revenue; iv) Payroll controls: breakdown in linkages between establishment, payroll and personnel record controls; v) Commitment Control; vi) Oversight and scrutiny; and vii) Information on resources received by service delivery units. Table 3 provides an overview of the risk issues associated with each identified high risk area.
101. Figures 2 to 4 provide a comparison of Tokelau's risk profile with average results for Forum Island Countries between 2005 and 2010 and for other countries as at 2006. The figures demonstrate that Tokelau's PFM system compares favourably in many areas especially the treasury disbursement, accounting, recording and reporting system and in one of the six PEFA critical dimensions - Comprehensiveness and Transparency.
102. Figures 2 to 4 provide a representation of PFM system performance utilizing average (or equal weighting) scores for PEFA and provide comparators. Inspection reveals a weak link in Tokelau's system: policy based budgeting. The issue here is essentially the lack of a unified medium-term perspective in Tokelau's budget, which makes it very difficult to: i) plan multi-year projects (e.g. roll-out of school building construction over a number of years) and ensure operational funding (e.g. staffing and supplies) is available when new capital works are complete; ii) credibly plan longer term economic development policies and spending plans. They illustrate that Tokelau's performance in terms of budget credibility – or in other words budget forecasting accuracy – needs strengthening.

Figure 2. Tokelau's Inherent Development Risks (by PEFA Grouping).

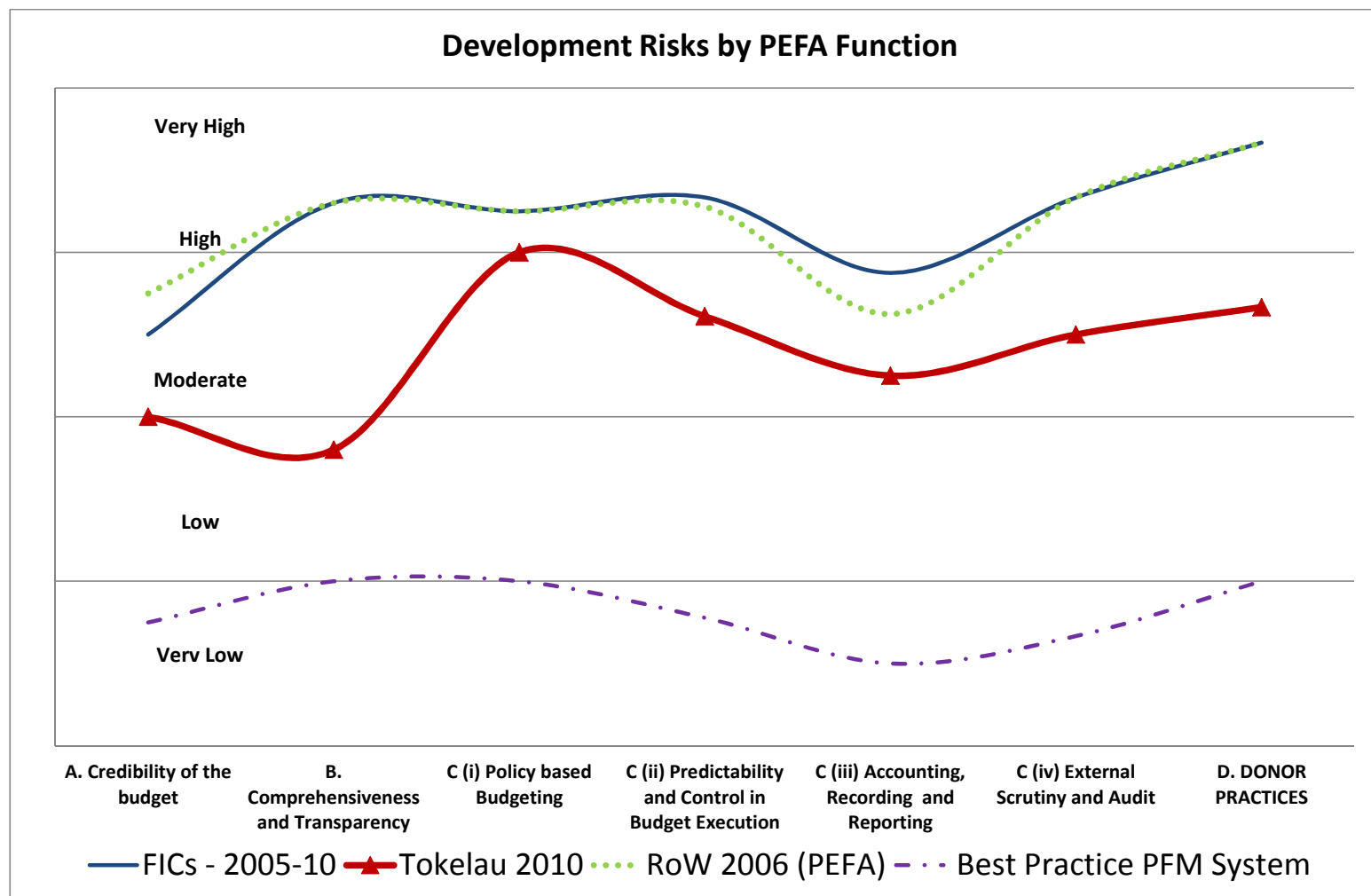


Figure 3. Tokelau's Inherent Fiduciary Risks (by PEFA Grouping).

