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Commentary

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How Canada Can Improve Its Development Aid

Lessons from Other Aid Agencies

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In this issue...

The authors compare Canada's aid policies and operations with practices of widely respected aid agencies, and offer suggestions for reform.

The Study in Brief

Canadian foreign aid spending is set to be one of the fastest growing federal spending items for years to come. If the country's relatively small but rapidly growing aid program is to be effective, policymakers need to think carefully about how Canada can best deploy existing and new aid dollars to have the greatest impact on poverty. This *Commentary* compares various aspects of the policies and operations of the Canadian International Development Agency (CIDA) with those of several widely respected development agencies of mostly similar size in other countries.

There are no cut-and-dried ways to make aid more effective, but a number of dimensions on the part of donors can affect aid success, among them focus and country selectivity, understanding of specific country conditions, willingness to critique programs, and tempered expectations. Unlike the aid agencies with which we compare it, CIDA has not invested in strategic research effectively, its environment has been relatively closed to feedback and debate, most staff and decisionmaking responsibilities are at its headquarters, administrative costs as a share of aid are high, spending is widely dispersed, and half of aid is tied in that it must be purchased from Canadian suppliers, even if they are not the cheapest or best.

CIDA has taken a few steps toward improving some of these deficiencies. But with renewed world attention on foreign aid and poverty reduction, and Prime Minister Harper's commitment to spend aid dollars more effectively, CIDA has a chance to take bold action to reform itself. The agency must decide if it should invest in research to improve aid quality, give the aid minister a higher profile, and become a leading aid agency. A less dramatic but potentially equally effective alternative would see CIDA harness existing research more effectively, including the use of expertise outside the agency, and give more aid through multilateral channels that have more analytical capacity. Either way, CIDA should become more open to debate and feedback, scale down the number of countries for which it develops programs, build on Canadian expertise, increase its field presence in focus countries and learn more about them, give field staff more decisionmaking powers, reduce administrative costs, and fully untie aid from the requirement to purchase from Canadian suppliers.

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In 2005, then Prime Minister Paul Martin reiterated Canada's pledge to increase foreign aid spending to more than $5 billion by 2010, which represents an annual increase of 8 percent in the foreign aid budget and a 40 percent real increase in aid spending between 2004 and 2010 (OECD 2006). The new Conservative government's election platform pledged to increase aid spending by $425 million over five years and move toward the average of member countries of the Organisation for Economic Co-operation and Development (OECD).[1] If Prime Minister Stephen Harper and Josée Verner, the minister responsible for the Canadian International Development Agency (CIDA), honour their predecessors' commitments, foreign aid will be one of the fastest-growing federal spending items for years to come.

CIDA, which manages most Canadian aid spending, says it is committed to achieving the United Nations' Millennium Development Goals established in 2000, including halving world poverty by 2015. However, although CIDA's stated mandate is to reduce poverty, past aid efforts have failed to do so, and the agency has been criticized for ineffective policies and a lack of leadership. As Robert Greenhill notes in a report written before he became CIDA president, "Canada is seen to have lost [its] leadership role [on development policies], both in absolute terms and in comparison with other countries" (2005, 14).

The government's April 2006 Throne Speech promised "a more effective use of aid dollars." If Canada's relatively small but rapidly growing aid program is to be successful, policymakers need to think carefully about how Canada can best deploy its aid dollars to have the greatest impact on poverty. To contribute to this dialogue, this *Commentary* compares the development aid strategies of a small group of countries whose development agencies are widely respected as relatively effective and are mostly similar in relative size to Canada's. From this analysis, we attempt to draw broad lessons for Canadian policymakers.[2]

Canada's aid policies stand out as less effective than those of other countries with which we compare them, in several ways. CIDA invests comparatively little in research, particularly of strategic or long-term value. The agency tends not to encourage debate or draw effectively on external feedback. Since the effectiveness of aid can depend on country-specific knowledge, other agencies have decentralized to the field, but most CIDA staff is at headquarters. Yet, even

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1 Assuming the new government means aid as a share of gross national income (GNI), there are two possible measures. It is not clear which one the government intends to meet. One measure is the unweighted average — an average of country shares, not accounting for relative budget sizes; in 2004, this was 0.42 percent of GNI. The other measure is the weighted average — total foreign aid from OECD members as a share of the sum of their national incomes; in 2004, this was a much lower 0.26 percent of GNI. Canada's contribution lagged the former share considerably in 2004, but was slightly higher than the latter.

2 This *Commentary* is a companion piece to Richards (2006), which is a more general primer for Canadians on development and aid.

without a large field presence, CIDA's administrative costs as a share of aid are the highest in the OECD. Moreover, CIDA's decisionmaking is highly centralized and its few field staff has little authority to design, analyze, or manage projects. The agency is also the most geographically dispersed of the agencies we compare and has a myriad priorities. This dispersion makes Canada a relatively insignificant donor even in its top recipient countries and spreads CIDA's managerial expertise thinly across many recipients. CIDA also greatly lags international practice by tying half of its aid to purchases from Canadian suppliers, despite evidence that such aid is less effective.

There are no magic bullets for an effective aid policy, and policymakers should temper their expectations about what aid can reasonably accomplish. Still, effective development aid agencies have some general characteristics that CIDA could usefully emulate. The new federal government has a choice. It can follow the Scandinavians, the British, and the Dutch examples by making CIDA a leading development agency. This would mean increasing in-house research and openness to outside researchers, narrowing its focus by both country and issue in a way that builds on current expertise, increasing its presence and decisionmaking authority in the field, and eliminating tied aid. Alternatively, the new government can choose to invest less while still making aid policy more effective. This would mean drawing more effectively on others' research and shifting more aid toward multilateral agencies that have greater analytical capability and that target their aid more effectively than has CIDA in the past.

Why Give Development Aid?

The overwhelming majority of Canadian foreign aid is targeted at long-term development, rather than short-term humanitarian relief. Most development experts and aid agencies agree that the key goal of development aid is to reduce poverty.[3] Indeed, the key stated purpose of CIDA's aid is to "reduce poverty in the poorest countries." Accordingly, we focus on aid aimed at development and poverty reduction as the primary goal for aid.

Of course, donors may have other aid objectives. The UN's Millennium Development Goals, for example, in addition to targeting poverty, also focus on health, education, gender equality, child mortality, and environmental sustainability. Broader political and commercial motives also underlie CIDA policy, as some analysts observe (see, for example, Pestieau and Tait 2004). CIDA's mandate explicitly includes a broad set of political and economic goals, such as contributing to a "more secure, equitable and prosperous world," developing democracies, opening markets in transition economies, and reducing "threats to international and Canadian security" (CIDA 2005b). Political priorities, for example, have made Afghanistan and Iraq Canada's top bilateral aid recipients over the past few years, even though they are not necessarily among the poorest countries. Also, as we discuss later, a large part of Canada's aid is tied to

3 Unless otherwise noted, all references to development aid in this *Commentary* refer to official development assistance, defined by the OECD as aid that flows to developing countries and multilateral institutions. Aid to countries in transition from communist to market-based economies is not considered official development assistance.

purchases from Canadian suppliers, reflecting domestic commercial interests rather than development priorities of recipients.

