Effective Aid and Beyond: How Canada Can Help Poor Countries

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Summary

Many Canadians feel their country has a moral obligation to help poor countries. Even those who do not should recognize this country's strong interest in promoting long-term prosperity and stability in developing countries, given Canada's dependence on international trade and migration. But what is the most effective use of Canadian dollars and policies to improve conditions and reduce poverty in developing countries?

Canadian leaders often point to increased official foreign aid spending as the best way to boost help to poor countries. While aid has been successful under some conditions, aid's overall record in reducing poverty[1] over the past half century has been mixed. Even if Canada's aid program increased by a significant percentage, the country would continue to be a relatively small donor.

Private funds flowing from rich to poor countries — through trade, remittances, investment, and private foundations, among other channels — dwarf official development aid in value. The early evidence also suggests these funds can be quite effective in reducing poverty. Funds remitted by migrants back to their origin countries are at least three times the value of global foreign aid, are growing at a much faster rate than aid flows, and have reduced both the incidence and severity of poverty in developing countries. Foreign direct investment to developing countries is also about three times the value of global foreign aid. While it has some downsides, such investment has raised government revenues, employment, productivity and in turn living standards in developing countries. It also makes Canadian companies more competitive and productive, thereby raising Canadian living standards.

Similarly, buying goods made in developing countries has raised poor country incomes[2], and helped provide better-paying jobs, particularly for women. Eliminating all rich country trade barriers would result in income gains to developing countries double that of global foreign aid. Canadian consumers would in turn benefit from lower prices. Private foundations also pour significant funding into developing country projects. The Gates Foundation, for example, with an endowment of US$32 billion, gave 70 percent of its funds to development and health projects outside of the US in 2005. Many private foundations run programs at a fraction of the administrative costs of official aid programs, leaving more money free for development purposes.

This paper provides a brief, introductory survey of two types of private flows from Canada to poor countries — remittances and trade — while suggesting improvements to enhance the effectiveness of public aid flows.[3] The paper assesses, briefly, the effects of all three types of flows on developing countries and in Canada, as well as Canadian policies in each area. The focus is on levers to help poor countries that are within Canada's control, rather than the actions developing countries should take to reduce poverty in their countries.

Development is not one of the federal government's stated priorities. It is in Canada's interest, however, for Ottawa to make development a priority because of Canada's long-term interest in a stable and prosperous world. Ottawa should make removing barriers to trade, remittances and other forms of private giving to developing countries central tools of this country's development policy, which should also strive for more effective aid. While less visible than new aid programs, smart changes to aid and non-aid policies could have important, positive development effects, and also result in better overall outcomes for Canadians. Ottawa should consider, after more detailed study, such policies as increasing transparency and improving competition for remittance transfers, eliminating remaining trade barriers to goods from all developing countries (while mitigating any negative effects on Canadians), and shifting authority for aid programs to the field where officers can develop more realistic, effective programming.

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[1] This paper assesses policies aimed at reducing poverty in developing countries, while recognizing that other related goals — such as improving health and education — are also important for development.

[2] I use income and average incomes as crude summary indicators for poverty reduction in this overview paper, but they by no means capture poverty in its entirety.

[3] A more comprehensive study could examine other potential areas that bear on development — such as investment and policies vis-à-vis corruption.

Résumé

Nombreux sont les Canadiens et Canadiennes qui estiment que leur pays a l'obligation morale de venir en aide aux pays démunis. Et même ceux qui ne sont pas de cet avis réalisent l'énorme intérêt du pays à promouvoir la prospérité et la stabilité à long terme dans les pays en développement, vu la dépendance du Canada envers le commerce international et la migration. Mais qu'est-ce qui constitue l'utilisation la plus efficace des deniers publics et des politiques canadiennes pour améliorer les conditions des pays en développement et réduire la pauvreté ?