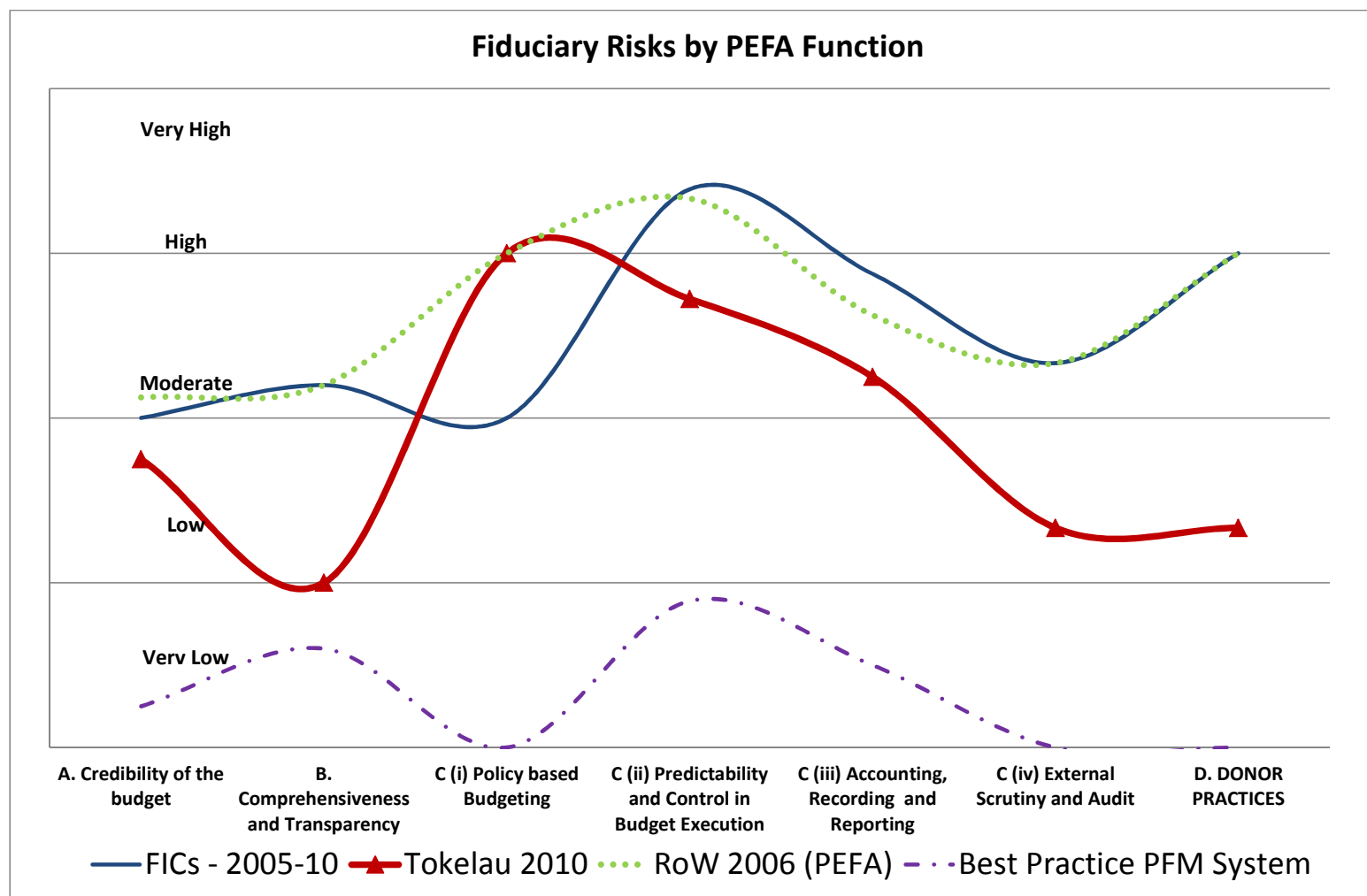


Figure 4. Tokelau's Inherent Development and Fiduciary Risks (by PFM Sub-system Grouping).

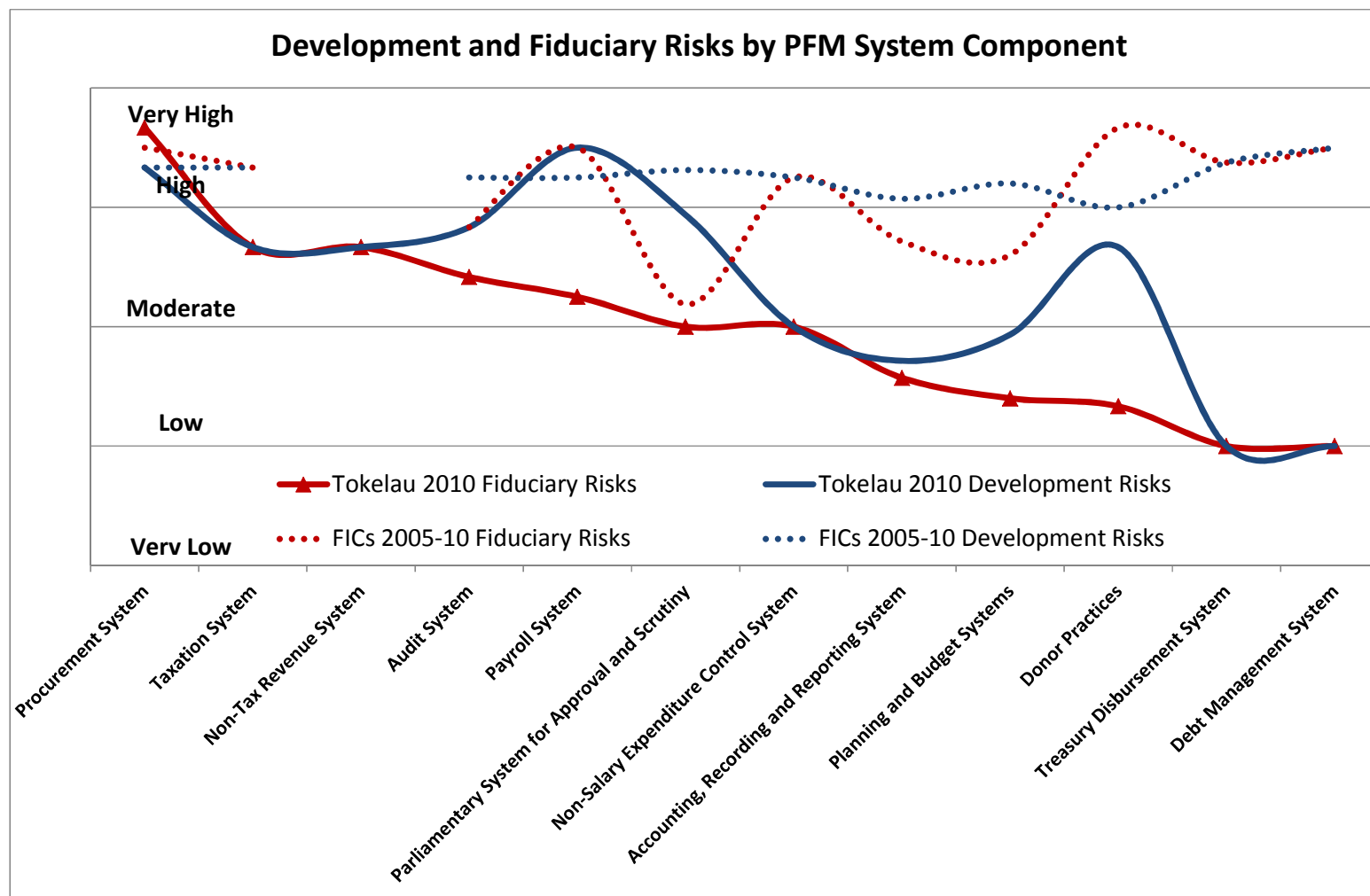


Table 3: Significance of Very High Fiduciary and Development Risks

PFM Element	Significance
1. Procurement	Procedures are not in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement. While procurement of large projects (over \$50,000) is not undertaken by GoT on their own, low value procurements do constitute significant fiduciary and development risk given its contribution to disposable funds (after employee compensations are removed). The development of purchasing guidelines is an important modernization measure being undertaken by the GoT. This should be expanded to include higher value procurement activities.
2. Unified medium-term top-down budgeting and fiscal risk management	This form of budgeting has been shown to provide the best basis to allocate all resources efficiently and effectively with a significant reduction in risk of non-achievement of development objectives. Medium term budgeting is the primary mechanism to translate vision into fiscal policies (including tourism, deep seabed mining, fisheries and other industry and economic policies) that are clearly linked to allocation of resources. Fragmented budgeting arrangements in Tokelau and lack of a medium term perspective in the public financial management system constitute a binding constraint to the effectiveness of the PFM system.
3. Weak Administration of Non-Tax Revenue	Administration of certain non-tax revenues (e.g. electricity charges), approvals are inadequate and constitute a significant long-term fiduciary and development risk. With significant future government revenues opportunities, transparent arrangements are needed to be worked on now to strengthen accountability in order to secure economic and poverty reduction benefits and also to promote transparency and business confidence in Tokelau's tourism, deep sea mineral, fisheries and other industries.
4. Payroll controls: breakdown in linkages between establishment, payroll and personnel record controls	Front-line units are increasingly less likely to deliver effective services since available resources for critical operational activities are being squeezed out by allocations for government personnel. Limited efforts to reign in salary expenditures will require new measures to increase own source revenue generation including through tax and initially primarily through non-tax means. The high risk to sustainable government finances remains as a result of weak establishment controls including payroll, hiring and personnel record controls are stronger.
5. Commitment Control	Lack of controls in the number and size of short to long term commitments being made constitutes a fiduciary risk. Weak commitment controls increase the risk that cash and appropriations are not well managed, which can lead to unexpected expenditure pressures including a build-up of substantial expenditure arrears and unnecessary formal and informal sequestrations and virements. It also results in disbursement delays. While no-evidence of significant problems have emerged, other than unique arrangements to manage carryovers/expenditure overshooting and the lack of functioning contingency reserve, stronger commitment controls will provide significant risk reductions.
6. Oversight and scrutiny	The General Fono are not sufficiently scrutinizing budgets and final accounts. It took the GF on average around 10 days to pass the annual budget and have not considered audit management reports. This is completely inadequate amount of time, with the international standard being 6-8 weeks for budgets and three months for audit reports. Internal audit is not working well. Internal audit is currently an informal function conducted within the DoF. Internal audit is the first line of defence to stop bad practices that slip through the cracks from getting out of control and causing a financial disaster. It is a foundation element of the whole audit system.
7. Information received by service delivery units	Service delivery is compromised by a lack of detailed information on planned and actual resources to be received in cash and kind for front-line service delivery units.

