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# POLICY PAPER

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## **Canada in Focus: How Good is our Foreign Aid Policy?**

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**A**id flows in the Canadian context have traditionally tended to be quite diffuse across a large number of recipients, and mostly project-based. Between 2000 and 2011, the number of countries receiving Canadian aid ranged from 120 to 144 and the average aid budget was a little over US\$3.4 billion over that period, with a hint of increasing concentration in recent years<sup>1</sup>. Preliminary data released by the Development Assistance Committee (DAC) for 2012 indicates that Canada's aid budget was US\$5.7 billion, representing 0.32% of its GNI; in fact, Canada's aid volumes have increased quite significantly in the last decade. In a 2007 peer review of Canada's development programme, the DAC noted that Canada should focus its aid on fewer partner countries and be more predictable about its aid flows to them in order to generate more impact. The most recent peer review in 2012 was quite positive regarding concentration of aid to partner countries; however, it also recommended that Canada continue to focus its Official Development Assistance (ODA) on thematic and geographical priorities while at the same time disengaging from those activities and programmes that are no longer considered important.

In order to counteract excessive fragmentation across recipients, there have been attempts in recent years to be more focused by allocating a pre-determined percentage of aid to a group of priority countries based on well-defined criteria. This includes a focus on fragile states such as Afghanistan, Ethiopia, Pakistan, Sudan/Sudan and Haiti, with Afghanistan and Haiti being the two largest recipients of Canadian aid in the past decade. In fact, the list of focus countries was reduced from 25 to 20 in 2009, with 80% of bilateral aid expected to go to them; focus countries were chosen based on their real needs, their ability to benefit from aid, and the extent to which they aligned with Canadian foreign policy priorities.

The announcement by the Canadian government in its March 2013 Federal Budget that the Canadian International Development Agency (CIDA), which was created in 1968 to administer Canada's aid programs, will be part of a "mega bureaucracy" called the Department of Foreign Affairs, Trade and Development (DFATD) caught many by surprise and has created a lot of uncertainty and speculation regarding the future of Canadian aid programs. The government has claimed the move was justified because it would improve policy coherence across the three policy areas of diplomacy, commerce and development.

However, many (especially from the development community) see this change as a move away from developmental objectives specified by Canada's ODA Accountability Act to one that will tend to overly favor Canadian private sector interests. There has not yet been any serious analysis of what this change will actually mean for Canadian aid effectiveness as it relates to aid fragmentation and coherence - both across different levels of the Canadian government and with other donors. This paper will thus examine how and whether the CIDA transition will create greater coherence in Canadian aid policies through a comparative context.

In the first section, we identify the fragmentation and coherence problematique through an exploration of the contending issues in both theory and policy. We then identify the implications for addressing state fragility in particular. In many ways state fragility is the litmus test for aid coherence because no other environment requires such a high degree of coordination and concentration of resources in specifically targeted areas. If indeed aid coherence is to be enhanced, successful solutions will be found through lessons learned from working in such weak

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<sup>1</sup> Our calculations based on OECD DAC data.



policy environments where the burden of efforts falls largely on the shoulders of the donors. Furthermore, as noted above, the focus on fragile states meant that a significant and increasing amount of Canadian aid has been allocated to fragile states in the last decade (Carment and Samy, 2013).

Second, drawing on other donor experiences, we will compare this so-called hybrid arrangement with the German Agency for International Cooperation (GIZ, formerly known as GTZ) and two other approaches against which the CIDA change is now being compared – namely the DFID type model, and the Norwegian model, all of which are distinct and have different mandates regarding private sector involvement and poverty reduction. In particular, we want to examine ways in which the CIDA transition will be similar to and distinct from others that preceded it, and how its transformation will create opportunities and constraints for international cooperation coherence and integration of policy.

Third, we evaluate the claims that are being made regarding efficiencies and effectiveness in the Canadian context by giving consideration to recent prior experiences based on the aforementioned big task forces or the so called “whole of government” / “3D initiatives” in priority countries and sectoral competencies (e.g. Afghanistan, Sudan and Haiti which fell under the purview of the Prime Minister’s Office and sidestepped both CIDA and the Department of Foreign Affairs and International Trade (DFAIT)). The question here is whether the more recent transformation is indeed likely to achieve greater coherence, and whether coherence will translate into enhanced effectiveness given that the Government of Canada already has experience in working across departments but at the expense of transparency, openness and resistance to evidence-based decision-making.

Finally, we will consider the implications of pursuing a corporatist/extractive industry approach as part of Canadian aid policy and the implications for both the ODA Accountability Act and fragile states which could be left behind as a result.

## **FRAGMENTATION AND COHERENCE: ISSUES AND DEBATES**

For governments and multilateral institutions, policy coordination, coherence and fragmentation have emerged as the key obstacles to creating an effective international aid architecture. Much of the recent work in the donor community has focused on overcoming such problems in the context of aid allocation with respect to questions of aid selectivity and effectiveness.

To address these issues, the Paris Principles were developed and agreed to by the OECD/DAC, UNDP, World Bank, European Commission and several bilateral aid agencies working collaboratively. This unprecedented interagency collaboration represented a concerted effort by a large part of the development community to coordinate problem-solving efforts and to combine research programmes rather than focusing on independent agendas<sup>2</sup>.

