



DEVELOPMENT CO-OPERATION TIPS TOOLS INSIGHTS PRACTICES

In practice

USING BUDGET SUPPORT TO RESPOND RAPIDLY TO COVID-19 IN PACIFIC SMALL ISLAND DEVELOPING STATES (SIDS)

Key messages

To ensure the economic and social resilience of Pacific small island developing states (SIDS) during the COVID-19 pandemic, New Zealand delivered a series of emergency packages involving fiscal budget support. The funding was additional to New Zealand's reform-linked budget support and drew extensively on learning from these efforts, allowing Pacific SIDS to maintain stability and help them recover from the crisis.

Keywords

Finance | Global goods and challenges | Official development assistance allocations | Partner countries | Innovation

Key partner

New Zealand

Challenge

Pacific small island developing states (SIDS) are among the smallest and most remote countries in the world. Like other SIDS, they are highly vulnerable to external shocks – not least the economic and fiscal consequences of the COVID-19 pandemic. Their small economies make many SIDS dependent on international trade, external finance and a small number of key sectors, often tourism and fishing. The pandemic and its consequences therefore severely reduced the Pacific SIDS' public and private revenue, limiting their capacity to tackle the health and economic impacts. This in turn exacerbated their debt burden and threatened the availability of public investment for recovery.

Approach

Prior to the pandemic, New Zealand was already offering budget support to eight of its Pacific priority partner countries, linked to mutually agreed reforms (Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu). To respond quickly to the impacts of the COVID-19 pandemic, while

protecting the priorities of these ongoing investments, New Zealand's Ministry of Foreign Affairs and Trade (MFAT) rapidly designed and launched new support packages:

- **The emergency fiscal budget support** drew from the official development assistance (ODA) budget but was delivered on top of the ongoing reform-linked budget support, while using similar disbursement requirements.
- **Fully grant based, this new finance modality drew on several years of experience** in delivering reform-linked budget support in partner countries, including familiarity with partner government systems, as well as technical assistance for strengthening those systems.
- **Fund allocation was based on partner governments having pandemic response and recovery plans in place.**
- **Accountability mechanisms** involved partner government reporting on the use of funds, assessments by other development co-operation partners, and government financial statements and audits.

Results

- **A rapidly delivered COVID-19 package of NZD 50 million, including NZD 40 million in emergency fiscal budget support.** This was delivered in March 2020 as the first implications of the pandemic unfolded, making New Zealand among the first development partners to disburse flexible financing. MFAT subsequently delivered NZD 277 million in emergency fiscal budget support (between 2019/20 and 2021/22) as the crisis deepened and the medium-term implications became apparent.
- **Partner government-driven COVID-19 response and recovery.** Along with financing provided by other development partners, this funding helped to preserve countries' cash reserves and government revenues, allowing partner governments to finance priority measures such as economic stimulus packages, social protection payments, and support for small businesses, particularly in tourism.
- **Stability maintained.** State institutions and public services could continue to function.
- **Strengthened relationships between MFAT and affected partner countries,** despite significant travel restrictions. New Zealand's timely support helped to avert the worst economic impacts, demonstrated regional solidarity, and laid the basis for recovery in Pacific SIDS.
- **Growing use of this modality.** In four contexts where New Zealand provided COVID-19 fiscal crisis support (Federated States of Micronesia, Marshall Islands, Palau and Vanuatu), New Zealand did not already have reform-linked budget support programmes in place. New Zealand will also draw on this experience with emergency fiscal budget support, as well as its existing reform-linked budget support, for channelling part of its scaled-up climate financing.

Lessons learnt

- **New Zealand's years of experience in delivering reform-linked budget support** in partner countries was a factor in the success of the approach. This experience ensured familiarity with partner government systems, which had been strengthened through technical assistance.
- **The speed of response needs to be balanced carefully with the need for policy dialogue.** New Zealand's prompt disbursement of funds meant there was less opportunity to engage with partner governments on potential reform priorities. More in-depth dialogue would have slowed down the disbursement. As the economic impacts of the COVID-19 pandemic continued, New

Zealand was able to hold more in-depth conversations with Pacific governments to shape policy choices and priorities for subsequent financing packages.

- **Putting in place a new approach to financing can result in some early delays.** While New Zealand had experience of providing reform-linked budget support, emergency fiscal budget support was a new modality that had to be designed rapidly. In most cases finance was disbursed promptly following approval; however, in a small number of cases disbursement took longer than anticipated as documentation requirements were worked through with partner governments. The conditions required for disbursement, particularly for governments to have pandemic response and recovery plans in place, contributed to some early delays. The disbursement process was smoother for subsequent financing packages as key documentation was already in place.
- **The innovative nature of the approach offers learning potential both for New Zealand and other development partners.** This could be formalised through an external evaluation of the COVID-19 response, building also on MFAT's own assessments of the support. The external evaluation could see if the objectives of the financial assistance were met and extract relevant lessons for future budget support packages. This could usefully build on MFAT's own assessments of the support.

Further information

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OECD resources

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OECD (2020), *Development Co-operation Report 2020: Learning from Crises, Building Resilience*, <https://doi.org/10.1787/f6d42aa5-en>.

To learn more about New Zealand's development co-operation see:

OECD, "New Zealand", in *Development Co-operation Profiles*, <https://doi.org/10.1787/138471d6-en>.

Find more *In Practice* examples from New Zealand here: <https://www.oecd.org/development-cooperation-learning?submodel=in+practice&tag-key+partner=new+zealand#search>.

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