103. A key issue identified with improving budget forecasting performance is being constrained by the lack of a functional and transparent contingency reserve system. The current system of utilizing prudential revenue forecasting and mandatory full budget reviews for increasing allocations (or shifting resources from one agency to another) is working extraordinarily well to help control cash and appropriations; but it is not supporting credible budgeting arrangements. Given that Tokelau's budget is highly sensitive to key expenditure pressures such as medical and transportation emergencies; a restrictive contingency reserve is warranted. Table 4 provides a more detailed summary of the PEFA performance indicator scores achieved by Tokelau.

... But absorptive capacity¹⁶ remains low,
even though institutional capacity is sufficient and concessional borrowing capacity is not
utilized ...

104. Tokelau is both aid dependent and very high aided. In terms of ODA-GNI, Tokelau is the highest aided country ... ever ... in the history of international record keeping (see Figure 5). Accounting for population, Tokelau is still one of the highest aided countries¹⁷ for middle income countries. Relative to other lower middle income countries or territories, Tokelau is the second highest recipient of ODA as at 2008 when accounting for GNI in per capita terms (c200%). Nauru, the world's smallest island nation, had a peak aid (population adjusted) significance ratio of just 22%. Tokelau would also be in the top 10 aid dependent states if compared to Low Income Countries (LICs). Moreover, Tokelau is due to graduate to Upper Middle Income Territory status in 2011 as it has been above the US\$3,705 (2007) for the last three years. Should Tokelau graduate next year, Tokelau will have the unenviable title as clear leader in terms of aid dependency/significance (population adjusted), with aid levels over five times that of the nearest state. This exposes Tokelau to an uncertain aid future, as most governments can only provide high subsidies for so long.
105. Absorptive capacity, a country's ability to utilize aid efficiently, is centered on the idea that it is possible to receive too much or too little aid. When thinking about absorptive capacity it is important to be mindful of its different drivers. Broadly speaking, there are three key drivers of absorptive capacity – macroeconomic, microeconomic and institutional and six key dimensions are assessed here according to the framework followed (Figure 6).
106. Analysis of absorptive capacity reveals the areas where absorptive capacity is weakest are associated with the following: i) limited power of the private sector to efficiently utilize additional development resources; ii) institutional PFM capabilities have improved but are still too weak to ensure all key fiduciary and development risks are minimized; and iii) there is room for improvement in donor practices, including aid predictability, reporting and dialogue¹⁸. The analysis also reveals (prima facie) that Tokelau's economic development may be being constrained by too much aid in aggregate given the quality of governance and public financial management and GDP levels. Or in other words, if aid were reduced it could result in improved development effectiveness. Analysis indicates that there may be capacity to carefully introduce some form of concessional borrowing, when the time is right (e.g. when a medium term perspective is developing in the system) and that there is evidence of aid-induced resource curse.

¹⁶ There is a general consensus that an absorptive capacity limit has been reached when additional aid is associated with declines in its development effectiveness.

¹⁷ Though adjusting for aid related domestic production, Tokelau would still rank top

¹⁸ On the basis of discussions with the authorities, Operation Tropic Twilight appears to be a good example of poor dialogue and donor driven agenda. We were advised by the authorities that while consultation occurred, it happened well after budget allocations were agreed and that there was limited scope to use resources as the annual budget originally intended.

Table 4: High Level Summary of Fiduciary and Development Risk and PEFA Scores.

