Les dirigeants canadiens affirment souvent que l'accroissement des dépenses publiques consacrées à l'aide étrangère est le meilleur moyen d'aider les pays démunis. Bien que cette forme d'aide soit efficace moyennant certaines conditions, les mesures globales d'aide pour réduire la pauvreté ont connu, au cours des 50 dernières années, un succès mitigé. Même si le programme d'aide du Canada faisait l'objet d'une hausse considérable, le pays resterait un donateur relativement modeste.

Les fonds privés allant des pays riches vers les pays démunis — par le biais du commerce, des envois d'argent, de l'investissement et des fondations privées, entre autres — éclipsent en valeur l'aide publique au développement. À premier abord, ces types de financement semblent très efficaces pour réduire la pauvreté. L'argent envoyé par les migrants à leur pays d'origine revient à au moins trois fois la valeur de l'aide étrangère mondiale, et s'accroît bien plus rapidement que le montant de l'aide; il a permis de réduire le nombre de cas de pauvreté dans les pays en développement, ainsi que leur gravité. L'investissement étranger direct dans les pays en développement revient à environ trois fois la valeur de l'aide étrangère mondiale. Bien qu'il comporte certains inconvénients, ce type d'investissement a accru les recettes publiques, l'emploi et la productivité, et par conséquent le niveau des vie des pays en développement. Il rend également les entreprises canadiennes plus concurrentielles et plus productives, permettant ainsi d'accroître également le niveau de vie de la population canadienne.

De même, l'achat d'articles fabriqués dans les pays en développement a amélioré les revenus dans les pays démunis , et aidé à créer des emplois mieux rémunérés, particulièrement pour les femmes. En éliminant tous les obstacles au commerce dans les pays nantis, on favoriserait une hausse des revenus dans les pays en développement équivalente au double du montant de l'aide étrangère mondiale. Les consommateurs canadiens profiteraient, à leur tour, de prix plus bas. Les fondations privées fournissent également un financement considérable aux projets des pays en développement. Ainsi, la Fondation Gates, pourvue d'une dotation de 32 milliards de dollars américains, a fait don en 2005 de 70 % de ses fonds à des projets de développement et de santé à l'extérieur des États-Unis. De nombreuses fondations privées exécutent des programmes à une fraction des coûts administratifs des programmes d'aide publics, ce qui laisse davantage d'argent à consacrer aux fins du développement.

Le présent document offre un bref compte rendu préliminaire de deux types d'apport du secteur privé issus du Canada aux pays démunis — sous forme de versements et de commerce — tout en suggérant des améliorations qui favoriseraient l'efficacité des versements d'aide publique . Le document évalue brièvement les effets des trois types de versements sur les pays en développement et sur le Canada, ainsi que les politiques canadiennes en vigueur dans chacun de ces domaines. Il porte sur les moyens d'aider les pays démunis qui relèvent du contrôle du Canada, plutôt que sur les mesures que devraient prendre les pays en développement pour réduire la pauvreté chez eux.

Le développement ne constitue pas une des priorités explicites du gouvernement fédéral. Il va cependant dans l'intérêt du Canada qu'Ottawa fasse du développement une priorité, en raison de l'intérêt à long

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[1]. Le présent document évalue les politiques visant à réduire la pauvreté dans les pays en développement, tout en reconnaissant que d'autres objectifs connexes — comme l'amélioration des soins de santé et de l'éducation — jouent également un rôle important dans le développement d'un pays.

[2]. J'ai utilisé le revenu et le revenu moyen comme indicateurs rudimentaires de réduction de la pauvreté dans cet aperçu, mais il va de soi qu'ils ne sont pas exclusivement représentatifs de la pauvreté.