Canadian political and commercial objectives need not always conflict with development goals, however. They can be reinforcing if, for example, poverty reduction helps bring about stability in countries of strategic interest or if poor countries successfully develop and are able to buy more Canadian exports.

What Makes Development Aid Effective?

Assessing aid effectiveness is a difficult task.[4] Even if we assume aid should aim to reduce poverty, many factors affect a country's economic development — including education, health, geography, politics, conflicts, and governance — making it difficult to tell whether a change in poverty is due to aid or to something else. In addition, there is no consensus even on how we should measure poverty or development.[5] Despite these complications and valid concerns about the accomplishments of previous aid,[6] experience from the past 50 years of development aid provides some valuable lessons about what makes aid effective — and our knowledge is constantly expanding.

Several factors can hinder aid effectiveness. Rajan and Suramanian (2005b) find, for example, that large aid inflows can negatively affect a recipient's competitiveness by driving up the real exchange rate, which hurts exporters. Aid spending by donors and nongovernmental organizations (NGOs) on, say, education or health care can also crowd out domestic spending by recipient governments, diverting it to less productive uses. And aid may fail when governments are corrupt and poorly governed.

Yet, aid can also work, as other research shows. According to Clemens, Radelet, and Bhavnani (2004), for example, the common finding that aid does not improve incomes incorrectly groups together all types of aid — that is, humanitarian aid, aid aimed at short-term growth (such as roads, energy supply, and financial service improvements), and aid aimed at long-term investments (such as health, education, and democratic reform). When the authors look at aid by objective, they find that aid aimed at short-term growth does lead to positive economic growth in the near term.

Moreover, aid can work where there are sound institutions and effective government.[7] For example, a widely cited World Bank study (1998) finds that, all else being equal, aid has had a significant positive effect on economic growth in countries with competent macroeconomic management, effective institutions, and

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4 This *Commentary* provides only a brief literature review; we refer interested readers to a lengthier discussion of theories of development and aid effectiveness in Richards (2006).

5 For instance, should one measure changes in average incomes, headcounts of people in poverty (incidence), or the percentage of the population in poverty (intensity)? Should one look at consumption, rather than income? Or should one assess development more broadly — as the United Nations' Human Development Index attempts to do — and examine literacy, life expectancy, and other social indicators?

6 As Easterly (2005) notes, after over 40 years and nearly $800 billion (in 2003 Canadian dollars) of foreign aid to Africa, the continent remains trapped in economic stagnation.

7 Richards (2006) has a lengthier discussion of the importance of governance for development.

an efficient and accountable public sector. The study also discovers that aid has not been given systematically to countries with better policies, and recommends it should be.[8] In a more recent study, some of the authors of the World Bank report argue that aid allocations are now more efficient in addressing poverty because donors are becoming more selective in allocating aid to better-governed countries (Dollar and Levin 2004).

In recent years, the OECD has placed considerable emphasis on aid effectiveness, identifying a number of characteristics that can make aid more effective (OECD 2005b). The organization notes that bilateral aid is more effective if donors coordinate better to avoid project overlap and lower administrative costs, if programs are better aligned with local priorities, if there is a stronger emphasis on results, and if aid is untied from the purchase of goods and services in the donor country.[9] The 2005 Paris Declaration on Aid Effectiveness — signed by all OECD countries and endorsed by many developing countries — initiates the task of setting goals and timelines to meet key measures of aid effectiveness. The OECD is considering 12 indicators as measurable benchmarks, and has proposed specific targets or timelines for 11 of them. One target, for example, is to have 75 percent of recipient countries with a result-oriented national development strategy by 2010. These efforts are a good start, even if some benchmarks are not yet sufficiently well defined.

Although we are unaware of any empirical studies that examine the benefits of focusing aid in fewer regions or countries or on more specific development issues, such as health care, logic suggests that a narrower focus should improve aid effectiveness. Rather than superficially supervise a host of projects around the globe, donors that focused their aid would make a stronger contribution to a particular country, region, or development issue. They would also develop a deeper knowledge of the environment in that country or of that development issue, enabling them to better design effective aid programs and evaluate them. More focused donor aid reduces administrative burdens of both recipients and donor.

Another determinant of the effectiveness of aid is the degree to which aid goes directly from donor countries to recipients or through multilateral institutions to recipients. Bilateral aid is potentially more flexible in response to local conditions, but may be more vulnerable to capture by domestic politics or overlap with other donors. Alternatively, multilateral agencies tend to have richer field expertise and analytical capacities, as well as larger projects in recipient countries. Multilateral aid agencies have also been more selective than bilateral agencies in allocating aid based on poverty and sound policy criteria (Dollar and Levin 2004), although such programs may not serve the political or development objectives of a given donor.

The direction of future aid policy has prompted numerous proposals. Sachs (2005), for example, recommends a comprehensive approach to fix problems simultaneously, funded by a large-scale increase in aid flows. Easterly (2005), in

8 These World Bank results should be treated with some caution, however, as more recent studies using updated data and excluding unusual cases cast some doubt on their validity; see Easterly, Levine, and Roodman (2003) and Rajan and Suramanian (2005a).

9 For further discussion of these themes, see the OECD's Development Assistance Committee website: www.oecd.org/dac.

contrast, argues that aid can work only if one tempers expectations of what it can accomplish and uses piecemeal approaches. Rodrik (2003, 2004) argues that the evidence does not support pursuing one-size-fits-all development policies; instead, he suggests adopting a diagnostic, country-specific approach to formulating economic policies in developing countries.

Taken together, the still-accumulating evidence suggests that policymakers and the public should moderate their expectations about what aid can accomplish. Still, some ways have been identified by which aid policies can reduce poverty more effectively, among them an appreciation by policymakers of the importance of good governance in recipient countries, the need for focused aid programs, and the need for better country-specific knowledge.

In thinking about development more broadly, it is important to keep in mind that aid is only a single tool one can use to help reduce poverty and not necessarily the most important one. Private capital flows — through foreign direct investment, remittances, and private giving — and trade flows are often much larger and more important for a country's development than flows of aid. The implication is that rich countries' policies to reduce barriers to movements of goods, services, investment, and people are critical for development.

Comparing CIDA and Other Donors

CIDA manages 80 percent of Canada's aid budget. The rest is managed by the Department of Finance, which deals with the World Bank and the International Monetary Fund (IMF), and by the Department of Foreign Affairs, which deals with overseas administrative aid functions. Other federal government departments — Industry Canada, Health Canada, National Defence, Natural Resources Canada, and Agriculture Canada, among others — also play a role.[10] The 2005 federal budget revised the framework for development funding to allow for more co-ordination among various departments and faster responses to crises.

Our focus is on Canadian aid that goes to recipient countries directly, or "bilateral aid" as the OECD defines it.[11] According to the OECD (2006), in 2004 CIDA gave about three-quarters of its aid bilaterally, up from two-thirds in 2003; the OECD average is just over two-thirds. In turn, about two-thirds of CIDA's bilateral aid flows directly between Canada and recipient governments, in the form of loan repayments, bilateral food aid, and bilateral humanitarian assistance. The remainder of bilateral aid is sent through scholarships, the private sector, NGOs, and other channels. One important channel is the International

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10 Several analysts (see, for example, Pestieau and Tait 2004) have argued that the result of so many departments having a stake in development is an incoherent policy outcome.