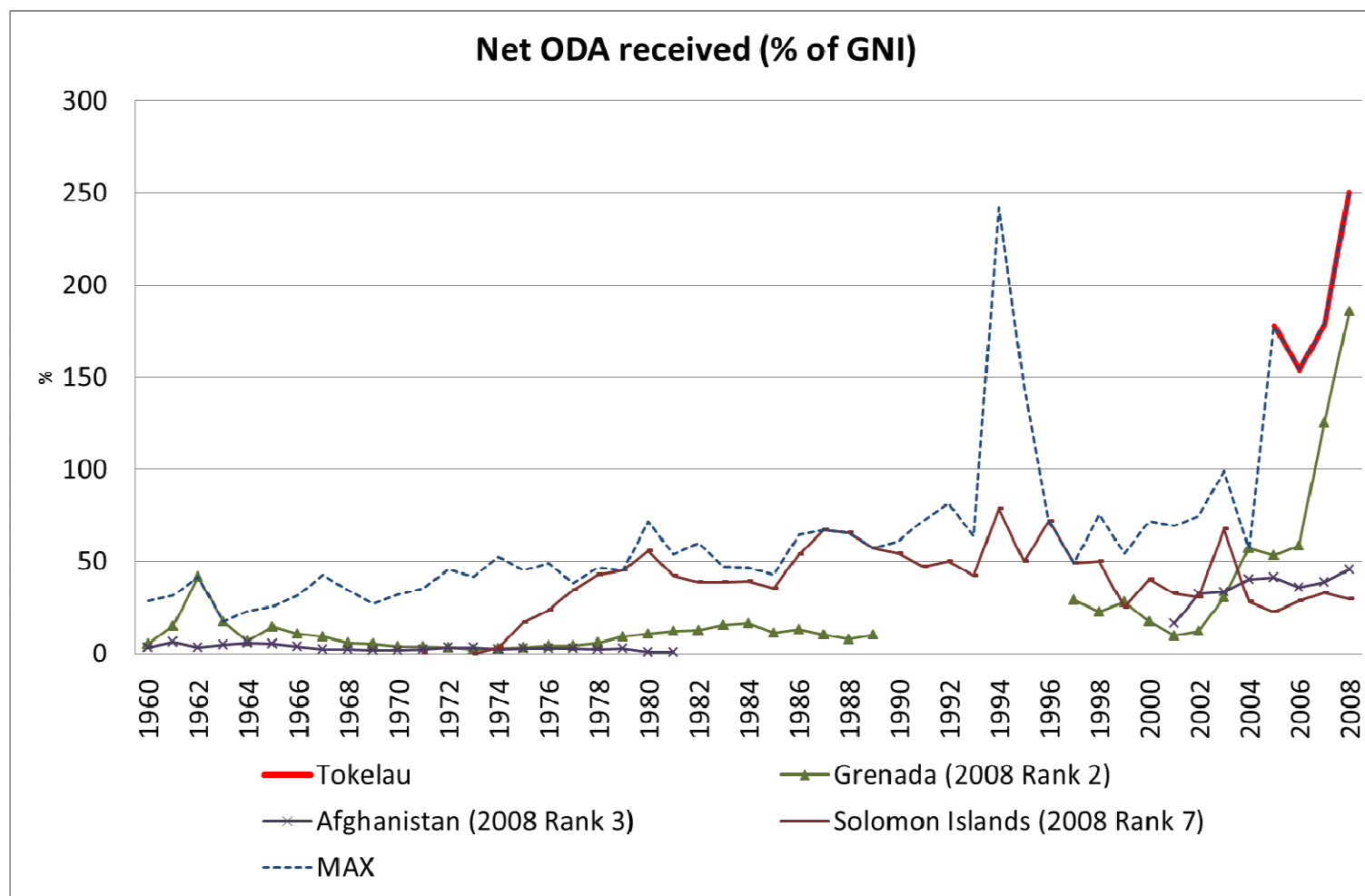
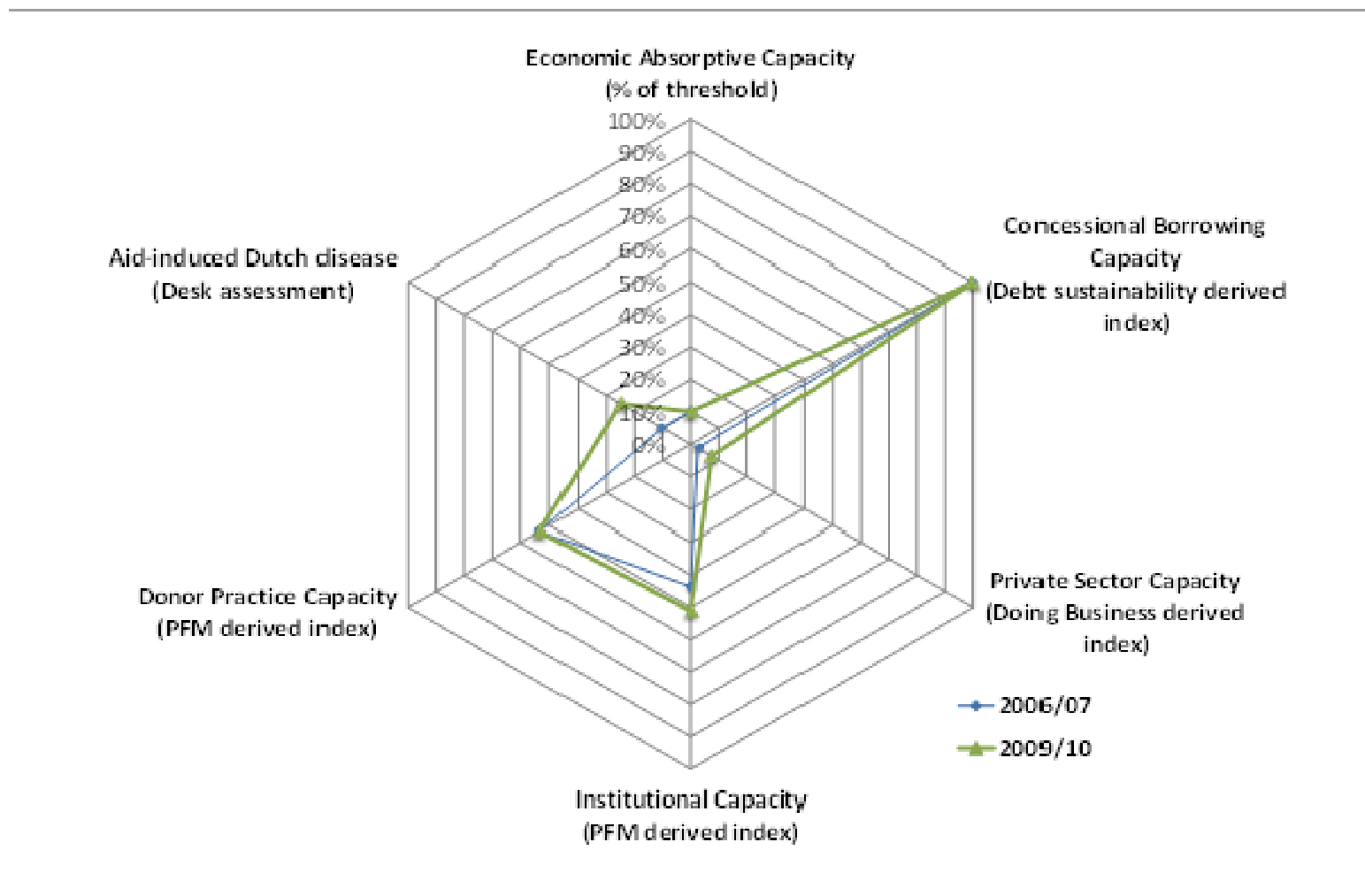
	Indicator	Rapid PEFA-like Score	Fiduciary Risk	Development Risk
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate [sector] expenditure out-turn compared to original approved budget	 2.0	M	H
PI-2	Composition of [sector] expenditure out-turn compared to original approved budget	 2.0	M	H
PI-3	Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget	 4.0	VL	VL
PI-4	Stock and monitoring of [sector] expenditure payment arrears	 3.5	L	L
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget [in the sector]	 4.0	VL	L
PI-6	Comprehensiveness of information included in budget documentation	 3.0	VL	M
PI-7	Extent of unreported government operations [in the sector]	 4.0	L	L
PI-8	Transparency of inter-governmental fiscal relations [within the sector]	 4.0	L	L
PI-9	Oversight of aggregate fiscal risk from other public sector entities	 3.5	L	L
PI-10	Public access to key [sector specific] fiscal information	 3.0	M	M
	C. BUDGET CYCLE			
	C (i) Policy based Budgeting			
PI-11	Orderliness and participation in the annual budget process [within the sector]	 2.5	M	M
PI-12	Multi-year perspective in [sector] fiscal planning, expenditure policy and budget	 2.5	M	M
	C (ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	 1.5	VH	VH
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	 2.0	M	M
PI-15	Effectiveness in collection of tax payments	 4.0	L	L
PI-16	Predictability in the availability of funds for commitment of expenditures [in the sector]	 3.5	L	L
PI-17	Recording and management of cash balances, debt and guarantees [in the sector]	 4.0	L	L
PI-18	Effectiveness of [sector] payroll controls	 1.5	H	H
PI-19	Competition, value for money and controls in procurement [in the sector]	 1.5	VH	VH
PI-20	Effectiveness of internal controls for non-salary expenditure [within the sector]	 2.5	M	M
PI-21	Effectiveness of internal audit [within the sector]	 1.0	VH	M
	C (iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation [within the sector]	 4.0	L	L
PI-23	Availability [Collection and processing] of information on resources received by the sector	 1.0	VH	VH
PI-24	Quality and timeliness of in-year [sector] budget reports	 2.5	L	L
PI-25	Quality and timeliness of annual [sector] financial statements	 2.5	M	M
	C (iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	 4.0	VL	L
PI-27	Legislative scrutiny of the annual budget law [by sector committees where applicable]	 1.5	L	M
PI-28	Legislative scrutiny of external audit reports [relating to the sector]	 1.5	M	H
	D. DONOR PRACTICES			
D-1	Predictability of Direct [sector] Budget Support	 4.0	VL	L
D-2	Financial information [for the sector] provided by donors for budgeting and reporting	 1.0	M	VH
D-3	Proportion of aid that is managed by use of national procedures	 3.0	L	M
	ADDITIONAL -Non-PEFA INDICATORS			
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI- x	Transparency of administrative arrangements to support gender perspectives	 2.0	L	M
	C (i) Policy based Budgeting			
PI-12B	Multi-year perspective in [sector] fiscal planning, expenditure policy and budget	 1.0	VH	VH
	C(ii) Predictability and Control in Budget Execution			
HLG-1	Predictability of Transfers from Higher Level of Government	 4.0	VL	L
PI - y	Transparency and effectiveness of administrative arrangements for non-tax	 1.5	H	H
PI-19B	Competition, value for money and controls in procurement [in the sector]	 2.0	H	H
PI-19C	Controls in procurement [in the sector]	 1.5	VH	VH
PI-19D	Controls in procured goods [in the sector]	 2.0	H	H

Figure 5: Tokelau – Highest Aided State ... ever ...*



Source: World bank (WGI and GDF) * in the history of international record keeping of ODA and national income statistics (excludes countries or territories not reporting data)

Figure 6: Tokelau Absorptive Capacity Space



107. Absorptive capacity analysis reveals a critical issue and goes to the heart of the problem faced by the Tokelauan Authorities and the NZ Government. On the one hand, it shows that Tokelau is over-aided and domestic production is lower than it should be; while on the other hand own source revenue is currently completely insufficient to deliver any credible level of governance, public services and/or social safety nets. Consequently, the view of what is a sufficient level of aid in this context needs in the view of the consultant, to be made on the basis of a long-term vision for Tokelau including economic development and reducing aid dependency. From deeper inspection of the issue emerges the problem common with high aided countries: reducing aid may cause great hardship both economically and socially. Raising aid, however, without a clear link to a strategy that reduces aid dependency can be considered as deepening the problems of aid dependency and the common pool problems¹⁹ that go with it.