[3]. Une étude plus détaillée pourrait se pencher sur d'autres domaines qui ont éventuellement un effet sur le développement, comme l'investissement et les politiques de lutte contre la corruption.

terme que porte le Canada envers un monde stable et florissant. Ottawa devrait faire de l'élimination des barrières commerciales, des barrières aux versements et aux autres formes de dons privés versés aux pays en développement, une priorité centrale de la politique de développement du pays, lequel devrait également s'efforcer de rendre l'aide plus efficace. Bien qu'ils soient moins visibles que les nouveaux programmes d'aide, des changements astucieux apportés aux politiques en matière d'aide et autre pourraient avoir des effets positifs au plan du développement et produire, au bout du compte, de meilleurs résultats pour la population canadienne. Après une étude plus détaillée, Ottawa devrait envisager certaines politiques qui pourraient, par exemple, accroître la transparence et améliorer la compétitivité des transferts de d'argent, éliminer les barrières commerciales qui existent encore à l'égard des produits de tous les pays en développement (tout en atténuant toute répercussion négative sur les Canadiens) et transférer le pouvoir décisionnel des programmes d'aide aux représentants sur le terrain qui peuvent mettre au point des programmes plus réalistes et plus efficaces.

Remittances

Effects

Recently, international agencies have started to pay more attention to the role of remittances — financial transfers sent by migrants abroad to relatives in developing countries — for development. Unlike aid, remittances tend to go directly to households. And unlike some investment, they provide a relatively stable income source. Research by the World Bank (2006) finds significant positive effects of remittances for development. These funds have reduced both the incidence and severity of poverty, and have also been associated with increased household investments in education, entrepreneurship, and health. Remittances can also improve a country's creditworthiness, enhancing its access to international capital markets.

Remittances and the migration that enables them can generate large income gains for both developing and developed countries. Small increases in rich country openness to foreign labour generate larger global income gains than even the substantial income gains expected from the liberalization of all remaining goods trade (Walmsley and Winters 2002). These large income gains from migration are partly due to remittances and the new skills and technologies migrants obtain. Four-fifths of these income gains would accrue to developing countries, with the rest accruing to developed ones. Migration also provides a productivity boost to Canada's aging population. It is also important to keep in mind, however, that migration from developing countries can have negative effects, such as depriving poor countries of their best educated, as well as imposing social adjustment costs, both in sending and receiving countries.

Global remittances

Globally, the World Bank (2006) estimates official flows of remittances at US$167 billion in 2005. This is almost three times the size of foreign aid flows and would be at least 50 percent higher — according to World Bank estimates — if it included unofficial flows. Global remittances also grew faster than both aid and private capital flows over the past decade (World Bank 2006), and are expected to grow much faster than aid flows in the future. This is because money transfer companies and ATMs have made it easier to move money across borders, and on-line services may soon replace relatively costly money transfer services.

Remittances from Canada to developing countries

Canada does not publish official data on remittances.[1] Given Canada's generous immigration program, the existence of temporary worker programs in Canada, and the relationship between migration and remittances, it seems reasonable to assume that remittances from Canada to developing countries are large.

The migration statistics show relatively large incoming flows of migrants from developing countries, suggesting large remittance outflows to poor countries. Remittances are associated with both permanent and temporary migrants, though permanent migrants tend to bring family with them and are therefore less likely to continue to send remittances to their origin countries over time. According to Citizenship and Immigration Canada, Canada admitted over 260,000 permanent immigrants and 100,000 temporary ones in 2005. Over half of Canada's permanent migrants come from Asia, and the majority of them from developing countries. Also, on average, a higher share of Canada's population immigrates from developing countries than for the other OECD countries (Roodman 2006). Of the total temporary workers in Canada from the top 10 source countries, over half were from developing countries in 2005.

Migrants to the US send, on average, between US$150-400 each time they remit funds (Pew Hispanic Center 2004), while Jamaican and Haitian immigrants to Canada remit on average C$300 each time (Simmons et al 2005), though we do not know the total amount of remittances from Canada. If the World Bank ratio of remittances to foreign aid is applied to Canada, official remittances from Canada would be over C$10 billion, and remittances through informal channels about C$5 billion more, for a total of C$15 billion in 2005, compared with official aid of less than $4 billion.

[1] Statistics Canada does compile some data on remittances but does not publish it as much information is unavailable or of poor quality.