11 The OECD defines all aid that is not multilateral as bilateral, whereas CIDA uses a much narrower definition of bilateral aid to mean only CIDA's geographic programs. We use the OECD definition throughout unless otherwise noted. This enables us to comment on all spending over which Canada has direct control and to compare across countries. We use CIDA's definition, however, to evaluate CIDA's future plans — in particular, those in the federal government's 2005 *International Policy Statement* (Canada 2005). Further, CIDA reports its aid spending in terms of the agency's fiscal year, whereas OECD figures are on a calendar-year basis, so OECD data on CIDA in this *Commentary* might differ slightly from data that originate with CIDA.

Table 1: *Current and Future Foreign Aid Spending, Selected OECD Countries*

	Aid Subindex, Commitment to Development Index, 2005 *(rank)*	Aid Spending, 2004 *(billions)*[a]	Aid Share of GNI, 2004 *(%)*	Aid Share of GNI, 2004 *(rank)*	Future Aid Commitments
Canada	12	3.4	0.27	14	2005 commitment: increase aid by 8% annually to 2010 As of February 2006: increase aid to average OECD share of GNI
Denmark	1	2.6	0.85	2	Maintain at above 0.7 % of GNI
Netherlands	4	5.5	0.73	5	Increase to 0.8% of GNI
Norway	2	2.9	0.87	1	Increase to 1% of GNI by 2009
Sweden	3	3.6	0.78	4	Increase to 1% of GNI by 2006
United Kingdom	6	10.2	0.36	11	Increase to 0.47% of GNI by 2007/08, and to 0.7% of GNI by 2013
Total OECD		103.4			
OECD average					
weighted			0.26		
unweighted			0.42		

[a]Converted from US to Canadian dollars at 2004 average market exchange rates (US$1.00 = C$1.30).
Sources: Center for Global Development 2005; OECD 2006; and authors' calculations.

Development Research Centre (IDRC), an arm's-length public corporation that funds social, economic, and environmental developing country research. Most projects are carried out by these types of partners, rather than by CIDA itself.

Comparator Countries

To see how Canada's aid policy rates internationally, we started by selecting three countries — Denmark, Norway, and Sweden — that have aid budgets similar in size to Canada's and that placed at the top of the Center for Global Development's Commitment to Development Index aid policy rankings.[12] As Table 1 shows, Canada ranks twelfth out of 21 OECD donor countries on the Center's aid component ranking.

The index rankings are, of course, an imperfect indicator of aid effectiveness, so we also considered the opinions of international experts about which agencies

12 In its Commitment to Development Index, the Center for Global Development ranks 21 OECD members according to their overall contributions to development. The rankings cover each of aid, trade, investment, migration, environment, security, and technology. For the aid component of the comprehensive ranking, the Center adjusts quantities of gross aid (which includes both multilateral and bilateral aid) in an effort to better reflect aid quality, deducting for tying aid to purchases in the donor country, poor selectivity (as based on good governance indicators), lack of focus (too many projects), and rewarding governments for letting taxpayers write off charitable contributions. The Center also subtracts from the aid index debt payments donor countries receive from developing countries on aid loans. *The Commitment to Development Index 2005* is available on line at http://www.cgdev.org/content/publications/detail/3647/.

Table 2: *Top 25 Recipients of Canadian Bilateral Aid Flows, fiscal year 2003/04*

	Amount *($ millions)*	**Canada's Share of OECD Bilateral Aid to Country** *(%)*
Iraq	116	2
Afghanistan	99	6
Ethiopia	67	4
Bangladesh	66	6
China	46	3
Ghana	44	4
Mali	41	9
Tanzania	37	4
Mozambique	34	4
Vietnam	31	2
Congo	27	2
Haiti	26	10
Indonesia	24	1
Nigeria	23	6
Senegal	22	6
Malawi	21	5
Kenya	21	3
Burkina Faso	20	4
Bolivia	19	2
Sudan	19	2
Philippines	19	1
Pakistan	18	1
Honduras	17	1
Peru	17	1
South Africa	17	1

Note: Multilateral disbursements and debt relief are excluded; amounts include international humanitarian assistance. Also, CIDA's intended countries of focus that are in the top 25 are identified in boldface.
Source: CIDA 2005a.

are the most effective. For that reason, we also included the Netherlands and the United Kingdom, even though their aid budgets are two and three times as large, respectively, as Canada's. Indeed, Greenhill reports that, when asked which countries had the best development policies, "international observers consistently chose one or more of the Netherlands, Norway, Sweden, and the UK" (2005, 16). Rather than exhaustively studying each of these countries' agencies, we examine selected dimensions that relate to aid effectiveness.

Aid Shares

Media and public debate about development aid generally focuses on the volume of aid and its share of a country's gross national income (GNI).[13] In particular, aid advocates focus on the target of 0.7 percent of GNI agreed on by the UN General

13 Bilateral aid agencies, the OECD, and the World Bank now use gross national income instead of the more common gross domestic product or gross national product.

Assembly in 1970.[14] However, although we compare where Canada stands relative to other countries on measures of aid volume, we note that a focus on aid *quality and effectiveness*, though difficult to measure, is more meaningful.

Table 1 shows that, in 2004, Canada gave about $3.4 billion in development aid, an amount equivalent to 0.27 percent of its GNI.[15] This share is close to the OECD average but far less than that of the other countries in our comparison and accounts for less than 3 percent of all aid from the OECD countries. Narrowing our focus to bilateral aid, Table 2 shows Canada's bilateral aid funding for its top 25 recipients during fiscal year 2003/04. The names in boldface are those countries in the 2003/04 top 25 that CIDA intends to focus aid on in the future — but in none of the selected focus countries does Canadian aid play a large role; only for Haiti does Canada's share of OECD aid reach double digits.

Ottawa budgeted $3.6 billion for aid spending in fiscal year 2005/06, and the new Conservative government says it will increase aid to the OECD average by 2010. Assuming Prime Minister Stephen Harper means the unweighted OECD average of 0.42 in 2004, this represents an increase of slightly less than the increase of 8 percent annually to reach over $5 billion by 2010 promised by former prime minister Paul Martin (Canada 2005). As the last column of Table 1 shows, our comparison countries have also committed to maintain or increase their aid. Given these commitments and those by other OECD countries, Canada's share of OECD aid is unlikely to grow despite recent promises to increase spending.

Aid Allocation

A limited aid budget spread out over many countries, projects, and sectors likely will result in less effective aid because of increased administrative burdens for donors and recipients alike, as well as the possibility of project overlap. In addition, a limited field presence reduces donors' knowledge of local conditions and their ability to evaluate projects.

