The Consolidation of Aid: Reducing Fragmentation in Canadian Development Assistance

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Abstract

In the Canadian push to increase the effectiveness of bilateral Official Development Assistance, fragmentation has become an important area of concern. Fragmentation refers to the distribution of aid across too many recipients, inflicting unnecessary costs on both the aid donors and the recipients. This paper analyzes current Canadian policy regarding fragmentation, emphasizing the Aid Effectiveness Agenda and the 20 focus countries Canada has designated as primary aid recipients (CIDA 2010, 6). This analysis will highlight Canada’s failure to reach its target to direct 80 percent of Canadian aid to these 20 countries and the causes of that policy failure. In response, several policy routes for improvement are put forward, focusing on the Netherlands as a model for addressing fragmentation. Ultimately, the paper finds that for Canada to address fragmentation, the federal government must create coherent strategies to reduce aid flows to insignificant recipients, increase the portion of Canadian aid allocated by country, and advocate for international cooperation amongst bilateral donors to reduce fragmentation.

Keywords: Canadian foreign aid policy, aid fragmentation, aid consolidation, focus countries, Canadian Official Development Assistance

Introduction

As Canadian foreign aid enters a period of reform, the focus of aid policy discourse has shifted towards increasing the efficiency and effectiveness of international assistance. Foreign aid now accounts for over five billion dollars of Canada’s annual budget (CIDA 2013, sec. A), yet Canada ranks amongst the lowest quality aid donors in the world (Knack, Rogers, and Eubank 2010, 24). In response, ensuring the efficiency of aid distribution has become an important area of concern in Canadian foreign policy, prioritizing the need to sharpen the focus of foreign aid. To address this need, one policy option is to reduce the fragmented nature of Canadian aid, focusing available funds on fewer recipients. This paper highlights the negative consequences of fragmented aid, the failures of existing Canadian policy to address the issue, and potential solutions to address fragmentation through federal policy.
To understand the scope and importance of reducing fragmentation through aid policy, this paper will focus on four central areas of discussion. First, it will outline the nature of the fragmentation problem, with both an explanation of its global reach and the potential risks to aid efficiency it brings. The focus will be on fragmentation in bilateral Canadian Official Development Assistance (ODA), meaning funds flowing from the Canadian federal government to a recipient country with the earmarked purpose of promoting the recipient’s welfare and economic development. This discussion of Canadian ODA will focus on increases in transaction costs and redundancies, and reductions in bureaucratic quality and economic growth caused by fragmentation. Second, the paper will shift to an explanation of Canada’s efforts, both past and present, to reduce fragmentation and the failures of those policies. The discussion will then move to an analysis of potential policy options to reduce Canadian aid fragmentation, focusing on the policy route taken by the Netherlands in addressing the same problem. Finally, policy recommendations are put forward to address fragmentation in Canadian ODA. The analysis of these issues and policy options will ultimately show that to successfully focus aid on fewer countries, Canada must design a program to phase out small aid recipients, decrease unallocated aid, and advocate for international cooperation and division of labour amongst aid donors. Implementing these policies will consolidate Canadian ODA, and increase its efficiency and effectiveness.

Aid Fragmentation

Aid fragmentation at its most basic level can be described as a process wherein aid becomes divided into too many small pieces, allocated across too many countries and projects (Deutscher 2009, 15). In practice, fragmentation is occurring as a result of an increasing number of development agencies, each spreading their aid allocation across a large number of recipients. As this problem grows in scope, the Organization for Economic Cooperation and Development (OECD), an organization of 34 predominantly western states committed to global democracy and economic growth, has highlighted fragmentation as a significant hindrance to the effectiveness of global aid. The OECD largely addresses aid policy issues through a specialized committee known as the Development Assistance Committee (DAC; OECD 2010, 5), which has studied the issue of fragmentation at length (32).