Migrants likely send remittances through a mix of formal and informal channels. Simmons et al (2005) found that over four-fifths of Jamaican and Haitian migrants to Canada surveyed sent their remittances through money transfer agencies in the formal sector. Next most popular were informal channels such as hand delivery, with smaller amounts sent through banks, mail, savings accounts, and credit unions.

Sending remittances through money transfer companies such as Western Union or banks is costly. According to the World Bank (2006), fees, including currency conversion premiums, are typically about 10-15 percent of the amount being remitted. This is about 8-10 percent more expensive than sending remittances through informal channels. Remittance senders from Canada to Jamaica pay rates ranging from 9-17 percent of the remittance amount (CIDA 2005). Transfer fees vary widely between different banks and money transfer companies. Western Union and some other money transfer companies offer on-line transfer services if customers have a Canadian debit or credit card, though, at the time of writing, transfer costs did not appear much lower than for in-person services.

Canadian policy

The federal government is working to improve data on remittances, financial literacy among migrants, and competition in the remittance sector — in particular with India and Jamaica. CIDA held a conference on remittances in 2005 but had few resources devoted to this area as of the time of writing.

Recommendations

Remittances are an important development tool and also represent potential gains for Canadian financial services providers. Canadian policymakers should review the evidence and remove impediments to remittances that contribute to development, while hindering flows that aid criminal activity. Here are some suggestions:

Collect basic data: Despite well-documented migration flows, Canadian remittances remain largely undocumented. Canada lags other countries such as the US, UK and Norway in documenting such flows. While not an easy task, Canada should push ahead to collect basic data on the volumes, destinations, channels and costs of sending remittances through both formal and informal channels. With remittance data in hand, Ottawa would be in a better position to identify policies that affect remittances. The data could also have the added benefit of helping track criminal activities such as money laundering and drug trafficking.

Consider increasing temporary migration: Canada's government should consider increasing the size of temporary migration programs, subject to an in-depth study of potential effects. The European experience shows that temporary worker programs are far from perfect, and can have negative social repercussions. On balance, however, such programs can generate considerable remittances to poor countries, improve workers' skills, and address labour shortages that plague Canada in several sectors. To avoid negative effects, such programs must continue to be truly temporary in nature, providing incentives to return to origin countries with new skills and money. Governments in both Canada and origin countries should provide transparent, accurate and authoritative information on temporary worker opportunities and risks, to avoid a mismatch of expectations.

Reduce barriers to formal remittances: The high cost of sending money through formal channels means less money goes to developing countries and it goes there less frequently. It also means that migrants will be inclined to send money through informal channels, which may reduce the transaction's security for the migrant and lump legitimate remittances together with funds used for criminal activities. It would also represent a loss for public revenues and lost opportunities for Canada's financial services sector.

Policymakers should identify and remove regulatory and other impediments to entry and remaining in business for remittance service providers and potential providers, including secure on-line providers. Banks could provide migrants with access to bank cards and the formal banking sector so they can use on-line transfer services. These changes could significantly lower fees and increase remittance amounts through formal channels. Encouraging remittances through formal channels would have the added benefit of helping track money laundering and drug trafficking efforts that tend to go through informal channels. Financial reporting requirements post-9/11 may already have inadvertedly reduced competition for remittance transfers (Dade 2006). Policymakers should ensure that future requirements take these adverse effects into account, while continuing to meet Canadian security objectives.

Ensure transparency and consistency: Canada and origin countries should ensure that migrants have transparent, accurate data on remittance options. This includes requiring remittance providers to transparently list exchange rate costs in addition to transfer costs.

Trade

Effects

Available evidence suggests that removing rich country barriers to poor country exports helps reduce poverty in the developing world. Openness to trade tends to increase average incomes, providing more resources to help reduce poverty. Anderson et al (2006) estimate that, if rich countries eliminated all trade protection across sectors, developing countries' real income would increase by a significant US$43 billion by 2015. Cline (2004) finds an even larger benefit, estimating that, after a 15-year adjustment, developing countries would gain US$100 billion per year — about twice the size of global aid flows — from rich country trade liberalization. This would lift several hundred millions of people out of poverty, by his estimates.