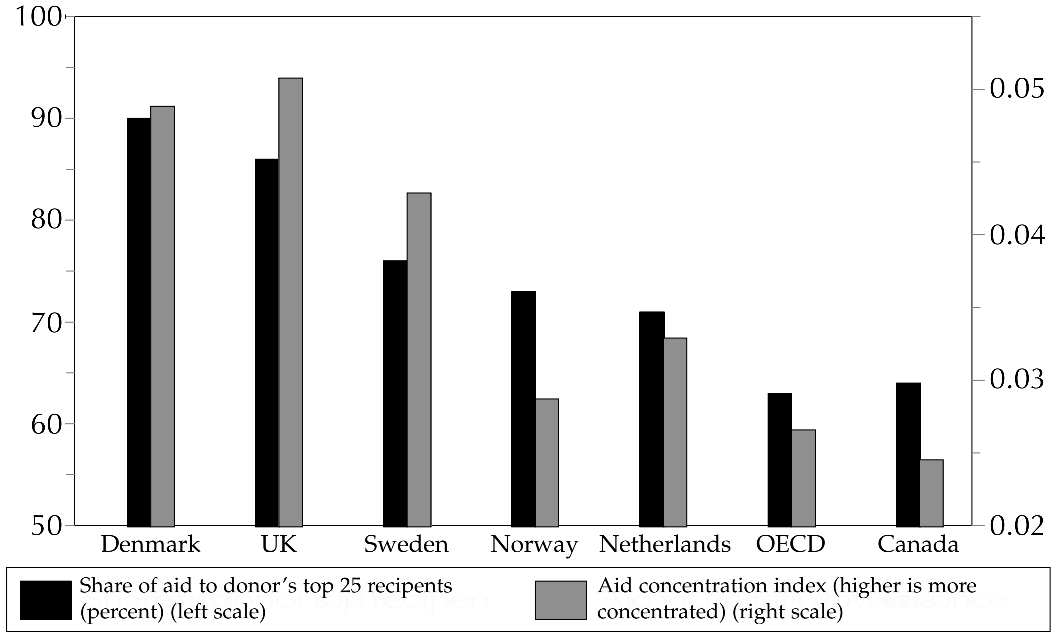
It is unfortunate, then, that CIDA has allocated aid so widely over the past few decades, with little focus on particular regions or themes. Canadian aid has been allocated mainly according to historical precedent and political considerations — aiding Commonwealth and francophone countries in Africa and Asia, while simultaneously balancing broader responsibilities in the Americas (see Morrison 1998) — rather than an explicit set of aid effectiveness criteria. When Canada more than halved its aid as a share of its economy in the 1990s as part of government deficit cutting, Ottawa cut aid programs similarily across countries and regions rather than focus aid. This avoided difficult political tradeoffs and left country and regional aid shares essentially unchanged.

In 2002, Canada announced that, as new aid money became available, it would increase aid investments in nine low-income developing countries — Bangladesh,

14 There seems to be little analytical basis for this target. Clemens and Moss (2005) argue that the 0.7 percent goal is no longer a useful target, if it ever made sense in the first place.

15 This represents a slight increase from 2003 but only because 2003 aid figures included loan repayments from India which reduced the amount of overall aid spending in that year.

Figure 1: *Aid Concentration, 2003*



Bolivia, Ethiopia, Ghana, Honduras, Mali, Mozambique, Senegal, and Tanzania — in which Canada had a longstanding aid program and which "demonstrated an ability to use aid effectively" (CIDA 2002). CIDA did not give a target date for increased aid to these countries, nor did it say it would reduce aid to its many other recipient countries, only that new investments would be focused on these nine. It is not clear to what degree CIDA implemented this approach, as funding continued to countries not on the list and, in any case, the approach appears to have been superseded by other developments.

Since 2002, political decisions to aid Afghanistan and postwar Iraq have diverted much of the new aid resources to these two countries. Canada is, however, beginning to phase out of its aid budget countries, such as Thailand, that are further along in the development process, have sufficient access to international capital markets, and are less poor than they used to be — indeed, some are now aid donors themselves. Since 2003, India's government no longer accepts bilateral aid from Canada and other relatively small donors.

Canadian aid is still widely dispersed. In fiscal year 2003/04, Canada gave aid to 161 countries, with 60 percent of its bilateral aid flowing to Africa, just over 20 percent to the Americas, and 13 percent to Asia.

Figure 1 presents two measures of aid concentration for our selected group of countries: the share of the bilateral aid budget devoted to each donor's top 25 recipients and an aid concentration index.[16] A higher value for either measure

16 The aid concentration index is a Herfindahl index that measures industry concentration and competition. We computed each recipient's funding as a share of the donor's total bilateral aid budget. We then squared these shares — which gives more weight to greater country involvement — and summed up across the donor's list of recipients to arrive at a concentration index for each donor. A higher index value suggests higher aid concentration by country.

indicates more focused aid. On both measures, Canada's aid is the least concentrated of the countries we consider, while the United Kingdom's and Denmark's aid are the most concentrated. Most other donors concentrate aid in a few major recipient countries or regions. For example, Australia and New Zealand concentrate on the Far East and Papua-New Guinea; Japan concentrates on Asia; Spain on Latin America, the United States on the Middle East and North Africa; Belgium, Ireland, and Italy on sub-Saharan Africa; and Austria and Greece focus on central and eastern Europe.

Most of our comparison countries have focused their aid even more sharply. The United Kingdom, for instance, recently set a goal of focusing 90 percent of its bilateral aid on low-income countries. It came close in fiscal year 2004/05 at 84 percent, ending some programs in middle-income countries. In 2003, the Netherlands reduced its number of "partner countries" from 49 to 36, by phasing out aid to wealthier countries and those with poor governance (Netherlands 2003). In the same year, Denmark stated it would be "concentrating our direct efforts on a limited number of partner countries and…focusing our multilateral cooperation on a limited number of organisations and programmes" (Denmark 2003, 7). And in 2004, Norway took the most dramatic policy action by focusing its aid on only 7 main countries and 18 other minor partner countries.

Whether aid is given through multilateral or bilateral recipients may also matter for its effectiveness. Most OECD donors give aid both directly to recipients and through multilateral institutions. CIDA's three-quarters' share going to bilateral aid in 2004 is just above the OECD average. There is some evidence that multilateral agencies and the aid agencies of our comparator countries have been more selective in choosing aid recipients than have other bilateral agencies, with the result that their aid efforts likely have been more effective. In a study of the degree to which aid agencies give aid to relatively well governed poor countries, Dollar and Levine (2004) find that the agencies that were best at selecting aid recipients based on such criteria were the World Bank's development agency, an IMF agency, and the bilateral agencies of Denmark, the United Kingdom, Norway, Ireland, and the Netherlands. CIDA, by contrast, finished twenty-third out of 42 agencies. Admittedly, the data — from 2002, the last year for which comparable data were available when Dollar and Levine published their study — are not up to date, but at a minimum Canada should consider whether to give more aid through multilateral channels or be more selective in its bilateral aid decisions.

For Canada's part, its *International Policy Statement* (Canada 2005) promises a clearer set of criteria for aid allocations in the future and a greater focus on a smaller number of countries. The statement notes that, by 2010, Canada will concentrate two-thirds of its bilateral spending in 25 countries. In this case, "bilateral" refers to CIDA geographic programming only, rather than the broader OECD definition of all aid that goes from country to country. The remaining one-third will go to other countries, including Iraq and Afghanistan, selected failed and fragile states, and countries of strategic significance to Canada, and will include humanitarian aid to countries in crisis. CIDA will also wind down some bilateral programs, though it has not yet announced in which countries.