This was clearly a positive development with respect to problems such as development harmonization and alignment as consensus, and therefore coordination, is achieved during the

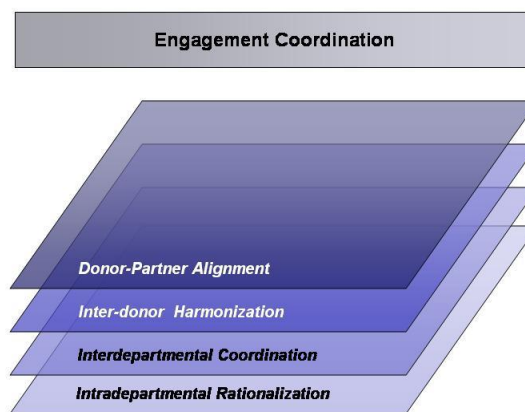
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<sup>2</sup> The Principles for Good International Engagement in Fragile States and Situations (OECD 2007), which are meant to complement the Paris Principles, also emphasized the need for a “whole of government” approach, better coordination between international actors and alignment with local priorities, while being sensitive to different contexts.



research and analysis phases rather than negotiated afterward. Unfortunately, such coordination represents only one facet of a much larger long-term problem of aid effectiveness one that cannot be addressed completely, or even primarily, within the confines of the international donor community.

With respect to the specific case of fragile states, Picciotto et al. (2005) identify four different levels of coordination (see Figure 1 below). The first, intradepartmental rationalization, calls for coordination of all development programs targeting a given nation within each donor department, ensuring that all projects share complementary objectives and methods; the second, known as whole-of government coordination, denotes coordination between aid and non-aid agencies within individual donor governments; the third, inter-donor harmonization, refers to coordination between both aid and non-aid agencies across donor governments; and the fourth, donor-partner alignment, describes efforts to coordinate the efforts of various external actors with the needs and priorities of the recipient government's own strategic priorities. Each of these levels has both national and international dimensions.



**Figure 1 – Donor Coordination Levels of Analysis**  
(Picciotto et al. 2005)

Taken together, they represent an unprecedented challenge in achieving international policy coordination and aid policy coherence (OECD, 2009). In particular, the fragile states context has been especially problematic for achieving lasting affects where coherence is lacking. In response Klingebiel and Ogbamichael (2004) identified a generalized set of basic goals to guide government-oriented development in such regions: enhanced legitimacy to justify policy, sufficient will to create policy, and effective authority to implement policy. In describing methods to achieve such ends, Klingebiel and Ogbamichael echoed many of the themes found elsewhere in current development literature, including cooperation among actors at all levels, programming flexibility, and an emphasis on points of entry and leverage most likely to produce results. These ideas are formalized in Millennium Development Goal 8, which seeks to develop a global partnership for development, and which has prompted the international community to recognize that non-aid policies - such as trade, investment, technology transfer, and migration – have significant consequences for development, poverty reduction and state fragility (Bulles and Kindornay, 2013).



In alignment with Piccioto et al's coordination levels of analysis, the policy coherence literature has similarly identified four types of policy coherence, each of which occupies a distinct space within international discourses on aid effectiveness. Of the four forms of policy coherence, 'internal' or 'vertical' coherence, which refers to interactions between donor aid policies, modalities, goals, and implementing agencies, and 'intra-country' or 'horizontal' coherence, which describes policy coordination at the national level, can broadly be categorized as forms of coherence that influence the effectiveness of donor agencies (Bulles and Kindornay, 2013). Alternatively, 'inter-donor' coordination and 'donor-recipient coherence', which are more commonly termed 'harmonization' and 'alignment' (respectively) within the aid literature, can be classified as the forms of coherence that contribute to the effectiveness of aid activities.

In terms of aid effectiveness, a large portion of the recent literature has focused on the challenges associated with poor policy coherence between donors, specifically related to donor 'fragmentation'. Based on the understanding that recipient countries have been faced with an increasing number of donors, each delivering aid through various channels and sectors, the proliferation of multiple projects from multiple donors has sparked serious concerns surrounding the potential challenges associated with fragmentation and donor policy coherence (Easterly and Pfutz, 2008).

Notably, donor proliferation and fragmentation in aid activities is said to increase the transaction costs associated with aid programming for both donors and recipients alike (Acharya, Fuzzo de Lima and Moore, 2006). On the donor side, Anderson (2012) finds that fragmentation in bilateral aid tends to raise the administration costs associated with aid spending. Anderson argues that greater specialization by bilateral donors could reduce the transaction costs incurred by donors by US \$2 billion a year. However, the greater concern is that donor proliferation will impose additional costs on aid recipient countries.

According to Knack and Rahman (2007), fragmentation has a direct effect on the quality of bureaucracy in recipient countries. They argue that donors with smaller shares of the recipient aid market tend to hire skilled public servants in efforts to improve project success, undermining and diminishing government capacity. Similarly, fragmentation is seen to threaten the administrative capacity of recipient governments by forcing recipients to divert scarce administrative resources towards meeting various monitoring, reporting, and conditional requirements attached to individual donor programs – the intricacies of which necessarily vary between donor mandates and policies (Acharya et al. 2006).

In regards to state fragility, a primary issue regarding fragmentation and coherence relates to policy priorities and conceptual differences among aid donors and across departments and agencies. Clearly, interdepartmental policies require close coordination to ensure that the pursuit of one does not undermine the efforts of the other.<sup>3</sup> Efforts to synthesize or reconcile

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<sup>3</sup> To cite just one example, efforts to suppress terrorism and crime in Afghanistan included campaigns to eradicate poppies, thereby removing a source of income for transnational criminals and terrorists alike. Unfortunately, the poppies also provided much of the income for Afghans in the poorest parts of the country. The UN's "Afghanistan Opium Survey 2004" estimates that the opium economy is worth 60% of the nation's total licit GDP, making opium production the dominant engine of growth in the country. Clearly, this is a complicated issue, in which efforts to combat drug production will inevitably have drastic consequences for economic development over a significant area of the country - see UNODC (2004).



these streams have thus far made limited progress; despite rhetoric to the contrary, they remain marked by a reluctance to cross departmental boundaries. For instance, though the document, “Principles for Good International Engagement in Fragile States” produced as part of the OECD Learning Advisory Process (LAP) acknowledges that a secure environment is a necessary prerequisite of effective aid, the document gives very little indication of how this might be achieved (OECD-DAC 2005).