... Trend Analysis reveals strengths and weakness ...

Analysis of budgets and reported final outcomes reveal the following:

- **Budget revenue forecasts are highly conservative** with consistently high budget surpluses and unique arrangements to manage urgent and unforeseen expenditures;
 - **Deconcentration policy is working** to increase control and size of sub-national government allocations;
 - **Almost 50% of government expenditure is for employee compensation**, which is extremely high in comparison to other countries (Figure 7) ;
 - **Depreciation funding is not working** to incentivise better management of non-financial assets (though earmarking repairs and maintenance budget allocations is proving successful) and may be contributing to perverse budgeting incentives;
 - **Reporting of central and sub-national government budgets is insufficient** with multi-dimensional approaches to reporting not being utilized.
108. **Figure 7 shows funding for the compensation of employees is consistently tracking at just under 50% of total budget** expenditure. This level is high in terms of world standards with ranges of 15% to 35% for different types of country income levels. The flat trend in staffing allocations that suggests good staffing controls are in place, masks the effects of weak establishment controls resulting in significant increases in staffing assumed in many years prior. Given Tokelau's under-developed economy and lack of trade-related industry, GDP comparisons will generally always uncover large divergences with other country comparators. That said, use of GDP comparators remains useful, including for emphasizing the under-developed nature of Tokelau's economy given the size of its population and the need for industry development. It is understandable why there is a high ratio though that does not necessarily mean that it remains an appropriate level. The point being that a long-term vision for public finances and the economy would ideally see a reduction in such a ratio.
109. Depreciation funding is also tracking at under 5% of government expenditure. While providing depreciation funding is useful for providing necessary incentives for better management of assets, the mechanism appears to be used for cash management and financing urgent and unforeseen expenditures through review.

¹⁹ Common pool - where the majority of funds come from one source – the basis of the resource curse

Figure 7: Employee Compensation Trends – 2004/05-2009/10 (% of Budget)

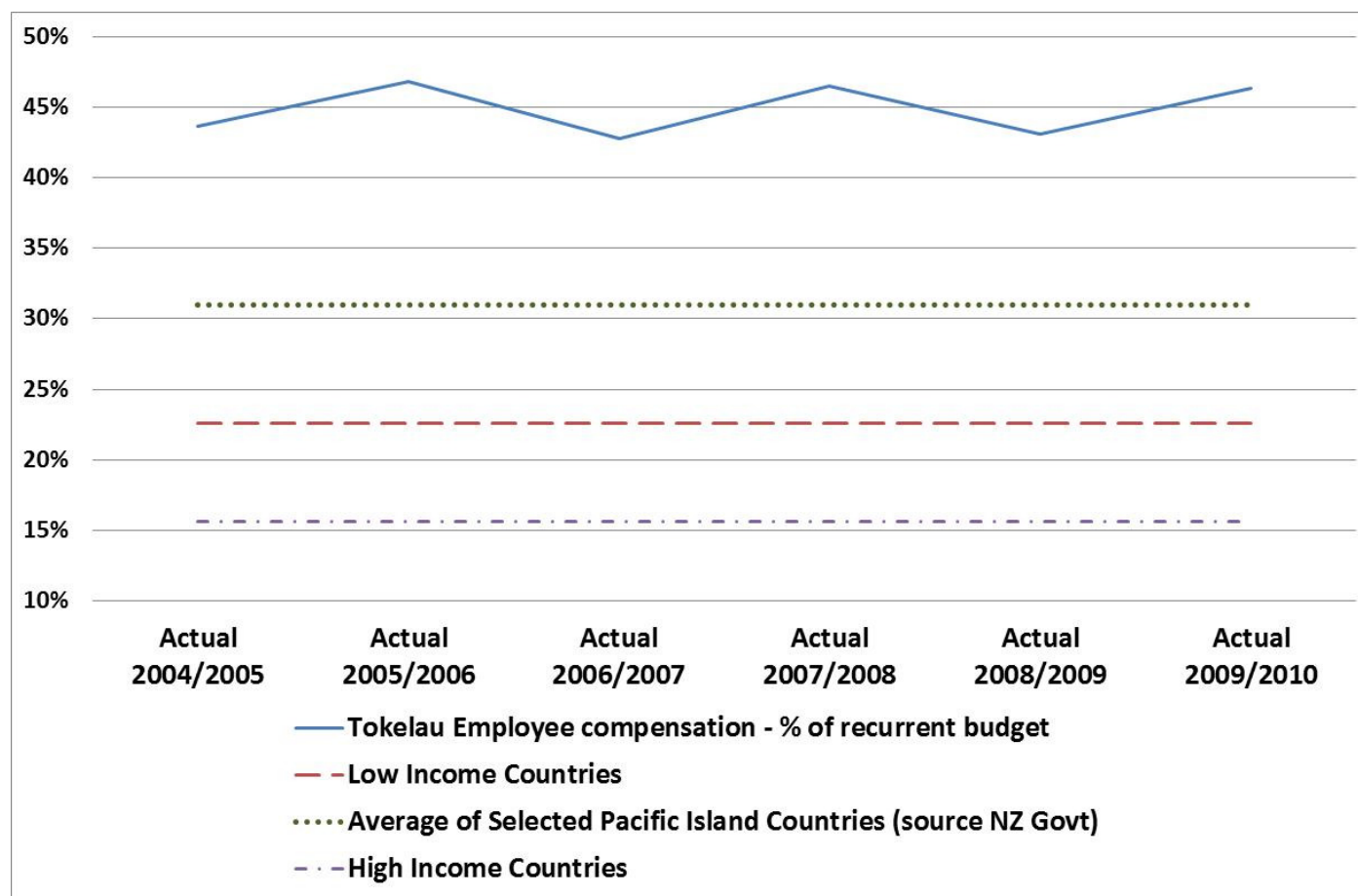
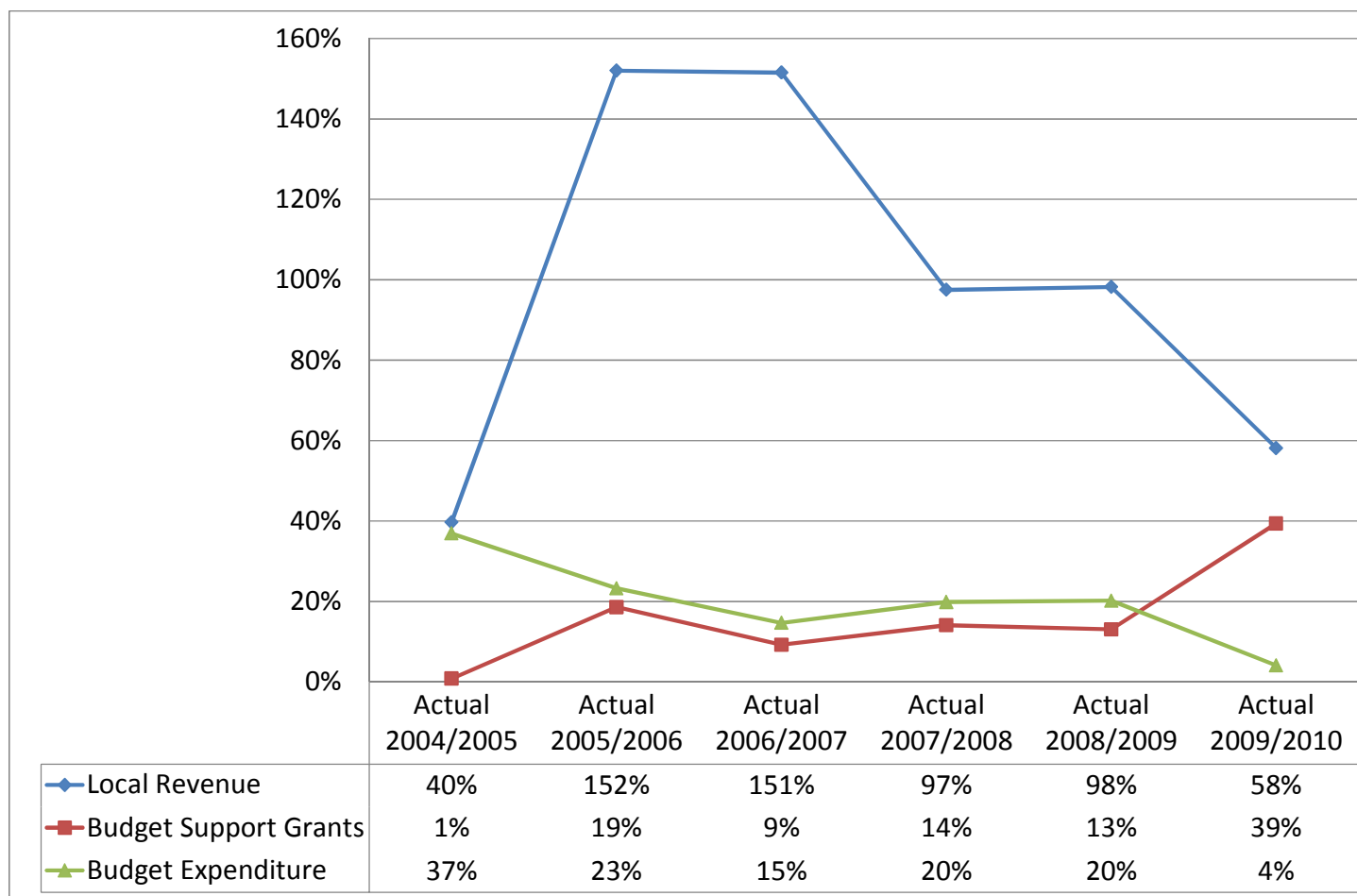