Ottawa selected the 25 focus countries based on three criteria: their level of poverty, their ability to use aid effectively, and the presence of sufficient Canadian presence to add value. In Africa, Canada selected Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, and Zambia. The selected Asian countries were Bangladesh, Cambodia, Indonesia, Pakistan, Sri Lanka, and Vietnam. In the Americas, Canada chose Bolivia, Guyana, Honduras, and Nicaragua. One European country, Ukraine, was also selected.[17]

Although the criteria seem appropriate, in practice CIDA faces the dilemma that many of the most impoverished nations are also the worst governed. Indeed, the choices show that some criteria trump others. For example, Haiti, which CIDA left off the list of 25, is one of the world's poorest countries and a place where Canada has a deep aid history and the presence to add value; however, the country is poorly governed. Ukraine, which made it onto the list, does not qualify as one of the poorest countries, but it is taking steps toward better governance and Canada has ties and experience in that country. There need not, in fact, always be a conflict between governance and poverty criteria — Dollar and Levin (2004) find that the aid agencies that give aid to countries with good policies also give more aid to poor countries.

Despite its packaging, CIDA's policy of concentrating two-thirds of bilateral aid in 25 countries is hardly a major change. CIDA already gave about two-thirds of its bilateral aid to its top 25 recipients, and the selected group of 25 already received 42 percent Canadian bilateral aid in fiscal year 2003/04. Further, CIDA continues to announce new funding to countries, such as Afghanistan and Haiti, that are not on the list of 25.

Focusing by sector may also be a more efficient use of aid resources. Canada spreads its aid among a diverse set of priority areas, giving aid in five areas: good governance; health, with a focus on HIV/AIDS; basic education; private sector development; and environmental sustainability, with gender equality as a "crosscutting theme" (Canada 2005), although programming tends to focus on a subset of these areas in each country. Stairs (2005) concludes that this approach can be interpreted to include almost anything. One-quarter of the overall budget goes to governance and health programs, 15 percent to each of education and private sector development, and the rest to environmental sustainability and miscellaneous activities that do not fall into these priority areas. Development experts, both inside and outside Canada, tend to agree that Canada is likely to be able to make a real difference in three areas: governance, health care systems, and education (Greenhill 2005).

Administrative Costs and the Degree of Centralization

Administration is necessary to run aid programs effectively and to ensure accountability to taxpayers. Administration, however, involves a tradeoff, in that every dollar that goes to administrative costs means one dollar less that is available for direct aid spending. Unfortunately, OECD aid donors do not report such costs on a common basis. For instance, the Netherlands and Denmark, where

17 It is not clear why some countries are on this list. For example, in 2005 there was no CIDA officer present in Cambodia and, as of early 2006, according to CIDA's website, only one modest CIDA-funded program was under way in that country.

Table 3: *Decentralization and Division of Power, Aid Agencies of Selected OECD Countries*

	Administrative Costs as Share of Total Aid Budget, 2004 (%)	Number of Employees, 2005	Administrative or Employee Presence at Headquarters, 2005 (%)	Administrative or Employee Presence Abroad, 2005 (%)
Canada	8	1,500	81	19
Denmark	5	750	approx. 50	approx. 50
Netherlands	6	n.a.	n.a.	n.a.
Norway	5	667	73	27
Sweden	4	859	76	24
United Kingdom	7	2,917	50	50
OECD	*6*	*n.a.*	*n.a.*	*n.a.*

Sources: OECD 2006; country reports; and authors' correspondence with national agencies.

aid is part of the foreign ministry, do not include a share of the foreign ministry's overhead in their administrative costs for aid, whereas the United Kingdom counts some of its administrative costs as aid.

Keeping this in mind, as Table 3 shows, CIDA spent 8 percent of its budget on administration in 2004. While this was a decrease from 10 percent in 2003, it was the highest of all the OECD countries and two percentage points above the OECD average. Among the possible reasons for such relatively high administrative costs are the size of CIDA's staff, which, at 1,500 full-time employees, is far larger than those of the other agencies that manage aid budgets of similar size, and the agency's need to make most of its work available in two official languages. Another plausible explanation for CIDA's higher administrative costs is the greater geographic dispersion of its aid program. The agency's high costs are not likely due to Canada's spending relatively more on bilateral aid — which would likely require more donor oversight than multilateral programming — since CIDA's costs fell in 2004 even as bilateral programming increased. Also not contributing to higher administrative costs is investment in research capacity, in which, as we discuss later, CIDA appears to spend less than the comparator agencies.

If CIDA's higher administrative costs were due to a larger field presence and, therefore, enhanced the agency's ability to spend aid funds more effectively, they might be justified on the basis of aid effectiveness. But, as Table 3 shows, more than 80 percent of CIDA's employees work at the agency's headquarters. Indeed, CIDA is one of the most centralized aid agencies of any OECD country (OECD 2002). As of September 2005, only 120 of CIDA's 1,500 full-time employees worked in the field, along with 173 locally engaged staff. By contrast, Denmark and the United Kingdom, which have the most focused aid, also have the most decentralized aid agencies, with half of their work done at field offices abroad. This makes it easier for these agencies to assess local conditions, to ensure that programs achieve their objectives, and to coordinate with other donors. The United Kingdom's Department for International Development (DFID) has also decentralized much decisionmaking authority from its headquarters to the field, while Denmark's aid agency also credits decentralizing responsibility for its ability to respond to changing local conditions, provide oversight, and coordinate with other agencies (Denmark 2004). CIDA does appear, however, to be learning from the experience of these other aid agencies. In addition to reducing its administrative costs, as noted above, CIDA has said it would strengthen its field presence to improve its country knowledge, to access in-country networks, and to improve coordination both for the developing country and its donor partners (CIDA 2005b). It has also recently added staff to its operations in the six African countries on its list of nine focus countries announced in 2002 — namely, Ethiopia, Ghana, Mali, Mozambique, Senegal, and Tanzania. In those countries, CIDA is starting to move leadership of the country aid program to officers in the field and away from headquarters.

Some cautionary notes are, however, in order. First, increasing staff abroad makes sense only if Ottawa gives them adequate decisionmaking authority — for instance, on project selection, design, approval, and day-to-day management. Second, CIDA officials presumably are honest and capable, but authority is sometimes abused, so a system of checks and balances must be put in place. Third, increasing field presence can be expensive, but it has the potential to improve aid effectiveness greatly, and, when combined with greater aid focus, can actually maintain or reduce costs. The UK and Danish agencies, for example, have managed to increase their field presence while maintaining lower administrative costs than CIDA.

Coherence across Policy Areas and Donors

Developed countries can help reduce poverty in developing countries not only through direct aid but also through policies related to, for example, trade and patent protection. Accordingly, developed countries can make a more effective contribution to alleviating developing countries' poverty if their aid and non-aid policies are coherent and mutually reinforcing.