Further, while the LAP process has made some progress towards harmonizing and aligning donor agency actions in failed and fragile state environments, there is no similar global process in place to enhance coordination between development agencies and security forces operating in the same theatre. All such efforts are left to individual governments, with inconsistent results. Interagency cooperation depends on agreement between the various arms of government in a number of different areas; if the relevant departments of a given international partner do not take the initiative to coordinate activities in theatre, it simply does not occur, to the eventual detriment of all parties.

For this coordination to occur, several things have to happen. First, they must have a mechanism for shared assessment and monitoring to determine which countries to engage in, and when to do so. Once committed to a particular theatre, they must share a general conceptualization of the problem, including the primary sources of instability in the country; a strategy on how best to intervene that specifies both short-term priorities for action and long term goals for the national effort; a common pool of resources, ensuring that funding flows to the true priority areas in the country; and an integrated administration and decision-making structure to ensure that the efforts of each government department do not impede, or even actively undermine, the efforts of the others. Further, the assessment must draw on the widest range of possible indicators of instability.

To focus on a single factor such as governance, instability or violence is to invite incomplete analysis of the problem, and ineffective engagement as a result (Ghani and Lockhart 2008). In addition, the monitoring capability must provide some type of early warning to allow for policy deliberation and resource mobilization, vital prerequisites of timely and effective engagement.

Clearly, no country has yet demonstrated the ability to sustain such a high level of coordination over an extended period of time (Kaplan 2008). According to a French government report in its assessment of current development policy:

The situation of a “fragile state” is assessed in negative terms, on the basis of two main criteria: (1) poor economic performance (the 46 fragile states listed in the paper are all low-income countries, and most of them are among the less developed countries [LDCs]); (2) the effective impotence of government (the DFID paper refers to the World Bank’s Country Policy and Institutional Assessment [CPIA] ranking). Another approach to the same problem is to use the Millennium Development Goals (MDGs) as the point of reference, in order to underscore the fact that “fragile states” are in fact those where the MDGs will not be achieved, or to highlight deficiencies in service delivery to the population. The degree of “fragility” is defined according to a few simple criteria (the rule of law, control over the country’s territory, respect for minorities, delivery of basic services), used exclusively within the national context. Such definitions pay little attention to the country’s external vulnerability or the harmful consequences of



certain policies of the developed countries or large private-sector firms. The “fragile states” approach does, however, allow for the inclusion of the notion of preventive action, whereas previously the conceptual debate had been restricted to countries emerging from crisis or in post-conflict situations (Châtaigner and Gaulme 2005:3).

As these authors suggest, coordination, coherence and whole of government approaches will not be possible, until, disparate and often contending analytical approaches are reconciled and this reconciliation is internalized at the level of analysis and policy formation, rather than through some process of horse-trading, whether *ad hoc* or institutionalized, among departments on the basis of independent analyses.

A second major issue in regards to policy coherence is the high level of fungibility associated with most development financing. The lack of specifically targeted aid resources means that uncooperative recipient governments will be able to arrogate targeted support, regardless of the conditions placed on it. The answer to this problem, according to Collier and Dollar (2002) is to make selectivity a core part of effective aid policy.

Current examples of aid policies incorporating selectivity, in which the donor nations factor the strength of potential recipients’ policy frameworks into their decision-making processes, include Canada’s Strengthening Aid Effectiveness (SAE) effort and the US Millennium Challenge Fund. Such considerations are broadly reflected in the Monterrey consensus on Financing for Development as well. Moreover, in the presence of fragmented aid, where multiple donors each provide only a small fraction of a country’s total aid, donors will tend to focus on achieving the narrowly defined goals of specific aid projects - which are usually aligned with agency specific mandates - over contributing to the holistic development of aid recipients (Knack, 2008; Knack and Rahman, 2007).

By prioritizing project-based successes, multiple donors, pursuing multiple objectives, threaten to sideline recipient country development for achieving small and measurable results that donors can report to domestic constituencies. While Nunnenkamp, Ohler and Thiele (2011) argue that recent trends towards delivering aid through general budget support, where aid is provided directly to recipient governments to support domestic priorities and improve aid policy coherence, has reduced the fragmentation of aid activities, they find that weakening coordination between donor agencies has allowed fragmentation to persist following the Paris Declaration.

In particular, as part of the Paris Declaration, donors agreed to focus aid towards the countries or sectors in which they possessed a relative comparative advantage, acknowledging that greater specialization in aid activities would reduce the transaction costs associated with aid activities. While, Easterly (2007) finds little evidence of increased specialization in donor activities by recipient country, he finds some evidence that donors may be specializing by sector, where donors operate in a few key sectors across a broader sample of recipients.

Although the potential transaction costs associated with donor fragmentation have spurred efforts to improve the coordination and harmonization of aid activities, some have warned that excessive harmonization may also be detrimental to overall aid effectiveness. Indeed, Frot and Santiso (2010) report that some recipient countries suffer from too little fragmentation, where too few donors and associated interventions, particularly within specific sectors, reduces





competition between donors and opens the potential for monopoly donors to stray from international 'best practice' through tying aid.

However, a recent study by Knack and Smets (2012) examining the relationship between tied aid and fragmentation finds little evidence that monopoly donors exploit monopoly power through tying aid. Rather, the authors argue that donors with larger shares of the aid market tend to tie less aid, focusing more strongly on supporting the development impact of aid activities in primary recipients.

Aside from the potential inefficiencies that fragmentation can cause for recipient countries and for the broader aid effectiveness agenda, poor policy coordination at the donor level can hinder the effectiveness of donor agencies. According to Gulrajani (2012), donor effectiveness, which refers to the donor-related organizational processes that impact aid and development effectiveness, has sparked an increasing interest in how the effectiveness of aid efforts are influenced by governance systems and policy coherence at the donor level.