Poor countries tend to export agricultural goods, textiles, clothing, and footwear. Rich countries usually protect these sectors heavily. If all countries removed their tariffs and subsidies on goods — including agricultural goods — farm employment and incomes in developing countries would increase substantially, alleviating rural poverty (Anderson et al 2005). Schultz (2006) finds, across a sample of 70 countries, that liberalized trade is, for the most part, associated with better education and health levels, particularly for women. This is likely because exports in poor countries tend to be associated with significant job creation in the better-paying formal sector of the economy, especially in activities such as textiles, garments, and footwear, which provide one of the few opportunities for women to earn independent income.

Removing trade barriers on goods from poor countries has the added advantage that it avoids problems associated with aid in countries where corruption is rampant. Since income from trade bypasses government, this lessens the problem of officials using aid for ends that have little to do with development. Moreover, openness to trade is likely to increase customer choice and lower prices in Canada. Though it may result in some job losses in the short-term, over the long-term trade results in a more efficient allocation of resources and increased productivity, as Trefler (2004) found for the Canada-US free trade agreement. Higher productivity, in turn, drives higher Canadian living standards.

Canadian policy

Canada is considered relatively open to trade with average tariff rates[2] of less than one percent in 2005. The low average obscures Canada's still heavy protection on precisely those goods — textiles, clothing and footwear, as well as agriculture — that developing countries can produce.

In January 2003, to its credit, the Canadian government at the time eliminated tariffs on most imports — including textiles and most agricultural goods — from least developed countries (countries with gross national income of less than US$900 per capita, weak human resources, and a low level of economic diversification).[3] This appears to have had a tremendous immediate effect on trade from least developed countries. For example, exports from Cambodia — a least developed country which exports clothing and footwear — to Canada quadrupled between 2002 to 2003 to reach over C$80 million. Canada and other rich countries eliminated remaining quotas on textiles and clothing at the beginning of 2005. The poorest countries worried that a flood of Chinese exports following the quota elimination would wipe out their export markets. For Cambodia, however, exports to Canada still remained six times larger in 2005 than their 2002 value. This, combined with the evidence cited earlier on the effect of trade on incomes in poor

[2] This is an average of all rates — including goods with zero duty — charged on goods originating from countries with which Canada has no preferential arrangements such as free trade agreements. Excluding zero rates, the average is 7.5 percent.

[3] For a larger discussion of the issues involved in this policy change, see Goldfarb (2002).

countries, suggests that Canada's 2003 policy change likely had an important positive effect on poverty in the poorest countries.

Exports from those countries covered under the policy change account for only about one percent of Canadian imports. Far larger is the over half of Canadian imports that come from other low and middle-income countries that may not have the lowest average incomes, but are home to massive numbers of poor people. Canada does exclude Mexico, Chile and Costa Rica from tariffs under this country's free trade agreements. The country also has a special program exempting the rest of the developing countries from tariffs, but those rules largely exclude textiles, clothing and footwear, or only reduce them slightly. This means remaining developing countries still face tariffs between 15 and 20 percent on most textiles, clothing and footwear. These tariffs protect a group of Canadian workers from global competition, but likely reduce income gains in developing countries and impose higher prices on Canadian consumers. The tariffs also make Canadian producers less competitive, essentially taxing their inputs, discouraging them from innovating and moving to higher value-added activities.

For agriculture, Canada has reduced its agricultural protection significantly in recent years, with the exception of government support for milk, eggs and poultry. Canada applied tariffs of about 10 percent to agricultural imports on average over the 2002-2004 period, and provided government subsidies estimated at about 14 percent on average. In total, Canada's agricultural protection is about one-quarter of the value of agricultural imports (Roodman 2006). This is much lower than EU and Japanese barriers, but still significantly higher than barriers for New Zealand, Australia, or the US, which are the least protective of their agricultural markets vis-à-vis developing countries.