To that end, Ottawa promised in 2005 to "ensure coherence across aid and non-aid policies that impact development" (Canada 2005, 7).[19] Certainly, Canada has taken a number of non-aid actions targeted at development in recent years. For example, in 2003, Ottawa eliminated tariffs on most goods from least-developed countries. It also passed legislation to authorize the manufacture of lower-cost versions of HIV/AIDS drugs and other patented medications to be exported to developing countries. However, just as non-CIDA-managed policies have targeted development, foreign policy priorities also affect CIDA — for example, events in Afghanistan and Iraq shifted aid to those countries and away from CIDA-determined priorities.

CIDA has changed ministers 11 times since 1989. This lack of consistency makes coordination difficult both within Canada and with other countries. A

19 One way CIDA claims to measure its achievement of policy coherence is through increases in aid as a share of the economy (CIDA 2005b). It is unclear to us, however, how this would improve policy coherence.

recent OECD report (2005a, 82) notes that, in 2003, there was no mechanism in the federal government to ensure that CIDA and the departments of Foreign Affairs, International Trade, and Finance coordinate their policies and activities to reinforce their efforts to reduce poverty. On the positive side, as discussed above, Ottawa has since changed its framework for development funding, which should improve such coordination. Yet, the government's institutional structure may provide little built-in incentive for collaboration across departments. CIDA's minister reports directly to Parliament, rather than through Foreign Affairs, and holds nominally equal standing to the foreign affairs minister. The new Conservative government has announced that the departments of Foreign Affairs and International Trade will now be integrated and that "CIDA will also be part of this portfolio" (Canada 2006). Still, there remain three separate ministers, so it is not clear what this integration will mean in practice.

In contrast, most comparison countries fold aid functions into the foreign policy department. Denmark, for example, has a single organization combining foreign policy, trade, and aid. Sweden's development agency reports directly to the foreign affairs ministry and, in 2003, that country introduced a coordinated policy for global development across government departments. Norway has also adopted an integrated model that has reduced overall administrative costs. In 2004, the Foreign Affairs Office took over responsibility for bilateral aid, which was previously administered by an entirely separate agency, the Norwegian Agency for Development Cooperation; that agency now simply provides technical advice to Foreign Affairs and to Norwegian NGOs.

The United Kingdom chose a different model, with the aim of raising the profile of development issues in government discussions. Until 1997, the country's development agency was a wing of the Foreign Office, but now a senior government minister with cabinet rank heads up the development agency, though the aid agency still works closely with the Foreign Office. In 2002, the UK government passed an International Development Act establishing a clear legal framework to protect aid resources from pressures within government to spend money on aims other than poverty reduction. These changes apparently succeeded in increasing the prominence of development in government discussions. (Box 1 explains the success of the United Kingdom's development agency in more detail.)

Canada's current model is a mixture of the two models. Even though, like the UK, the aid agency has its own minister, Canada's aid agency has much less credibility within government. Moreover, CIDA's relative lack of field presence and decisionmaking authority in the field likely makes it difficult to coordinate with other donors. CIDA says it is working to improve donor coordination. In particular, the agency is shifting its approach from supporting a range of traditional stand-alone projects to funding comprehensive programs designed and initiated by partner countries and financed by many donors working together (CIDA 2005b).

Research and Policy Activities and Leadership

The most respected aid agencies are able to provide research leadership and draw from research findings to innovate and improve the effectiveness of their aid

Box 1: *The Ascent of the United Kingdom's Department for International Development*

As Greenhill (2005) reports, ten years ago, the United Kingdom's Department for International Development (DFID) was considered a middle-of-the-pack development agency. Today, development practitioners generally view it as the best in the world.

A key ingredient in the agency's dramatic turnaround was improved leadership. In 1997, the newly elected Labour Party, determined to improve the United Kingdom's international development assistance, appointed a powerful minister, Clare Short, to run DFID and gave her full cabinet rank. She had an important political and financial ally in Gordon Brown, the chancellor of the exchequer (the equivalent of Canada's finance minister), and the support of Prime Minister Tony Blair, who doubled resources for the agency. During her six years as minister, Short imposed focus and drive at DFID, increased its presence in developing countries, reduced staffing at headquarters, and encouraged discussion and debate. In 2003, a panel of former ministers, members of Parliament, senior civil servants, and newspaper columnists rated DFID the top performing UK government department.

policies. Alternatively, an aid agency could forgo large investments in research and still have effective policies if external research relevant to its aid goals already exists and the agency is adept at translating those findings into effective aid programming.

According to Pestieau and Tait (2004), CIDA does not see research as part of its mission, nor is there any explicit recognition that Canadian development research should feed into Canadian development policy. Moreover, there is a "widespread belief that CIDA gives a low priority to learning and intellectual enquiry within the Agency" (p. 126). They also note that CIDA does not welcome criticism and has a reputation for making sure its outputs remain proprietary. O'Brien (2005) adds that CIDA's overall understanding of development-related research in the university sector is poor. In terms of policy development, CIDA also does not appear to be an intellectual leader or innovator, in the opinion of development experts (see, for example, Greenhill 2005). As Pestieau and Tait (2004) note, CIDA is viewed within government not as a policy innovator but as a "policy taker" from the prime minister or Department of Foreign Affairs.

The major publicly available analytical product CIDA produces is a "Country Development Programming Framework" for each major country aid program. Given the agency's relative lack of presence and authority in the field, much of the analysis takes place at headquarters. These reports vary widely in analytical quality and often take years to prepare or be updated while aid programs march ahead and circumstances change. The majority of CIDA's research (84 percent) in 2002 focused on temporary, project-specific research, rather than on strategic research (O'Brien 2005).

CIDA officials point to links with outside research agencies, such as IDRC and the North-South Institute, both of which receive some funding from CIDA. IDRC is a Crown corporation with an independent board that funds applied research by developing country researchers. Although CIDA's president sits on the IDRC board, IDRC is not formally linked with CIDA and does not tend to fund research based on CIDA priorities or related to the effectiveness of CIDA aid programs, nor is most CIDA programming based on IDRC investments.[20] None of the comparator countries have a research agency like IDRC that is entirely separate from the same country's aid agency and with a different mandate.

In recent years, CIDA has taken some steps to improve its research, analytical, and policy bases, and to increase its interactions with external researchers. One change has been to increase the size of its policy branch, although it is unclear whether analyses coming out of that branch are now more likely to be used as inputs to improve aid policies. The agency is also working to shift analytical capacity to the field, particularly in the six African countries that were part of the 2002 nine-country focus. CIDA also started a speakers series in 2005, bringing in Canadian and international researchers for seminars.

In December 2004, CIDA started a new, peer-reviewed publication called the Journal of Development Policy and Practice, committing to bringing in authors to discuss its content after publication. The December 2004 issue dealt with the theme of corruption, a subject critically important to aid effectiveness but one that has rarely been discussed in CIDA policy documents in the past (Goldfarb 2001). Unfortunately, this issue was the last, and the project was cancelled in April 2006. Although the journal had to be approved by CIDA officials before publication and was therefore limited in its ability to analyze CIDA policies critically, this was an important step toward reviving research, policy capacity, and leadership in the agency.