The DAC measures fragmentation from the donor perspective through a metric called the concentration ratio. This ratio takes into account the percentage of a donor’s aid relationships that can be considered significant for both the donor and the recipient of aid (OECD 2011, 5). Significant aid relationships are measured by the DAC based on two criteria. First, for a relationship to be considered significant the donor must allocate “a higher share of aid to the partner country than the donor’s overall share of global aid”. Second, a significant relationship

means “the donor is among the largest donors that cumulatively account for at least 90 percent of
the partner country’s aid” (5). Through these criteria, the OECD measures what percentage of a
donor’s aid relationships are significant, and in turn gives a metric of the level of fragmentation
across donors. The results of this study show that the total concentration ratio amongst bilateral
DAC donors is 55 percent, meaning 45 percent of all bilateral ODA is allocated to insignificant
relationships, contributing to fragmentation (10). As well, the concentration ratio suggests that
very large and very small donors have the highest share of significant relationships, while mid-
sized donors typically have highly fragmented aid. In 2009, Canada’s concentration ratio ranked
last amongst DAC bilateral donors, with just 33 percent of Canadian bilateral ODA allocated to
significant relationships (10).

As the results of the concentration ratio demonstrate, aid fragmentation is a widespread
issue that affects nearly every aid donor. More importantly, however, is the destructive nature of
aid fragmentation on the efficiency and effectiveness of ODA. Fragmentation is harmful for
several reasons, the first and foremost of which is the increase in redundancy and overlap it
creates. Essentially, as the number of recipients that each donor allocates ODA to increases, the
number of donors operating in each recipient country increases as well. In 2009, the DAC found
that 64 developing countries had aid relationships with at least 25 multilateral or bilateral donors
each (OECD 2011, 5). With so many donors operating in the same country to achieve similar
goals, there becomes a tendency for aid projects and programs to overlap with one another. As
the various agencies often do not cooperate on these programs, the high number of donors per
recipient creates redundancies in aid implementation (Easterly and Pfutze 2008, 40). This is an
issue fundamentally rooted in fragmentation, as aid consolidation would lead to fewer donors
with larger budgets operating in each developing country, leading to greater coherence and less
redundancy. In turn, this would improve the effectiveness of aid.

Importantly for Canada, aid fragmentation is harmful to donors as well as recipients. One
of the biggest issues created by aid fragmentation is an increase in transaction costs incurred
through aid allocation (Anderson 2012, 799). As the number of aid recipients per donor grows,
donors begin to incur a high level of overhead and administrative costs that could otherwise be
avoided by consolidated relationships. In attempting to measure the effect of fragmentation on
increased transaction costs, economist Edward Anderson designed an economic model
measuring transaction costs under an efficient aid allocation structure based on consolidation. He
estimates that in total, bilateral donors could collectively save anywhere from US$1.4 to US$2.5
billion annually in transaction costs if a more consolidated approach to aid were adopted globally
(801). As well, Anderson estimates that Canada could save as much as US$188 million annually
through reduced transaction costs, if aid allocation reform is adopted (802).

Two other detriments caused by aid fragmentation in recipient countries are reduced
bureaucratic quality and slowed economic growth (Kimura et al. 2012, 1). Bureaucratic quality is
shown to suffer from aid fragmentation, because it requires a large number of government administrators to manage every aid relationship. Studies have shown there is an inverse correlation between the number of administrators hired by a recipient government to manage aid, and the share of aid per donor in that country (Knack and Rahman 2007, 176). Essentially, this means as the number of donors acting in a country increases, the government is forced to increase the size of their bureaucracy, creating unnecessary public expenditure. Furthermore, the growing bureaucracy hinders the efficiency of governance in recipient countries. One example occurred in Vietnam, where the purchase of five government vehicles funded by aid programs required the input of 150 government employees to ensure the procurement process met all donor requirements (178). The overall result of the increased government expenditure and reduced efficiency in management caused by aid fragmentation can be slowed economic growth. In addressing the relationship between growth and aid, studies have found that a high number of donors operating in a country can result in less economic growth for the recipient (Kimura et al. 2012, 6). The effects of fragmented donor-ship on economic growth are found to be particularly strong in Africa.

Clearly, due to the costs it inflicts on both recipient and donor countries, fragmented aid warrants attention as a key obstacle to improving the efficiency and effectiveness of ODA. In the Canadian policy environment, fragmentation has not been ignored as an issue. However, statistics regarding Canadian fragmentation suggest that past policy regarding the issue has largely failed to reach its objective of consolidated Canadian aid. Further policy reform is still needed to address aid fragmentation, and improve Canada’s performance as a bilateral aid donor.