Non-tariff barriers — such as restrictive origin rules to qualify for duty-free or reduced-duty treatment — may also prevent poor countries from exporting to Canada. Like tariffs, such barriers penalize Canadian producers by making them pay more for inputs. Though it is difficult to measure the extent of such measures, one measure that should capture all barriers indirectly is the degree to which developing countries actually do export to Canada.[4] Canada imports just under one-tenth of its gross domestic product, suggesting it probably has more barriers than the US and EU, but fewer than the other developed economies (Roodman 2006).

<u>Recommendations</u>
Given the balance of available evidence on trade's largely positive long-term, overall effects on development in poor countries as well as in Canada, Canadian policy makers should:

Promote eliminating global trade barriers: Multilateral trade liberalization promises the greatest gains for developing countries. It is also in Canada's interest — with a relatively small domestic market that relies on trade for growth — to have a single set of global trade rules rather than a spaghetti bowl of overlapping trade rules.

Consider eliminating remaining Canadian barriers: Canada can not put all of its eggs in the multilateral basket, since the current round of multilateral talks looks likely to fail, and Canada's influence in such talks has waned[5]. Canada should consider, subject to a study of likely effects in Canada and in poor countries, unilaterally eliminating high tariffs on textiles, clothing and footwear. This could be done either for all developing countries or for all countries. Carrying out gradual tariff reduction over, say, five years, might make this more politically feasible. Canada's elimination of such tariffs for least developed countries in the beginning of 2003 gives those countries a head start in the Canadian market before other developing countries would be allowed in barrier-free. Any tariff revenues lost would be insignificant relative to other government revenue sources.

[4] This would also capture developing country export capacity.
[5] In the current round, Canada's decision to maintain supply management in the dairy and poultry sectors hampered its ability to advance a coherent position on agriculture and push for the elimination of rich-country agricultural protections that make it difficult for developing countries to compete.

Policymakers should also examine potential non-tariff barriers that keep out developing country imports, to determine if they serve an important policy goal or can be eliminated. The greatest gains would occur if Canada's policy changes pushed the US, Japan and Europe to adopt similar policies. Opening up Canadian markets to exports from all developing countries would also result in lower prices for Canadians. Canadian businesses would have to be prepared to move up the value chain to remain competitive, which would lead to higher Canadian living standards.

Prepare for and assist displaced workers: Removing trade barriers could lead to short-term job losses in Canada. Governments must therefore focus on strong education and retraining policies and ensure that employment insurance policies are adequate to allow displaced workers to adjust.

Encourage good policies in developing countries: Trade is not a panacea for the problems of developing countries. Canada should encourage developing countries to accompany increased access to trade opportunities with appropriate policies in other areas, such as education and infrastructure, as well as policies that create alternatives to child labour.

Aid

Effects

Many past development aid efforts have failed to reduce poverty or worse, have been counterproductive. There is a large literature but no simple answers for effective aid.[6] The evidence, however, suggests that aid *can* be effective in reducing poverty if, among other things, donors focus and understand the realities of local conditions, and recipient countries have the capacity and leadership to usefully absorb the aid.

Canadian policy

Canada has a relatively small aid program of C$3.6 billion, including aid that goes to multilateral institutions and aid that goes directly to other countries (referred to as bilateral aid). Most aid is aimed at long-term development, rather than short-term humanitarian needs. Canadian International Development Agency (CIDA) manages most aid funding.

Most CIDA staff are located at headquarters, where most decisions are made. Many other countries — such as Britain and the Scandinavian countries — have decentralized staffing and authority to the field where they can develop programs more in line with the realities of difficult aid environments. Britain and Denmark, for example, have about half of their staff in the field, with the rest at headquarters. Those agencies are viewed as the most effective in the world (Greenhill 2005). Over eighty percent of CIDA's staff of about 1500 is in Canada, though the agency has recently decentralized programming in some countries such as Tanzania and Ghana. Also, Canada's administrative costs as a share of aid are the highest in the OECD.