The UK experience contrasts strongly with that of CIDA. The Department for International Development has a well-established, highly respected research department that makes its results readily available on its website. While CIDA's weekly e-mail messages highlight new or successful aid projects, DFID's messages present new development research findings that are strategic, rather than project-specific. On average, CIDA country reports tend to be more superficial than DFID reports, which pose goals, acknowledge failures of some past programs, explicitly consider pros and cons of alternate policy options, and realistically assess the challenges the agency faces in giving aid in poorly governed environments.

DFID's model is aimed at innovation. In 2002, the agency spent 80 percent of its research funding on strategic research that cuts across projects and has broad and long-term significance (O'Brien 2005). This is the exact opposite of CIDA, which spent more than that share on specific, immediate, temporary research. DFID's model makes it a more attractive environment for top-quality development researchers, while allowing the agency to create innovative policy and be a leader in development policy debates.

DFID also draws regularly on a domestic stable of critics to provide feedback on its policies and programs — a feature entirely absent in Canada (Pestieau and Tait 2004). Also unlike most CIDA research, DFID has a significant peer-review research program that aims both to improve UK aid policies and to influence global development debates (O'Brien 2005). Of course, DFID has a larger budget than CIDA, enabling it to devote more overall resources to research, but DFID devotes double the share of its budget to research than CIDA does (ibid.). Unlike

20 In November 2005, CIDA did announce a health project in Tanzania that drew on IDRC research.

Box 2: *A Real-World Example of the Potential Problems of Tied Food Aid*

In 2005, when drought struck in Zambia, Canadian Foodgrains Bank, an NGO that delivers grain aid to developing countries, purchased maize from South Africa at a cost of $256 per tonne. The comparable cost to purchase and ship yellow corn from Canada was $520 per tonne. In this instance, if Foodgrains Bank had been obliged to purchase food aid from Canadian sources, total project costs would have risen by $750,000, or 43 percent. Similar results are found more generally in OECD countries (see OECD 2005c). Moreover, as Jim Cornelius, executive director of Foodgrains Bank, notes, "In Zambia, the South African maize is a more culturally appropriate product than Canadian yellow corn, which is seen there as cattle feed." (Jones 2005).

*We thank Stuart Clark of Canadian Foodgrains Bank for providing this example.

CIDA, DFID is also very competent at drawing regularly from the academic and think tank communities, for which any agency's marginal cost is low.

Other comparator agencies also invest heavily in research and draw heavily on external resources for feedback and input. Denmark's aid agency has a Council for Development Research, which funds development research, ensures its quality, attempts to strengthen ties between Danish and foreign researchers and institutions, and advises the minister for Development Cooperation of the results. Sweden's aid agency has a research council that produces publicly available policy papers by researchers and academics; the agency also recently created a new Civil Society Center that brings together the work of NGO practitioners and other development interest groups. Both the Netherlands and Denmark explicitly recognize that development aid research should feed into their development policies (Pestieau and Tait 2004). Norway's aid agency is also transparent, making its program and project evaluations available on the Internet.

Tied Aid

Tied aid requires recipient governments to use inputs from donor countries, and generally results in less effective aid.[21] The reason tied aid is less effective is simple: it costs more. Tied aid constrains recipients' choices, forcing them to purchase goods and services from the donor country even if they are not the cheapest or most efficient choice. The United Nations (2005) conservatively estimates the cost of tied aid for low-income countries at $5 billion globally. Further evidence against tied aid comes from the OECD (2005b), which estimates that tied food aid costs 50 percent more than food bought locally; it also cites other studies that estimate that the tying of other aid categories increases costs by between 15 and 30 percent. Box 2 provides a Canadian example that highlights the deficiencies of tied food aid.

Aside from increased costs, tied aid also confuses aid for development purposes with subsidies to donor country businesses. Furthermore, tied aid

21 Tied aid is distinct from aid conditionality, which requires recipient governments to adopt certain policies in exchange for aid.

Table 4: *Tied Aid Practices, Selected OECD Countries*

	Tied Aid, All Recipients, 2004 (%)
Canada	43
Denmark	11
Netherlands	11
Norway	0
Sweden	0.6
United Kingdom	0
Total OECD	*8*

Sources: OECD 2005b, 2006; authors' calculations.
Note that these figures are for tied aid as defined by the OECD. They would be slightly higher for some countries if they included what the OECD separates out as "partially untied aid".

undermines efforts to promote good governance in poor countries by stifling procurement and decisionmaking abilities.

Arguments in favour of tied aid are that it provides some control over how aid is spent, that it might increase domestic support for aid, and that it might protect small suppliers who might be driven out if the market was opened up to larger suppliers internationally. In refuting these arguments, we note, first, that a far better way to ensure aid is used productively is to work with recipients who identify their own needs and to withdraw funds in instances where aid money is used ineffectively. Second, although specific aid suppliers clearly benefit from tied aid, in the long run general Canadian business interests are better served if aid is successful in helping developing countries grow since, in so doing, global markets for Canadian products will also expand. Lastly, opening up service contracts to an internationally competitive bidding process is more likely to lower the cost of delivering aid.

Most OECD countries have reduced or eliminated their tied aid in recent years, leaving Canada out of step with international best practices. As Table 4 shows, 43 percent of Canadian bilateral aid in 2004 was tied to the purchase of Canadian goods and services, in sharp contrast to an 8 percent average for all OECD countries, with Norway, the United Kingdom, and Sweden effectively at zero.[22]

Technical cooperation — such as sending people to manage and implement projects in developing countries — represents about one-third of Canadian aid,

22 As a caveat, a government's announcement to untie aid may be viewed as a necessary, but not sufficient, condition to open up procurement activities in practice. For instance, despite the United Kingdom's untying of aid, UK firms continue to win 90 percent of that country's aid contracts. It is possible that the process was open and that UK firms consistently had the best and cheapest bids, but such a scenario seems unlikely.

and half of that is tied, meaning that only Canadians can provide the service.[23] The share of tied technical cooperation will actually increase as programs such as Canada Corps — which sends Canadians to work on governance projects in developing countries — are 100 percent tied and not yet included in the calculations.

Despite recent actions to partially untie food aid (CIDA 2005c), half of Canadian food aid is still tied and the other half is open only to a particular list of low-income countries that Ottawa has yet to specify. The government's rationale for not opening up competition to all countries is presumably so Canadian businesses will not have to compete with other countries' heavily subsidized agricultural products. To be sure, the new policy is an improvement over the pre-September 2005 requirement that at least 90 percent of food aid had to be tied to purchases from Canadian companies. But the decision to continue to tie food aid is incongruent with the evidence that it dramatically increases costs, as well as with CIDA's own argument that untying food aid will increase "flexibility and timeliness in the response to emergencies; lower cost in many instances; and [increase] international market opportunities to developing country agricultural producers" (ibid.). Presumably, Ottawa is reluctant to cut off Canadian businesses that have a vested interest in maintaining the tied aid policy. Nonetheless, as a result of untying aid, the best suppliers eventually will have larger potential markets in a more competitive, less protected aid environment.

To give Canada credit, since 2003 CIDA has eliminated requirements to use tied aid as a default option, to tie at least half of aid to least-developed countries, and at least two-thirds of aid to all other countries. Further, the 2005 International Policy Statement pledges to reduce tied aid (Canada 2005). Unfortunately, that document does not propose specific targets, timelines, or the elimination of tied aid altogether. As well, untied aid is still not the default option; officers can either tie or untie new programs, as long as they justify their decisions.