For Barry, King, and Matthews (2010), incoherence results from differences between domestic objectives and international goals. More specifically, Hoebink (2004) finds that institutional incoherence stems from inter-agency competition or divergence in policy priorities. Indeed, when dealing with donor aid agencies, inter-agency competition between the donor agencies and departments charged with broader external relations and foreign affairs appears as a common theme and source of ineffectiveness.

Speaking specifically of policies for development, Ashoff (2005) states that policy coherence is particularly difficult to achieve in the development context given the complexity of development and due to large conceptual gaps within the field. With imperfect information from recipient countries and in the presence of measurement challenges, it becomes difficult for donor governments to design policies that benefit recipients and which meet donor promises to program for poverty reduction.

## **CIDA AND POLICY COHERENCE**

In recent years, CIDA has been cited as one of the *poorest* international performers in fragmentation and policy coherence. According to Acharya et al. (2006), who rank bilateral donors by the level of proliferation in aid activities, Canada ranks as the second worst bilateral donor (following Germany) in terms of fragmentation in aid programming. Canada's poor performance on aid fragmentation is reaffirmed by Easterly and Pfutze (2008) who rank Canada in the bottom 20<sup>th</sup> percentile for aid fragmentation amongst the largest 40 bilateral and multilateral donors.<sup>4</sup>

One of the key challenges that historically threatened the coherence of Canadian aid policy was the inability for CIDA to focus on specific priority countries and sectors. Over the past decade, Canada has shown some improvements towards focusing aid spending, with aid concentration in priority countries (as a percentage of total bilateral aid) trending upward, peaking at 47% in 2010. However, in 2011, that number fell to 39%, roughly half of what the target was expected

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<sup>4</sup> The data from both Acharya et al. (2006) and Easterly and Pfutze (2008) is somewhat dated (prior to 2004), suggesting that these results may not capture the current state of fragmentation within Canadian aid. Indeed, recent changes to reduce the number of focus countries from 25 to 20 may have improved Canada's relative standing (see next few paragraphs for more recent data).



to be<sup>5</sup>. With the remainder of bilateral funding spread between 126 additional bilateral recipients, efforts to reduce fragmentation through channeling more aid to fewer priority recipients appear to have been limited by CIDA's continued allocation of a large proportion of aid funds beyond the stated priority recipients; it will be interesting to see whether these numbers change over the next few years.

Similarly, the coherence of CIDA policies has also been hindered by too many sectoral priorities (Carin and Smith, 2010). In 2008, the Canadian government sought to improve policy coherence through articulating sectoral priority areas in the ODA Accountability Act. The Act stated that Canadian aid programs would aim to support four key developmental priorities - poverty reduction, democracy promotion, sustainable development, and international standards for human rights - to be pursued through programmatic efforts in seven priority sectors: health, basic education, private sector development, poverty reduction, democratic governance, gender equality, and environmental sustainability (Carin and Smith, 2010). While some have argued that the broad nature of the outlined policy priorities will provide the legislation with a long shelf-life and allow Canadian aid policy to remain relevant to fluctuating international aid paradigms, the wide scope of Canadian aid policy increases the potential for continued policy incoherence and fragmentation (Carin and Smith, 2010).

Essentially, the challenges facing the coherence of Canadian aid extend beyond any single determinant of fragmentation. While reducing the number of priority recipients and sectors promises to lessen fragmentation through improving the concentration of aid (which has, to a certain extent, taken place already), problems associated with fragmentation remain grounded in larger government priorities and broader policy incoherence. Indeed, without wider policy change, in terms of improved policy alignment between Canadian foreign, commercial, and developmental interests, challenges associated with fragmentation, which are rooted in deeper policy incoherence, are likely to remain a key constraint to the effectiveness of Canadian aid.

The next section of this paper will examine the folding of CIDA into DFAIT, comparing the new 'super-ministry' model of Canadian aid to similar institutional arrangements by DFID and the Norwegian NORAD.

## **THE MERGING OF CIDA AND DFAIT: DFATD**

In March 2013, the Canadian government announced its plans to fold CIDA into the department for foreign affairs, creating a new 'super-ministry' under the name of Department of Foreign Affairs, Trade and Development (DFATD) (CBC, 2013). According to the Bill C-60, which was passed on June 26<sup>th</sup>, 2013, formalizing the merger and creation of DFATD, the former CIDA would maintain the same primary functions - designing and implementing policies that focus on poverty alleviation and the provision of humanitarian assistance (CCIC, 2013a).

The most significant institutional change accompanying the merger is perhaps the creation of the position of Minister for International Development, which will replace the previous Minister for International Cooperation and will operate parallel to the Minister for International Trade. Reporting to the Minister of Foreign Affairs, the new Minister for International Development is legislatively charged with "undertaking activities on, ensuring the effectiveness of, and fostering relations with other countries and organizations on international development and humanitarian assistance, and ensuring that this contribution is in line with Canadian values and

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<sup>5</sup> Our calculations using OECD DAC data.



priorities” (CCIC, 2013b). Additionally, the President of the former CIDA will be recast in the role of Deputy Minister, rounding out the administrative changes under the new legislation.

In essence, the merger promises to locate Canadian development assistance within a hybrid governance model. Formally located within the Foreign Ministry, the former CIDA still retains its own minister, and will maintain its funding separate from Foreign Affairs. The unclear nature of this arrangement, which blurs the lines between institutional independence and complete absorption raises serious questions for the future of Canadian development assistance.