In the past, CIDA has been relatively closed to debate and external feedback (Pestieau and Tait 2004), though it has taken some small positive steps recently. The agency recently began regularly circulating by email within and outside of CIDA research from outside researchers. CIDA also introduced a policy journal, but cancelled it after one issue, in December 2004. The historical lack of openness to critique reduces the ability of staff to adapt and change aid programs in response to local conditions and external research. Such flexibility would be one major advantage of bilateral aid over multilateral aid.

The agency has had just over one minister per year on average over the past 15 years, offering no consistent leadership. Though CIDA announced last year that it will concentrate most aid in 25 countries, aid spending is still widely dispersed, with Ottawa's top aid recipient — Afghanistan — not on the list of 25 focus countries. Moreover, almost half of aid is still tied to purchases of Canadian goods and services[7], even though tying aid in this way increases costs by estimates ranging from 15-50 percent (OECD 2005).

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[6] See Richards (2006) and Goldfarb and Tapp (2006) for a more thorough review of the evidence on aid effectiveness than this paper allows.

[7] Canada announced in 2005 that it would partially untie food aid, though this represents only a small share of total aid.

Recommendations

Prime Minister Stephen Harper promised "a more effective use of aid dollars" in the 2006 Throne Speech. Canada's bilateral aid program could better meet development needs — and ensure taxpayer dollars are better spent — if policymakers:

Take best practices from elsewhere: Other agencies, in particular the Scandinavians, the British and the Dutch, are more open to debate and feedback, more decentralized to the field, more focused in particular regions or sectors, have lower administrative costs as a share of aid, more consistent leadership, and are considered relatively more effective aid agencies (Goldfarb and Tapp 2006). With similar changes, Canada can become at least as effective as those agencies.

Increase openness, focus, field authority, and leadership: CIDA leaders should harness existing research more effectively, and promote more research on development in Canada's non-governmental research communities. Leaders should continue to scale down the number of countries for which CIDA develops programs. This would allow the agency to increase its field presence in relatively well-governed focus countries while learning more about them and giving field staff more decision-making powers. The agency should also reduce duplication and administrative costs, and untie aid from the requirement to purchase from Canadian suppliers. See Goldfarb and Tapp (2006) for a more detailed discussion of these issues. CIDA has already made progress in some of these areas. Sustained leadership will be critical to advancing reforms further.

Other areas

Canada can also take policy actions in other areas that could have important development effects. Among others, leaders could discourage corruption in developing countries by not recognizing international contracts signed by corrupt dictators. Canadian negotiators could try to improve cross-border mobility of unskilled labour through multilateral talks. Though a large portion of Canada's private giving — some of which goes to help poor countries — is already attributable to fiscal policy (Roodman 2006), policymakers might examine whether tweaking fiscal policies further could enhance private charitable giving. Government could also work more closely with the private sector and civil society. For example, the Dutch bring private sector members on aid missions, to encourage possible investment in developing countries.

Conclusions

This paper briefly surveys three areas in which Canada could make important contributions to helping developing countries. Each requires more detailed study before drawing firm conclusions about Canada's best actions, but some preliminary conclusions emerge. Rich countries like Canada can help poor countries not only through official aid policies, but through policies that remove barriers for private sector flows.

Therefore, for Canada to make a meaningful contribution to reducing poverty in developing countries, Ottawa should frame its development policy broadly, examining the potential of both private and public flows of money and goods. This means ensuring current aid is as effective as possible, while looking for smart, achieveable changes in other policies that could promote poverty reduction in poor countries and benefit Canada too.

Such policies could include improving competition and transparency for sending remittances, removing remaining trade barriers facing poor countries, and shifting aid programming authority and staff to the field to allow for more effective design of aid programs in touch with local realities. Canada has made some progress in these areas and should press ahead further. These policy changes present few photo opportunities, but they could be some of Canada's most effective levers to help poor countries.

(The views expressed in this publication are those of the author and not CDFAI.)

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