Focus Countries

Historically, the response applied by the Canadian government to address aid fragmentation has been the creation of focus countries. Focus countries typically refer to a set of countries that a bilateral donor has highlighted as the central recipients of the donor country’s aid flows. Jean Chrétien issued the first set of focus countries Canada would concentrate aid on in 2002, listing nine recipients. Three years later, the Paul Martin government expanded this list to 25 countries (Brown and Raddatz 2012, 331).

In 2010, the Canadian International Development Agency (CIDA) released “Canada’s Aid Effectiveness Agenda”. The agenda, aimed at reforming Canadian aid to increase efficiency and effectiveness, described a number of policies CIDA would implement to improve the quality of Canadian ODA. Among other policies, the Aid Effectiveness Agenda revised the Canadian ODA focus countries, reducing the number from 25 to 20 (3). As part of the agenda, CIDA (which has since been amalgamated into the Department of Foreign Affairs, Trade and Development) committed to allocating 80 percent of all Canadian bilateral ODA to these 20 countries (6).
The announcement that 80 percent of Canadian ODA would be allocated to just 20 focus countries was an important step in addressing fragmentation in Canadian aid allocation. However, while the commitment is important from a discourse perspective, it has largely failed to translate into action. In 2012, the top 20 recipients of Canadian ODA received just 46 percent of bilateral ODA, well below the 80 percent target outlined in the Aid Effectiveness Agenda (DAC 2012, 4). Furthermore, in 2005-2006, the top 20 recipients of Canadian bilateral ODA accounted for 68 percent of total bilateral expenditure (DAC 2007, 12), showing that Canadian aid has become more fragmented in recent years. This suggests that existing policy regarding fragmentation has been largely ineffective, and is in need of reform.

Other indicators of the failure of existing policy to address Canadian aid fragmentation are based on the fact that even within its focus countries, Canada is contributing to global aid fragmentation. This is evidenced once again through the OECD concentration ratio. According to the ratio, Canada’s presence in at least 25 percent of its focus countries is considered insignificant (OECD 2011, 10). This points to one of two possible problems. The first explanation is the most likely, indicating that Canada must increase the share of its aid directed to the focus countries in order to push them into the realm of significance. The second explanation for Canada’s insignificant relationships with focus countries argues that 20 countries is still too large a number to support, suggesting Canada must further reduce its focus country list to reach acceptable levels of aid consolidation. However, reducing the number of focus countries is unlikely to facilitate effective consolidation of Canadian ODA. As a donor with an annual budget of over five billion dollars for ODA, Canada has the necessary funds to maintain significant aid relationships with at least 20 countries. Furthermore, while reducing the number of focus countries would benefit Canada’s relationship with a small number of countries, it would not truly address the fragmentation issue, as a substantial portion of Canadian aid would remain allocated to non-focus country relationships. The ineffectiveness of such an approach is demonstrated by Canada’s historical policies, as fragmentation persisted from 2002 to 2005 when Canada listed just nine focus countries (DAC 2007), and when Canada reduced the number of focus countries from 25 to 20 in 2009 (DAC 2012, 51). Instead, recommitting aid to the currently listed focus countries is the best policy option available to reduce fragmentation.

Indicated by Canada’s inability to reach its target of 80 percent aid allocation to 20 countries, and the insignificance of Canadian bilateral aid in its stated focus countries, it is clear that Canada has not effectively addressed fragmentation through aid policy. This failure can largely be traced to two policy issues hindering Canada’s ability to consolidate aid. The first reason consolidation policy is ineffective is because it is often overruled by other aid policy objectives. David Carment, Rachael Calleja, and Yiagadeesen Samy (2013) argue that while actors in the Canadian development sector recognize the importance of allocation to a small number of countries, there is also an incentive for Canada to maintain an aid presence in as many countries as possible. The incentive for many aid relationships is based on the idea that a
widespread aid presence maximizes Canada’s ties to foreign governments and serves Canadian foreign policy and trade objectives (15). Canadian foreign policy has prioritized this goal of international relations over aid quality, counteracting the effectiveness-through-consolidation agenda.