Indeed, many within the development community have expressed concern that the new institutional arrangement may subordinate development priorities to foreign policy and trade concerns (CBC News, 2013; Smillie, 2013; Brown, 2013). Alternatively, others have heralded the merger for its potential to raise the profile of development issues within broader Canadian foreign policies (Westhead, 2013; Chapin, 2013). While the government framed the merger as a way to “enhance [the] coordination of international assistance with broader Canadian values with trade and diplomacy” (Fantino, 2013), suggesting that policy coherence was a clear motivational factor behind the organizational change, the actual degree to which changes to the institutional structure of Canadian aid will meaningfully contribute to the cohesion of Canadian policy at both the domestic and international level remains open for debate.

## **OTHER INTERNATIONAL HYBRID MODELS: DFID, NORAD, AND GIZ**

Over the past two decades, several donor governments have reorganized the governance structure of domestic aid agencies in efforts to improve donor effectiveness and to enhance the coherence of domestic government policies. The remainder of this section will review a few other organizational models used by donor agencies in efforts to assess the merger of Canada’s aid agency with the Department of Foreign Affairs within the context of international examples of governance changes in donor agency structures.

### ***DFID***

Over the past decade, the UK’s Department for International Development (DFID) has earned a reputation as one of the best donor agencies worldwide. Established by the Labour government in 1997, DFID went from an ineffective department hidden under the wing of the Foreign Office, to an independent ministry, headed by a member of Cabinet, and charged with the coordination of all UK aid and development programming (Gulrajani, 2010).

Prior to the formation of DFID, British aid policies were channeled through the Overseas Development Administration. As an arm of the Foreign Office, it was highly susceptible to political interference, resulting in a history of aid and development programs that were largely tied to geopolitical and commercial interests (Barder, 2005). With the end of Cold War, the British Government sought to reduce the previously explicit use of aid to buttress foreign policy, opting to link aid more directly to issues of democracy and good governance throughout the 1990s. Indeed, difficulty ending the ‘sleaze’, a term referring to the interconnections between business (especially arms exporters) and foreign policy, and a political scandal, sparked widespread disillusion with current aid practices (Barder, 2005).

The formation of DFID as a separate government department was seen as a way to disentangle aid from the web of trade and political interests. At the institutional level, the formation of DFID under the auspices of its own Cabinet minister was a clear attempt to delink aid from



broader foreign policy concerns and to more fully pursue aid and development policies that explicitly sought poverty reduction as the main goal – a priority championed by the New Labour regime. In terms of policy, the new DFID was charged not only with responsibility for the UK's bilateral and multilateral development financing, but was also responsible for “ensuring a joined-up development policy across the Government as a whole” (Barder, 2005, p. 14).

In line with Labour's efforts to ‘join-up government’, which saw many socio-economic challenges (drug addiction and crime for example) as beyond the expertise and capacity of any single department, calling for all arms of the government to coordinate efforts to address systemic and deep-seated challenges, DFID was charged with maintaining and supporting development policy coherence. Importantly, the centrality of policy coherence to the new Government's agenda meant that DFID was afforded a voice in the formulation of government policy in other areas (such as trade, conflict, and foreign relations) that interacted with broader developmental concerns.

In this way, the government, through an independent DFID, made poverty reduction an overarching and meaningful policy priority, one that required broader government coordination, but that fundamentally needed policy independence and institutional space from commercially and strategically focused government branches.

### **NORAD**

While DFID's restructuring served to deepen and formalize the independence of development priorities as separate from broader foreign and commercial interests, the reorganization of the Norwegian Agency for Development Cooperation (NORAD) further embedded development policy within the Norwegian Ministry of Foreign Affairs (MFA). Prior to 2004, the delivery and allocation of Norwegian aid was overseen by three key actors: the MFA, NORAD, and the Embassies (Gulrajani, 2010). Under the guidance of the Minister of Foreign Affairs and a Minister of International Development and Human Rights, the MFA was charged with the legislative responsibility for all development assistance. However, in practice, the MFA tended to exert primary control over multilateral and humanitarian funding. The second actor, NORAD, was a specialized independent agency and was charged with overseeing bilateral aid spending. Administratively separate from the MFA, NORAD primarily provided technical capacity for the implementation of MFA policies and strategies. In addition, several Norwegian embassies were highly involved in development assistance, particularly those in countries where a large portion of Norwegian foreign policy activity was focused on development.

In 2004, NORAD was formally integrated into the MFA, relocating control of bilateral funding firmly within the MFA's mandate. As a result, the new administrative structure served to reduce NORAD's formal responsibilities to technical advisory work, evaluation, and quality assurance – all of which were aimed at supplementing the policy and administrative processes executed by the MFA and the embassies - while the embassies became responsible for implementing and managing country-led development programs.

Essentially, the restructuring served to solidify the role of the MFA as the primary actor in Norway's development policy. According to Gulrajani (2010), Norway's position as a small country seeking to identify as a non-member of the European Union, rendered foreign policy a primary domestic concern. As such, the re-organization of Norway's development institutions reinforced the centrality of the MFA as the bureaucratic power-house for interdepartmental



politics, institutionally aligning development policy with broader concerns surrounding foreign policy.

While the reconfiguration of relations between the MFA and NORAD threatened to deepen linkages between foreign and development policy, the extent to which the merging of NORAD led to the alignment of development policy with foreign policy interests is debatable. On one side, Gulrajani (2010) writes that “aid has been a vehicle to advance Norway’s foreign relations, cultivating soft power to advance its policies on NATO and the Arctic, secure commercial contracts for Norwegian companies to extract natural resources in Angola, as well as a means for securing employment and policy influence within the multilateral system” (p. 33), suggesting that the new relationship between NORAD and the MFA has subordinated development policy concerns to broader foreign policy initiatives. Indeed, the 2009 Government White Paper cited an explicit desire to move towards pursuing a more partisan and politicized development policy.