Figure 8: Deviation of Forecasts from Original Budget 2004/0 5-209/10



110. **Service delivery budgets appear to be becoming more credible.** Figure 9 reveals the gap between health and education budgets and actuals is narrowing. This implies that the accuracy of budgets is improving. However, applying PEFA methodology, that tests service delivery budget credibility over a rolling 3 year period reveals that there has been a sustained improvement in education budget credibility since 2006/07 and that the gain made in the health budget credibility in 2007/08 was temporary (Table 5). Current scores constitute a high development risk. It is noted that the health budget remains susceptible to urgent and unforeseen expenditures associated with the overseas referral scheme.

Table 5: Service Delivery Budget Credibility and Fiduciary and Development Risks

	FY06/07	FY07/08	FY08/09	FY09/10
Health Budget Expenditure Credibility	C	B	C	C
Fiduciary Risk Rating	M	L	M	M
Development Risk Rating	H	M	H	H
Education Budget Expenditure Credibility	D	C	C	C
Fiduciary Risk Rating	M	M	M	M
Development Risk Rating	VH	H	H	H

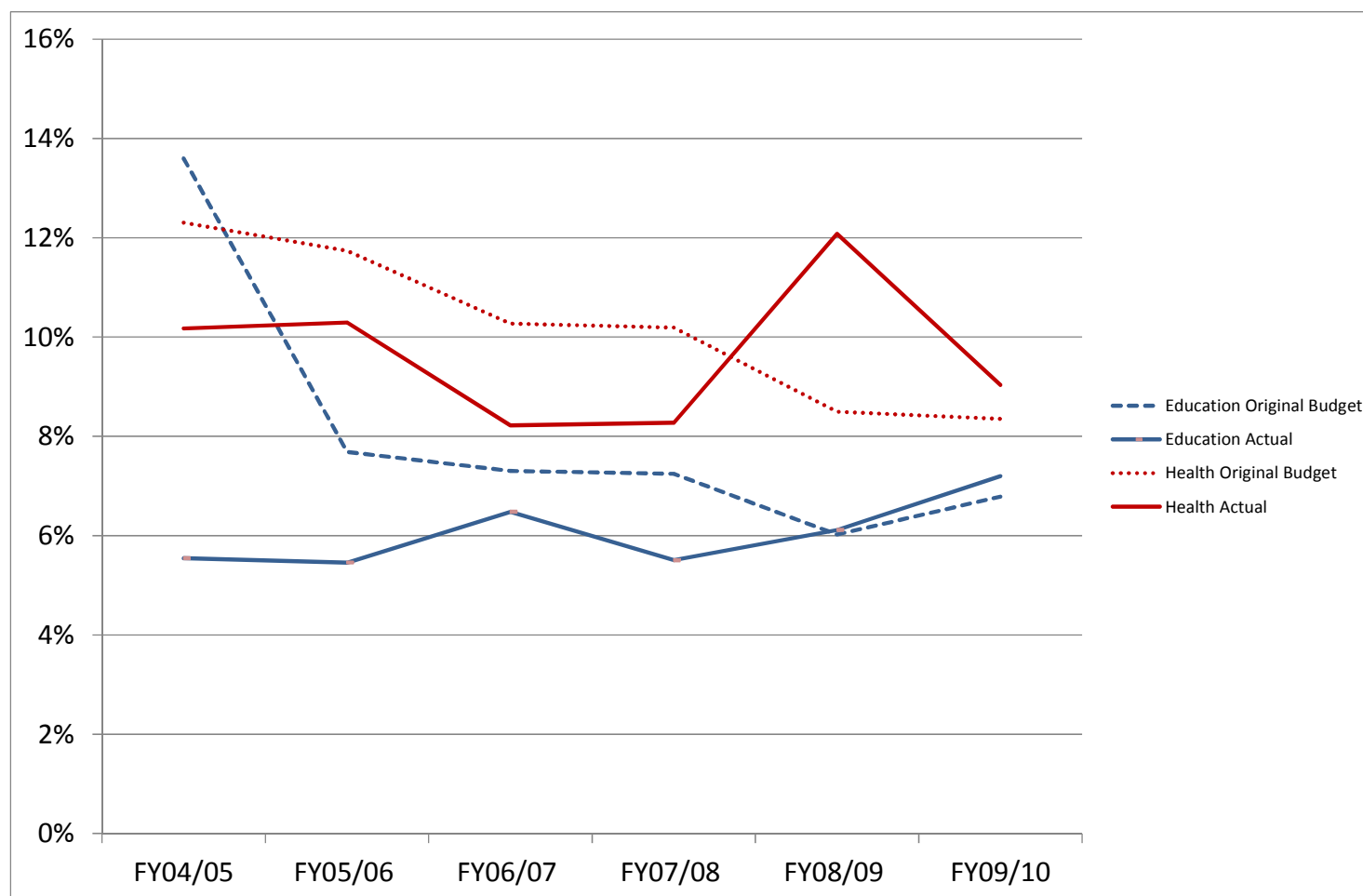
... Better supervision is required and forms part of clear aid dependency exit strategy ...