The second aspect of the current Canadian ODA structure that contributes to aid fragmentation is a high percentage of unallocated aid. According to the DAC, 37 percent of all Canadian bilateral ODA is unallocated by country, 10 percent higher than the DAC average (DAC 2012, 52). Instead, this aid is distributed based on global programs, earmarked funding for regional programs, and other mandates that redirect aid flows away from Canada’s focus countries. As a significant portion of that 37 percent is unlikely to be allocated to focus countries, it largely explains why Canada has failed to reach its 80 percent consolidation target.

Reforming Canada’s Aid Program

As Canada aims to improve the efficiency and effectiveness of its aid program, addressing its policy shortcomings regarding aid fragmentation must be a central focus of reform. To do so, the Canadian government must look to other donors to understand how best to address fragmentation. In this process, the ODA program in place in the Netherlands can act as an exemplary model for Canada to follow to address the fragmentation problem. The Netherlands is an ideal example for Canada to follow because of their similarity in budget size, and the Netherlands’ recent policy changes that have reduced fragmentation in Dutch aid.

Budget size is an important aspect of bilateral donor comparisons regarding aid fragmentation because fragmentation is highly related to a country’s aid budget. Generally, very small donors do not face fragmentation problems because their aid budgets are too small to spread across more than a few recipients. As well, very large donors do not face fragmentation problems, because their presence in any recipient country is likely to be significant in almost all cases (OECD 2011, 10). As such, Canada cannot follow the policy structure of either large or small donors, as it has neither the small budget that by necessity can only support a small group of recipients, nor the massive budget that influences every recipient country it allocates to. Instead, Canada must model itself after a similar sized donor that has successfully fought fragmentation. The Netherlands’ aid budget is almost identical to that of Canada, rendering it a highly comparable country to Canada regarding aid fragmentation (OECD 2013).

Second, the Netherlands succeeds as a comparative tool for Canadian aid policy because it is currently successfully addressing a similar fragmentation problem to that of Canada. In 2009, while Canadian aid was significantly more fragmented than Dutch aid, the Dutch were still below the DAC average on the concentration ratio scale, with just 51 percent of Dutch aid considered significant (OECD 2011, 10). However, since then the Dutch have implemented a series of policies to reduce fragmentation in their ODA. The results of this policy reform
regarding fragmentation have put the country on a path towards consolidation. While almost every donor country is currently seeing an increase in fragmentation, the Dutch are one of just two countries globally that are successfully reducing fragmentation in their aid program (Aldasoro, Nunnenkamp, and Thiele 2010, 935). This suggests that following the Dutch policy model can contribute to Canada’s efforts to decrease fragmentation.

The most important determining factor in Dutch policy that has contributed to the country’s reduced fragmentation is a successful phase out strategy from insignificant recipients. In addressing fragmentation, the DAC recognizes two central policy routes for aid consolidation. The first option is to scale up aid in insignificant aid relationships, and the second is for donors to phase out their aid programs in recipient countries with insignificant relationships (OECD 2011, 16). The Dutch have chosen this second strategy, and have done so with success. In 2012, the Dutch implemented their phase out program in Colombia, among other countries (Government of the Netherlands 2012). This was done based on the notion that Colombia did not rely on Dutch aid, and the aid dollars allocated there could be better spent elsewhere. Following this model of consolidation is the most appropriate route for Canada, as the alternative option of increasing overall ODA expenditure to create more significant aid relationships is not possible, due to financial constraints. Considering that Canada currently maintains humanitarian aid relationships with 54 countries (CIDA 2013, sec. B2), and has a significant aid relationship with fewer than 20, the budgetary increases required to reduce fragmentation through increased expenditure are too large for Canada to meaningfully pursue. While increasing the overall ODA budget may contribute to improvements in Canada’s aid policy as a whole, the far more effective strategy to address this particular issue is to consolidate existing aid.

The Dutch phase out program has enjoyed success in reducing fragmentation because it adheres to a thorough policy regarding how and where phasing out should occur. In 2011, the Netherlands Ministry of Foreign Affairs outlined phase out strategies for Dutch ODA (16). The strategies included an analysis of the recipient’s ability to function without Dutch ODA, and the institutional capacity of the recipient government. As well, the policy calls for consultation with recipient governments regarding phase out programs, and structured timelines to end Dutch aid in applicable countries. The clear and structured nature of these policies has allowed the Dutch to successfully reduce the number of recipient countries receiving Dutch ODA. This represents a stark contrast with Canadian aid policy, wherein aid allocators are instructed to reallocate aid to the focus countries, yet are given little to no direction on where to proportionately reduce aid funding (Carment, Calleja, and Samy 2013, 8).