At the same time, following the merger, Norway has managed to retain its international reputation as a generous donor, consistently providing aid well above the 0.7% of GNI international target (OECD, 2013). Additionally, between 2005 and 2009 Norway increased ODA commitments by 35% (Gulrajani, 2010), maintained a clear focus on poverty reduction, and increased funding to, and relations with, Norwegian NGOs. In this sense, while the institutional reorganization of NORAD threatened to hinder Norway’s donor effectiveness through linking development policy with foreign affairs, rising aid levels and efforts to support overall aid effectiveness have allowed Norway to retain its reputation as an altruistic donor and international ‘team player’.

### **GIZ**

In June 2010, the German Development Minister announced plans to consolidate Germany’s three international development agencies into a single entity (DW, 2010). The new agency, called the German Society for International Development (GIZ), was designed in response to historic inefficiencies within the German development system (Nabiyeva, 2011). Indeed, in 2005, the OECD Peer Review process found that the German development system had reached a breaking point, urging the German government to consider structural reform within its implementing agencies.

Germany’s approach to development cooperation has long been multi-organizational. At the center of Germany’s development policy is the German Ministry of Economic Cooperation and Development (BMZ), which plays a key role in policy-making and is largely responsible for leading the German development cooperation system (OECD, 2005).

The majority of German aid tends to be channeled through BMZ before being reallocated to partner implementing agencies, civil society, and international organizations. In particular, BMZ works closely with two implementing agencies, the German Agency for Technical Cooperation (GTZ) and the KfW Development Bank (KfW), which undertake the ‘technical’ and ‘financial’ aspects of aid allocation and development policy respectively. In addition, human resource development is undertaken by both the German Development Service (DED) and InWent Training Agency, further extending the bureaucracy associated with German development activities.

Essentially, the 2011 restructuring served to merge the GTZ with the DED and InWent, three often competing agencies, to create the GIZ in efforts to improve development coordination



through reducing the number of parallel organizational structures (Nabiyeva, 2011). While the GIZ is federally owned, it essentially runs as an arms-length structure, implementing projects on behalf of the BMZ, as well as those funneled through German federal states, municipalities, and public and private sector actors, both domestically and abroad (Friedemann, 2011). Mandated with the task of supporting international cooperation for sustainable development, some observers appear optimistic that the merger can improve German policy coherence and development outcomes.

At the same time, the continued relationship between GIZ and BMZ, where GIZ falls under the broader policy umbrella of the BMZ, has led critics to question whether the organizational efficiencies gained through the merger will actually translate into improvements in Germany's donor effectiveness. Indeed, with BMZ remaining the key policy-making structure, it is unclear whether the merger will spark actual policy changes beyond the institutional restructuring. While it is still too early to fully assess the effectiveness of the merger, a major challenge lies in uniting the three agencies, each of which pursued different agendas and had different ways of doing business, to create coherence in German policy implementation.<sup>6</sup>

### **DFATD – LEARNING FROM INTERNATIONAL EXPERIENCE**

Folding CIDA under the wing of DFAIT is not without controversy. Most of the pundits who see the change as positive have assessed the transition from a foreign policy perspective, citing major gains in policy coherence that arise from a more focused and politically aligned development agenda as the clearest potential opportunity to stem from the merger.

Others, mostly insiders with a background in diplomacy, have made the efficiency argument suggesting that duplication of resources and effort will be eliminated through smaller budgets and staff cuts. A third group supports the transition as part of a process initiated under the previous government of Paul Martin whose International Policy Statement (IPS) spoke to the need for Canada's engagement in the world through "whole of government approaches" that targeted capabilities across a range of government departments.

These are all potentially valid arguments but they are also all conjectural; the claims they make are unsubstantiated and potentially untrue. This is because in the absence of transparency about how policy is made by the government and little accountability on how resources are allocated and evaluated, it will be difficult to know if this new 'mega bureaucracy' is having any meaningful impact along the lines its advocates claim.

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<sup>6</sup> For example in the mid 2000s German policy focused to a greater extent on sub-Saharan Africa. Accordingly, Stephan Klingebiel and Huria Ogbamichael (2004) examined the nature of poor performing states within the sub-continent. Their discussion, in some ways reminiscent of the German government's own position, distinguishes between states that lack a minimum governmental capacity and those that are unwilling to implement development-related policy. Though clearly sensitive to security concerns caused by poor performers, they nonetheless consider the problem primarily through the lens of international development, examining the goals, effects, and limitations of development policy in fragile and failed states.



The evidence we have at our disposal in the Canadian context suggests some fundamental problems with each of the positive arguments for the merger. Consider the most important test cases in favour of coherence, efficiency and complementarity, namely in terms of how we deal with failed and fragile states. Over the last seven years, DFAIT and CIDA have been bypassed by the Prime Ministers' Office on some of the most important foreign policy files, through the creation of 'Task Forces' answerable directly to Cabinet. For example, the Afghanistan Task Force gobbled up billions of aid money over an entire decade without any clear sense that these funds were being effectively allocated and accounted for.

One of the most glaring examples of the lack of transparency and accountability surrounding Canadian 'Task Force' interventions and the use of development resources concerns CIDA's Dahla Dam project - one of Canada's signature projects in Afghanistan (McDiarmid, 2013). Not only did Canada fail to raise the dam wall, but some observers have raised concerns surrounding the allocation of project funds, particularly in terms of project security. Of the \$50 million assigned to the project, roughly \$10 million was paid to Watan Risk Management, a private Afghan security firm with an alleged history of crime and corruption. While the volume of funds allocated to project security could be justified based on the prevailing insecurity within the Kandahar region, Canada's engagement with Watan, which ended in an armed standoff between Watan agents and Canadian security forces, raises serious questions surrounding the allocation of Canadian aid funds (McDiarmid, 2013). Similar setbacks have been experienced in Haiti, now another major recipient of our aid dollars, where whole of government approaches combining the capabilities of eight different departments have made little progress in pulling that country out of its post-earthquake malaise.