111. **Tokelau, and countries like Tokelau have missed out on independent supervision and technical and financial assistance benefits** provided through membership of International Finance Institutions (IFI) like the IMF. Certain autonomous states have also missed out on need-based technical assistance, guarantees and analytical advisory assistance provided by the World Bank. While there are downsides to IFI membership, including costs and administrative burdens, overall the services provided by the IFI's must be considered greater than the costs; otherwise IFI's would have no members. While Tokelau would not pose any real problem in this area any time soon, the point on independent and high quality economic and fiscal supervision remains. Moreover, independence in such supervision missions benefits both bilateral donors and recipient governments.

... What is required? ...

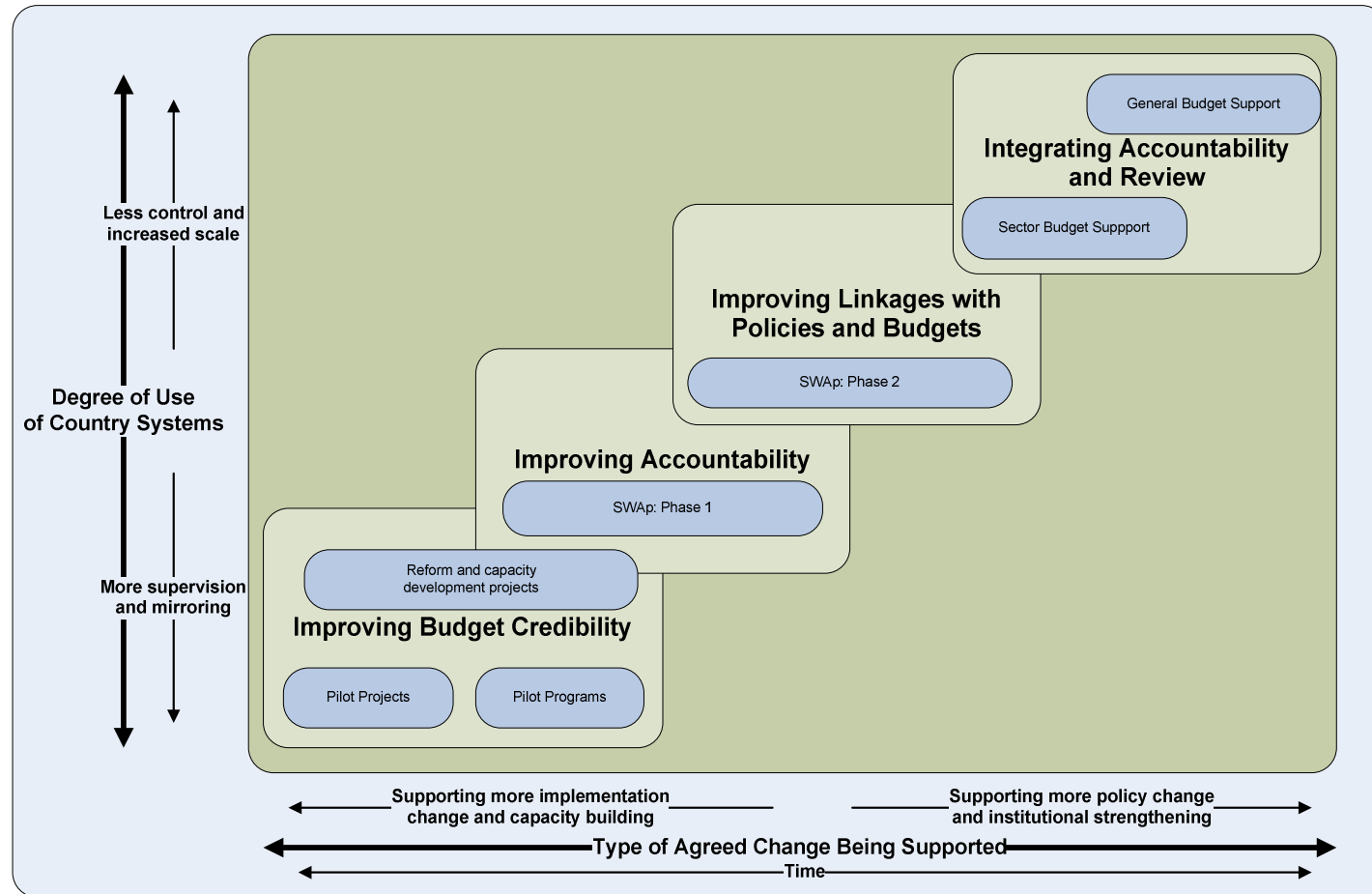
112. **It will take time and effort to successfully grow Tokelau's economy,** reducing aid dependency and providing better living conditions for the Tokelauan people. The following three point plan is proposed:
- **Develop a reasonable medium term PFM system modernization program** designed to reduce Tokelau's highest fiduciary and development risks including introduction of a medium term budget perspective and policies to broaden the tax and non-tax revenue base over time (Table 3). The reform program could be based around building competencies;
 - **A medium term expenditure framework be developed** within this context starting with program specification and budget and end-of-year reporting following international standards (Government Finance Statistics) including use of functional classification and compliance with national and sub-national government reporting specifications.
 - Given the need to build a self-sufficient economy, work could then start on a long-term fiscal model that assesses implications of various industry policies against revenue growth and needs and performance based expenditure allocations.

Figure 9: Service Delivery Budgets: Closing gaps



- The top-down element of a working MTEF would be based on such a model, but be multidimensional – incorporating function and location (level of government) in addition to economic classifications.
 - The bottom-up element could start by proper costing of departmental strategic plans under a realistic assessment of available resources (with high a low case revenue scenarios) and contrasted with a needs based costings.
 - Preparation of the foundation for the bottom-up element could also commence with modernization of budget submission guidance and templates, which would include space for agencies to enter estimates of expenditure in forward years.
 - **Development of a medium term PFM system strengthening program following the “the strengthened approach to supporting PFM reform”** (PEFA Secretariat, 2005). This is the best mechanism to where awareness can be raised with Tokelau’s leadership about the importance of linking policies, planning, costing, budgeting and allocations and highlighting lessons learned.
 - An example of medium term reform program has been provided in the technical working paper. It is was developed in a way that prioritizes the highest levels of fiduciary and development risks and within the context of other revealed issues including through absorptive capacity analysis.
 - Ideally, the authorities should not necessarily take the program as is. Rather it would be developed following the “strengthened approach”, which would start with a Tokelauan led PEFA Assessment and a discussion on what should be Tokelau’s realistic vision for its PFM system in 10 years: A real country owned vision certainly helps reform programming. Once the vision and a proper country-led PEFA assessment is complete, application of fiduciary and development risk and technical and political feasibility factors to the PEFA scores would provide a good basis to help prioritize and sequence a medium-to-long run PFM reform program.
 - **Nurture long-term trade-related industry policies** including those that build a private sector; and
 - **Continue to enhance donor-government dialogue** focusing on securing:
 - Shared understandings of the system of national and sub-national government, which sets the foundation for a coherent medium term PFM system strengthening program; and
 - Strategic elements including economic and fiscal supervision missions, financial and non-financial performance, soft-conditionalities and better consolidating non-budget support aid budgets with the government’s budget.
113. Dialogue and modernization programing could focus on establishing gateways (prior actions) and trajectories for change (triggers) and a set of Quantitative Joint Monitoring Performance Targets. An approach for use of gateways and trajectories for change is elaborated in in Figure 10. The gateways are essentially prior actions required to safeguard the program and modernization objectives, while trajectories for change are performance targets, when reached trigger some sort of action such as increased responsibility for procurement or additional incentive payments. Triggers could be grouped according to a range of categories including Public Administration and Public Financial Management, Governance, Statistics and Economic Growth and Trade Development. Quantitative Joint Monitoring Performance Targets could include ceilings and/or floors on the following: Stock of reserves; Budget deficits; Debt levels; Revenue Targets; Arrears; Number of public servants; Health Expenditure as a percentage of Total Expenditure; Education Expenditure as a percentage of Total Expenditure; Restricted Emergency Reserve as % of Budget and Total Expenditure; and Statutory Bodies.