Recommendations

With a new minister, a relatively new CIDA president drawn from outside the agency with a mandate for change, increased funding, the Prime Minister's commitment to using aid more effectively, and an international push for aid effectiveness, there is now a real opportunity to improve dramatically Canadian aid effectiveness in reducing poverty. There are no hard and fast rules about what makes an effective development policy, but based on our analysis and comparison with relatively effective aid agencies, we recommend that Ottawa undertake the following steps.

Focus Aid

CIDA's designation of focus countries according to poverty, governance, and Canadian presence criteria is a step in the right direction. Compared with

23 A survey of upcoming CIDA programs on the MERX electronic-tendering system in early 2006 shows that most are limited to Canadians only, though not all CIDA opportunities are displayed on MERX.

relatively effective aid agencies with similarly small budgets, however, CIDA's aid is still the least concentrated, regardless of the measure we use.

CIDA has also articulated numerous broad priorities and mandates. To make its limited aid budget more effective, it should further scale down its ambitions, focusing on an even smaller set of countries and development priorities and building on areas in which Canada already has expertise and structure. This would reduce the costs of administering programs in so many countries and leave more money for development purposes. CIDA could then devote its limited managerial expertise to much larger, more concentrated country programs, which would help it better understand each aid recipient. Canadian aid would then represent a sufficiently important share of overall aid that recipients would be subject to more scrutiny to deliver results and also have a greater incentive to invest in good governance and other areas of Canadian concern for meeting development needs.

CIDA might also limit interventions to two or three development issues. This is not because others are unimportant to development, but because Canada is a relatively small donor that cannot be all things to all people. Some analysts (for example, Greenhill 2005; Richards 2006) suggest Canada focus on health, education, and governance. One reviewer of this piece suggested further narrowing the focus to distance education or remote health provision, while another pointed to Canadian competence in building transportation networks. Although a review of all areas to determine a priority was beyond the scope of this *Commentary*, we believe it is incumbent on Ottawa to choose between competing interests and to articulate a narrower set of priorities than it has done so far. It should also choose issues in which the country has expertise and for which the flexibility to adjust to local circumstances that a bilateral agency can provide is an asset.

Increase Presence and Decisionmaking Authority in the Field

CIDA should increase its field presence and devolve authority for program and project design and management to the field. This would give agency staff a more realistic understanding of local challenges and conditions. Field staff could coordinate better with other donors and develop local expertise and analytical capacity, sponsoring workshops in local languages and simultaneously building CIDA's knowledge of recipients. It would also give decisionmaking authority to those who directly confront the challenges of working in difficult aid environments, allowing them to design more realistic aid programs suited to those environments and to evaluate them first-hand. Such a change would give field staff further flexibility to adjust or cancel programs that do not meet goals. (Such flexibility is one factor that could make a bilateral agency more effective than a multilateral one.)

Increasing the number of field staff is expensive, but combined with a narrower focus that reduces staff numbers at headquarters and hires or redeploys staff in a smaller set of sectors or countries, such a strategy could keep costs down and make aid policies more effective.

Invest in Research Capacity or Draw on External Research

In contrast to aid agencies in the Scandinavian countries and the United Kingdom, CIDA invests little in research or policy innovation and fails to draw effectively on external research or feedback to guide its aid programs. If the agency aspires to be a development policy leader, CIDA should continue to rebuild and invest in its research and analytic capacities, ensure that these analyses play a key role in determining future policies, and encourage debate. The agency should shift from its predominantly short-term research focus to more strategic research that can lead to innovation. More analytical work should also take place in recipient countries rather than at headquarters.

If CIDA does not aspire to be a leader or innovator but merely a competent, effective aid agency with low costs, it could maintain minimal research capacity and draw more heavily on relevant external research from the IDRC, universities, think tanks, and multilateral and bilateral aid agencies. It could also sponsor more university-based research geared toward agency goals — in particular, on development challenges in the 25 countries that CIDA has targeted for continuing aid.

Either way, CIDA should encourage more interaction and debate with outside researchers both in Canada and elsewhere. A starting point would be to create new positions within the agency for outside development experts, backed with sufficient resources to attract top candidates. Similar programs at the Bank of Canada and the Department of Finance allow outsiders to share recent methodological advances with analysts while gaining exposure to policy concerns. CIDA should also host frequent seminars to encourage debate and dialogue among researchers and policymakers.

In addition, the prime minister should follow the UK model and appoint a senior minister to CIDA who is willing to drive reforms. A successfully reformed CIDA, rather than the Department of Finance, could be Canada's lead representative at the World Bank, as Greenhill (2005) suggests. An alternate model is for CIDA's minister to report directly to the foreign affairs minister, which would make Canadian policies more coherent and could lower overall administrative costs by reducing duplication and overlap.

Untie Aid

Canada is out of step with most other OECD donors that have completely or almost completely untied their aid. Given convincing international evidence that tied aid is less effective at achieving development aims, Canada should set explicit targets and timelines for completely untying its aid — including food aid, of which at least 50 percent must still be tied — with interim targets of, say, 35 percent in 2006 and 25 percent in 2007. Over the long run, such a policy change will increase aid effectiveness by lowering program costs and helping to develop the recipient's government procurement and policymaking capabilities. At a minimum, untied aid should be the default option, and CIDA staff should be given the authority to untie all aid. Ottawa should also educate the public on the benefits of untying aid.

Continue Multilateral Aid and Consider the Optimal Bilateral-Multilateral Mix

Bilateral and multilateral agencies have advantages and disadvantages. Bilateral aid agencies can be more flexible and can more easily adjust or cancel ineffective projects. Multilateral agencies tend to be more rigid, but they can take advantage of economies of scale in research, analysis, and monitoring, requiring less attention for donor coordination. They are also more likely than CIDA has been to choose projects on the basis of poverty and aid effectiveness criteria (Dollar and Levin 2004). Therefore, Ottawa should continue to give part of its aid through multilateral channels and should increase this share if it is unwilling or unable to make its bilateral aid program more selective and flexible.

Conclusion

There are no magic ways to make Canada's aid policies more effective. Compared with similarly sized, relatively effective development agencies in other countries, however, CIDA could be much more effective in meeting its development goals. CIDA's staff and decisionmaking are overly centralized, administrative costs are high, spending is widely dispersed, research and external feedback are not sufficiently valued as inputs into analysis and policymaking, and nearly half of Canada's aid must still be purchased from Canadian suppliers, even if they are not the most efficient or appropriate for recipients' needs. Recent federal government initiatives, such as the decision to focus on fewer countries selected according to meaningful criteria, are steps in the right direction, but are only a start.

CIDA must decide whether to invest in and properly use the research resources necessary to make it an innovator and leader among development agencies or to draw more heavily and effectively on external research and give more aid through multilateral channels. Either way, following the examples of effective aid agencies, CIDA should scale down its reach, build on Canadian expertise, shift staffing and authority from headquarters to the field to enable more realistic aid programming in a select group of countries, untie aid from the requirement to purchase from Canadian suppliers, and become more open to debate and feedback.

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