In some ways the merger is a continuation of Paul Martin's vision for coherence as reflected in the IPS of 2005. In that document, the Canadian government argued that a pooling of resources and capabilities served as the best and most cost effective approach in tackling the complex and interrelated problems facing the world. Such thinking was not unique. The UK and the US, as well as the World Bank, the UN and other OECD countries, have released similar strategy papers. Their main focal points are the threats emerging from fragile and failed states, the rationalization and harmonization of development assistance programmes and coordination between all relevant arms of government.

There was also agreement to better use the intelligence that underpins efforts to engage failed and fragile states in addition to providing a more flexible operational capacity for emerging crises through prevention and diplomacy. In straightforward terms, it was assumed that departments would share a common analysis of problems, coordinate their efforts and decide who would take the lead in mounting a response. With coordination would come a clear understanding of where Canada should engage and where it was best to let others lead. In brief, the IPS claimed that Canada could make a real difference in the world through "smart power."

With the merger that idea may bear fruit. For example, the chronically underfunded Department of Foreign Affairs was saddled with the task of creating a new structure without a clear mandate and no funding. That entity known as the Stabilization and Reconstruction Task Force (START), like its US counterpart the Office of the Coordinator for Reconstruction and Stabilization (S/CRS), has not fared well. The organisation has not been able to withstand irrepressible stove piping within the Canadian government on three of its largest files, namely Afghanistan, Haiti and Sudan, all of which had, at one time or another, dedicated task forces answering directly to Cabinet, taking responsibility for most of the important strategic and



operational decisions including budgetary matters. As one observer of Canada's aid programs once noted, so lopsided has been Canada's spending on the Afghanistan Task Force there should be a department for Afghanistan and a department for everything else

Similarly, as soon as Afghanistan became Canada's top recipient of aid, questions of CIDA's accountability and effectiveness emerged not just in Afghanistan but elsewhere. Many critics cited the lack of proper monitoring tools as a key reason for the organization's ineffectiveness. Today, Canada's aid agency still lags behind other development agencies such as the UK's DfID when it comes to the evaluation and monitoring of its aid programmes.

The original list of 25 development partners, with the likes of Indonesia and Ukraine on it were not an easy sell from the beginning; furthermore, the ODA Accountability Act, Bill C-293, that came into force in June 2008, requires that aid be targeted towards poverty reduction. The policy announcement in 2009 that 80% of Canada's bilateral aid would be allocated to 20 countries of focus (including several fragile states) was met with equal criticism. In particular, it was seen as a clear move away from Africa in favor of Latin America.

Larger questions remain. Chief among these is whether "whole of government" approaches have met with any success and whether a more focused and rationalized aid programme is proving to be more effective and cheaper. In theory, Canada was to move from a reactive stance to a more preventive one through a pooling of resources and a deeper understanding, which was supposed to save money and help stabilize countries before they collapsed into violence.

Unfortunately, considerable resources and lives are still being invested in rebuilding failed states without clear and tangible results. Indeed, continued aid to Haiti shows only minor success despite all the international attention it has received since the earthquake. Given the billions of dollars at stake, key questions must be asked.

In this respect, the donor cases highlighted above, namely DFID and NORAD, offer several valuable insights into the new hybrid model for the governance of Canadian development assistance. In particular, parallels between the CIDA merger and the aforementioned cases raises two key themes, each of which appears to contribute to the likelihood that donor policy coherence can be improved through the reorganization of governance structures.

The most significant differences between the CIDA merger and the transitions undertaken by the aforementioned cases, is the absence of a clear, transparent and coherent political vision for development programs from the Canadian government. In the case of both DFID and NORAD, the relative success of each institutional arrangement, and the ability for each agency to transition without subordinating development objectives to the Foreign Office and MFA respectively, was grounded in a strong and clearly articulated development vision from the federal government.

For DFID, the strong emphasis on poverty reduction taken by the Labour government, which was formalized in a series of White Papers, raised the profile of development priorities and ensured that the Foreign Office supported development efforts, rather than exclusively commercial and strategic interests, within their policies. Similarly, Norway's explicit attempt to politicize aid in efforts to support foreign policy priorities clearly and unequivocally subordinated development policy to foreign policy interests.





While Norway's attempts to politicize aid may be seen in opposition to best practices in the aid effectiveness agenda, which tends to prioritize altruistic motives for aid allocation, the Norwegian's firm stance towards politicization and the strategic use of aid helped to both ease transitional tensions by clearly articulating NORAD's institutional position as subordinate to the MFA, while contributing to policy coherence through defining clear policy objectives.

Historically, the Canadian Government has failed to clearly define a strategic focus for Canadian aid, opting instead to forward an ever-changing list of priority sectors and preferred recipients for Canadian development resources (Carin and Smith, 2010). While the formation of the 2008 ODA Accountability Act can be construed as the government's attempt to forward a clear agenda for development, the broad nature of the Act did little to meaningfully focus development priorities and has made it difficult for observers to determine government objectives related to development.

Essentially, by failing to provide a specific and clearly defined strategic focus for CIDA policies, the ability for CIDA to navigate institutional changes at the policy level appears hampered. In terms of policy, the absence of a clear mandate for development policy objectives leaves the development agenda vulnerable to usurpation by the stronger, larger, and presumably more clearly oriented Foreign Affairs. Perhaps even more troubling is the understanding that based on philosophically different mandates between CIDA and DFAIT, the merger may actively deepen fragmentation in Canadian aid by expanding the list of potential partner countries to mirror those of strategic and commercial importance.

According to Carin and Smith (2010), DFAIT has historically maintained ties with as many partner countries as possible, arguing that Canada cannot afford to ignore any part of the world. In the absence of a clear vision for development policy, the potential for fragmentation in Canadian development assistance appears to be more likely, where development policies may begin to mirror foreign policy objectives, and threaten to subordinate aid policies in favour of trade and strategic priorities, ultimately reducing the likelihood that the merger will contribute to greater policy coherence between government agencies.