Figure 10: Gateways and Trajectories for Change – integrating dialogue with medium term reform programming



Adapted from Koberle et al, 2005, p 11, Brooke, 2003 and DFID, 2005 p 5.

4 Relationship between New Zealand and Tokelau

Tokelau has a number of concerns about the ways things have progressed in regard to their relationship with New Zealand.

114. The major unintended outcome of the support from the ESA has been development of a high level of concern in Tokelau about the relationship between Tokelau and the New Zealand government. There is a strong feeling that New Zealand makes decisions with little consultation or understanding of the realities on the atolls. The perception among many was that commitments made by New Zealand are not kept and that New Zealand does not trust Tokelau. The failure to achieve outcomes through the IDP, Ship-to-Shore Project and replacement of the MV Tokelau have contributed to this perception. Communication styles and the failure of senior representatives of the current Government to visit Tokelau and see the realities have compounded it.
115. It was also perceived that New Zealand is not attending to matters that require New Zealand's action to enable Tokelau to progress its economic development. This specifically related to the EEZ and Tokelau's production of stamps and coins.
116. Tokelau's own plans and internal processes have also contributed to these issues. For example, in some cases there have been lengthy delays by Tokelau in responding to New Zealand's requests for comment. At a village level, often there does not seem to be a sound understanding that all budgets are limited: if the budget is increased in one area it must be decreased in another. A number of expectations of people in villages appear unrealistic. As New Zealand has, and always will have, a limited budget, expectations of what New Zealand can fund must be realistic.
117. New Zealand and Tokelau need to work together to determine what they can each do to improve the relationship. Consideration should be given to having an MFAT Officer with responsibility for Tokelau based at the MFAT Office in Apia; establishment of regular visits by MFAT Officers to all villages in Tokelau; and exchanges between MFAT and TPS.

Recommendation 14: Discussions be held with Tokelau's leadership about how to improve communication.

5 Conclusions

118. Overall, the ESA was:
 - Relevant to the needs stated in Tokelau and New Zealand's planning documents at that time, their policy and their strategies.
 - Effective. The IDP is a significant exception to this.
 - Efficient. However the extent of expenditure on the TPRS does not represent value for money. There are also a number of practices which would improve the efficiency of expenditure on the ATA, sector reviews and IDP.
 - Largely sustainable on the basis that funding for Tokelau's budget is available. The significant exception to this is the expenditure on the TPRS.

In terms of public financial management we found that Tokelau's system features relatively low inherent fiduciary and development risks, while absorptive capacity remains constrained:

- Accounting system is good enough for transparent and accurate reporting;
- Local revenue control is good enough to mitigate fiduciary risks;
- In-year reporting is good enough for leaders to make informed decisions and appropriate follow up;

- Time allowed for budget preparation is insufficient to allow leadership to properly consider budget options.
- Tokelau's prospects for growth and reducing aid dependency are good and not unduly constrained, though improving policy linkages to the budget is warranted;
- Devolution policy is working to increase control and size of sub-national allocations; and
- Almost 50% of government expenditure is for employee compensation, which is extremely high and is squeezing out operational funding.

119. There were a range of strategic issues in relation to this. These include:

- Reducing inherent fiduciary and development risks further requires a focus on the highest risks;
- Moving towards greater control of development budget spending is justified on the basis of good enough PFM system that features relatively low development and fiduciary risks;
- Encouraging greater awareness of the budget is warranted;
- Current social and economic policies are focused on construction of social housing: while this provides jobs, it is not sustainable. Consideration will be needed for longer term policies that support jobs and trade related economic growth (e.g. tourism, fishing, charters, minerals and other use of tradable labour);
- Depreciation funding is not working to incentivise better management of non-financial assets (though earmarking repairs and maintenance budget allocations is proving successful) and may be contributing to perverse budgeting incentives;
- Reporting of central and sub-national government budgets is insufficient with multi-dimensional approaches to reporting not being utilized; and
- Donor-Country Dialogue will need to continue to improve.

6 Considerations in Developing the Next Package of Multi-Year Support

120. In developing the next package of multi-year support, this Review recommends that GoT and GoNZ consider the following points:

- The ESA was a sound approach providing certainty in funding essential for long term planning. A similar model should be considered.
- Incentive (and similar) payments were effective in achieving their objective. Inclusion of incentive payments for villages and Departments should be considered based on Tokelau's Strategic Plan and Village Plans, focus on the aspects agreed by GoT and MFAT to be of strategic significance for Tokelau (for example: implementation of a sustainable approach to the TPRS).
- The ATA requirements be completely reviewed. The starting point should be what areas are of greatest need in terms of capacity and expertise. ATA should address these needs. Their Terms of Reference should provide a clear link between the partner agencies Strategic Plan, and all outputs and outcomes.
- Sector reviews are good in theory. GoT and GoNZ should discuss why the opportunity of reviews to inform decision making were not taken up to any extent. If possible, these issues should be addressed. If sector reviews are continued, they should reflect priorities specified in Tokelau's planning documents. Their Terms of Reference should require prioritization of recommendations and indicative (order of magnitude) budgets to assist future decision making in Tokelau.
- Funding repair and maintenance has increased the quantity of R&M that has occurred. This is particularly so on Fakaofu where new construction was slowed. Consideration should be made to the continuation of a ring-fenced pool of funds for R&M. However it may be more

- efficient (and better support planning) if it was part of the direct budget support rather than artificially separated.
- Construction of infrastructure that is within Tokelau's management capacity should be managed by Tokelau. For other works, contractors in Samoa should be used wherever possible.
 - Reporting be revised. The content should meet the planning, monitoring and reporting needs of GoT. GoT and GoNZ should work together to determine what these are and then whether GoNZ have additional reporting requirements.
 - Future ESA management focus on strategic issues, ensure that the processes applied support this, and all agree outcomes are realistic.
 - GoT and MFAT consider ways the next ESA can to increase skills development and support retention of skilled people in Tokelau.
 - Discussions be held with Tokelau's leadership about how to improve communication.
121. The following points should also be considered as GoT seeks to grow Tokelau's economy, reduce aid dependency and provide better living conditions for the Tokelauan people:
- Develop a reasonable medium term PFM system modernization program with priority afforded to establishing a simplified top-down component of an MTEF and following the "the strengthened approach". (An example of medium term reform program fit for purpose has been provided in the technical working paper).
 - Nurture longer-term trade-related industry policies including those that build a private sector; and
 - Continue to enhance donor-government dialogue with an increasingly greater focus on gateways (prior actions) and trajectories for change (triggers) and a set of Quantitative Joint Monitoring Performance Targets.
122. There are a variety of ways to raise awareness among Tokelau's leadership about the importance of linking policies, planning, costing, budgeting and allocations. Possible strategies include:
- The development of a medium term PFM system modernization program could be advanced following the "the strengthened approach to supporting PFM reform" (PEFA Secretariat, 2005).
 - Provision of ATA to work with leaders in these areas. If this occurred the position should: focus on on-the-job training, provide follow-up, and spend most time working with leaders in villages.
 - Provide work place attachments to good practice organizations in New Zealand or Samoa. If undertaken, the timing should coincide with when this process is occurring in the host agency, include a contract for the participant which states the anticipated learning and how it will be applied on return, and monitoring of application of the learning.
 - Build on existing developments in education. It may be possible to then use this as an example to other agencies.