It is important to note that while Dutch policy reform has resulted in positive change regarding aid fragmentation, the Netherlands must undergo further policy change to reach acceptable standards for aid fragmentation. Similarly to Canada, the Netherlands has high (approximately 50 percent) unallocated aid portions, contributing to aid fragmentation much in
the same way it does in Canada (DAC 2011, 46). This indicates that further policy reforms are possible in both countries, and that the institution of effective reform in Canada will require policy changes beyond phase out programs. However, the fact that the Dutch have seen improvement regarding fragmentation while Canada has not suggests that following the Dutch phase out based policy is a proven, effective, and attainable policy route for Canada, and an important aspect of future attempts to reduce fragmentation.

Another aspect of improved aid consolidation focuses on international policy, rather than internal changes to Canada’s aid structure. In the OECD Report on Division of Labour (OECD 2011), the DAC suggests that increased international cooperation is an important policy route to address fragmentation. Essentially, the DAC argues fragmentation occurs because donor governments have varying priorities that they apply in a wide number of countries (3). In turn, if bilateral donors worked in greater cooperation in crafting aid policy, they could each focus aid on fewer recipients with the knowledge that other bilateral donors are carrying out their objectives. If this were the case, donor countries, including Canada, would likely feel more comfortable focusing aid on fewer countries, amounting to a division of labour approach to aid allocation.

Ultimately, to improve aid efficiency and effectiveness in Canadian ODA, Canada must focus policy reform on reducing aid fragmentation. To do so, the best policy route available to the Canadian government is to focus aid on the 20 recipient focus countries designated by CIDA in the 2010 Aid Effectiveness Agenda. To achieve the reallocation of Canadian ODA towards those countries, the Canadian government should adopt three central policies. First and foremost, Canada must design and implement a comprehensive phase out policy for eliminating aid directed at Canada’s insignificant aid recipient relationships. This policy will give guidance to aid allocators in choosing the countries Canada should no longer partner with, and in turn increase the availability of funds to allocate to Canada’s focus countries. Second, Canada should reduce its portion of unallocated bilateral aid. The large portion of Canada’s bilateral aid that is designated towards regional or global programs hinders Canada’s ability to focus aid on a small number of countries. As such, reducing unallocated aid would allow Canada’s development officials to reroute that funding towards Canada’s focus countries, and in turn help consolidate Canadian ODA. Finally, to reduce fragmentation, the Canadian government should advocate for increased international cooperation amongst bilateral donors. In doing so, Canada could ensure that aid donors acting in other countries adequatly address Canadian aid objectives. In turn, Canada would be able to rely on others to act on its behalf, and reduce the need for widespread aid presence in a large number of countries. This would then allow Canada to refocus aid to a smaller number of countries, reducing fragmentation. These three policy changes can work in compliment to one another, help Canada reach its goal of 80 percent aid allocation to 20 countries, and ultimately reduce the fragmentation of Canadian ODA.
Conclusion

In the struggle to improve the efficiency and effectiveness of Canadian ODA, fragmentation must play a central role in the policy reform discussion. In particular, addressing the insignificant nature of the majority of Canadian aid relationships, and the underfunding of Canada’s 20 focus countries will require significant policy reform. The burdens placed upon aid by fragmentation, namely high transaction costs, redundancy, reduced bureaucratic quality, and slowed economic growth are too great to ignore in the Canadian policy environment. To address these issues, Canada must look to the Netherlands as well as the global bilateral donor community for potential policy options to address fragmentation. Examination of Canadian aid effectiveness highlights Canada’s need to allocate more aid to the 20 focus countries of the 2010 Aid Effectiveness Agenda, and ultimately shows that a policy route comprised of phase out programs, reduced unallocated aid, and increased international cooperation is the most effective way to do so. Implementing these policies will reduce aid fragmentation, and increase the overall quality of Canadian ODA.
References