Additionally, a further difference between CIDA and other transitory examples is the absence of strong political leadership and a clear institutional vision supporting the merger from within the Canadian government. For DFID, Labour opposition critic Robin Cook, committed Labour to stop allocating aid based on political strategy. Along with Claire Short, the pair pushed for institutional change and lobbied the government to grant development a larger and more significant function and space within the domestic institutional environment.

In Norway, the then Minister of Development Hilde Frafjord Johnson pushed for the integration of NORAD into the MFA. Similarly, in the German case, even though it is still too early to assess implications, the Development Minister, Dirk Nieble led the charge to improve the effectiveness of the German development system by creating GIZ (Nabiyeva, 2011).

Interestingly, the merger of CIDA with DFAIT appears to have been curiously devoid of any real leadership. The merger, which was first considered by government in the 1990s, lacked clear political voice (Pratt, 1998). With the announcement of the merger hidden in the 2013 Budget Bill, there was little political ownership associated with the government's plans to unite CIDA with DFAIT. Essentially, the lack of clear leadership behind the merger raises questions for the effectiveness of the change, particularly concerning the ability for (what was) CIDA to retain



ownership over development programming within the larger ministry structure. Indeed, in the absence of clear policy goals for development, the lack of clear leadership provides a further threat to the coherence of Canadian development policies, leaving Canadian aid without a clear voice or political agenda to drive development policies and to ensure that development priorities are not overshadowed by strategic interests.

Finally, clear differences between the location of aid agencies within the larger government structures in each of the reviewed cases suggests that internal foreign policy preferences, particularly concerning domestic perceptions of the role of foreign aid<sup>7</sup>, contribute to the organizational preferences of aid agencies within donor governments and to relative policy coherence. In the case of DFID, where aid, following the New Labour mandate, is explicitly tied to developmental priorities, the separation of DFID into an independent department provided the agency with the autonomy to pursue developmental, rather than strategic, objectives. At the same time, the relative clout afforded to DFID as a separate department, and the UK's prioritization of aid for development and poverty reduction, allowed an independent DFID to promote policy coherence through providing it with the power to influence other government policies with developmental concerns.

Similarly, in the Norwegian case, where aid is clearly viewed as an arm of foreign policy and is openly aligned with strategic and commercial interests, the folding of NORAD into the MFA improved the ability for the government to align aid with larger foreign policy goals, deepening overall policy coherence.

In the Canadian context, the role of foreign aid, whether to further Canadian interests, promote development, or any combination of the two, has been less well defined. In the absence of a clear vision concerning the intended purposes of foreign aid, the CIDA merger with DFAIT becomes increasingly murky, as the new institutional closeness threatens to more explicitly align aid with broader foreign policy concerns. However, the Canadian government's unwillingness to admit the strategic uses of aid, and a continued rhetoric of altruism, suggests that the merger will continue to perpetuate policy incoherence, where a lack of vision for aid policies and the new institutional arrangement, threatens to hinder the government's ability to focus aid policy.

### CONCLUSION

It is far from clear that the folding of CIDA into DFAIT will lead to greater coherence across diplomacy, commerce and development, and allow Canada to engage the world more effectively. Drawing on the Norwegian and British cases, we see that what matters is not whether there is an integration or separation of aid and foreign and commercial policy objectives. More importantly, a clearly articulated vision for what aid is meant to accomplish complemented by political leadership to ensure that such a vision is translated into concrete policy actions is what seems to have made the difference in these cases. While DFID provides us with an example of a strongly independent development agency, NORAD has been able to successfully integrate its development policy and foreign policy within its ministry of foreign affairs. In brief, there is no such thing as a "perfect" model.

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<sup>7</sup> In a 2007 survey conducted by the Canadian Defence and Foreign Affairs Institute (CDFAI), 58% of Canadians felt that the government should focus aid on fewer countries to have a bigger impact while only 30% were in favor of giving a little aid to each country. However, they were divided on whether that aid should go to those with greatest need (49%) or to countries that embraced democratic values (45%).



In trying to make sense of the Canadian government's decision to create a mega-ministry for foreign affairs, trade and development, some have argued that it is more about political control to ensure that development aid can serve Canada's economic interests. For example, in 2011 CIDA's then junior minister Julian Fantino announced the government's intention to co-fund a project in Peru with Barrick Gold, with both parties contributing half a million dollars to "increase the income and standard of living of 1,000 families affected by mining operations" (Carment and Prest 2013). Other similar partnerships were announced concurrently in Burkina Faso and Ghana with IAMGOLD and Rio Tinto, respectively, and more recently the disbursement of 25 million dollars to a UBC-led University consortium that will direct its efforts at CSR initiatives in developing countries. Such arrangements include Civil Society Organisations that are expected to work with local communities on the mining companies' behalf to improve the living conditions of those affected (Carment and Prest 2013).

While sensible from a corporatist/extractive perspective, these new partnership approaches are at odds with Canada's ODA Accountability Act, whose primary focus is poverty reduction. They also mean that the Canadian government is prepared to accept that Canadian companies may have negative impacts on local communities in developing countries and that it will intervene to rectify any potential damages. As discussed by Carment and Prest (2013), placing Canadian government funding behind CSR activities may have significant consequences. First, it means that the Canadian government could find itself mixed up in future allegations of harmful conduct and ordered by local courts to pay compensation (Carment and Prest 2013). Second, this could lead to increasing demands on government from anti-mining activists to undertake similar activities wherever extraction is taking place. Finally, it is very likely that fragile states, where Canada's commercial interests are non-existent, will be left behind.

In our view, while a private-sector approach to development may leverage more private investment for development, there is a risk that Canadian aid will secure Canadian interests rather than align with and support the wider aid effectiveness agenda.



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