



Canadian International
Development Agency

Agence canadienne de
développement international

Canada making a difference in the world

A POLICY STATEMENT ON STRENGTHENING AID EFFECTIVENESS



Canada 

Canada is making a difference in the developing world



Canada and the world stand at the threshold of a golden age for international cooperation. Now more than ever, a global consensus is emerging on the most effective ways to promote sustainable development.

For the Canadian International Development Agency (CIDA), this is welcome news. Over the past two years, CIDA has been assessing the effectiveness of its aid programs. Drawing on our own experience, and with input from other donors and our partners in Canada and the developing world, we've refined our aid policies to give them more focus.

This document outlines the international context for our agenda to strengthen aid effectiveness and the principles that will guide our efforts. These include providing increased attention to the leadership role of developing countries, promoting greater coordination with other donors, and fostering greater coherence in Canada's policies that affect our developing-country partners. In keeping with the principles, this document identifies the framework within which decisions will be made on the geographical and sectoral allocation of CIDA's resources. It also identifies changes in tied aid policies designed to reinforce aid effectiveness and the steps we are taking to strengthen CIDA as an institution.

Canada is making a difference in the developing world, and we want to build on our success. We will continue to focus on the four social development priorities established in 2001: health and nutrition, basic education, HIV/AIDS, and protecting children. Promoting gender

equality will be an integral part of these programming areas. Further, CIDA will give added emphasis to rural development and agriculture. Recent research indicates the critical importance of these sectors not just for food security, but as an engine for economic growth. In keeping with Prime Minister Jean Chrétien's stated priorities at the G8 Summit, Africa will remain the priority for our work.

The New Partnership for Africa's Development (NEPAD) best captures the nature of this changing relationship. Initiated by African leaders, NEPAD stresses mutual accountability and respect, and the need for developing countries to set their own priorities.

Our research shows that Canadians are proud of their country's contributions to end global poverty, but they don't really know the full extent of this involvement. It's critical for CIDA to maintain and build its constituency with the Canadian public. To that end, we will be launching a new strategy to keep Canadians engaged and informed, and to show them how they can make a difference.

As we embrace this new era of international cooperation, I am proud to present CIDA's new *Policy Statement on Strengthening Aid Effectiveness*.

The Honourable Susan Whelan
Minister for International Cooperation

CANADA MAKING A DIFFERENCE IN THE WORLD

**A POLICY STATEMENT ON
STRENGTHENING AID EFFECTIVENESS**

Canadian International Development Agency

September 2002

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INTRODUCTION

This statement is set against the backdrop of an emerging international consensus on the goals and principles of development cooperation.

It is a consensus which has emerged from over 50 years' experience in development cooperation and a growing body of research into development effectiveness. It is a consensus which reflects the knowledge that past approaches to development cooperation—from the reconstruction emphasis of the 1950s, to the focus on state planning in the 1960s, to the heavy reliance on market-based solutions and structural adjustment in the 1980s—were too narrowly focused and often failed to recognize the cultural and political context in which development takes place. It is a consensus which reflects the evolution in development thinking accompanied by a tremendous growth in the number of organizations and institutions involved in development cooperation. This growth has led to a recognition of the important role of non-state actors as deliverers of development assistance, advocates of social and political change within the developing world, and vehicles for raising public awareness of the importance of international cooperation.

The comprehensive development model which has emerged is based on a set of broadly endorsed objectives, coupled with the recognition that there is no single path to development. This model underscores the need for a balanced approach which addresses the political, economic, social and institutional dimensions of development. It stresses the importance of getting governance right, the proper sequencing of reforms, the need for building capacity to ensure sustainability, and engaging civil society.

International momentum in support of this more comprehensive approach to development has grown at a pace that few would have thought possible a mere three years ago.

- In September 2000, 147 leaders gathered in New York and issued the Millennium Declaration, outlining their collective commitment to sustainable development and poverty reduction.
- In December 2000, the UN General Assembly asked the Secretary-General to prepare a "road map" for the implementation of the Declaration. Building upon previous work undertaken by the OECD,¹ the annex to this road map sets out 8 Millennium Development Goals, along with 18 targets and 48 indicators to measure progress towards them. A powerful momentum is building behind

¹ OECD, *Shaping the 21st Century: The Contribution of Development Cooperation*, 1996.



these goals. They are becoming a measure of the commitment of donor countries to sustained development financing, and of developing countries to eradicating extreme poverty and hunger, investing in health and education, promoting gender equality, and achieving environmental sustainability.

- In November 2001, Trade Ministers gathered at Doha, Qatar, and agreed to launch a new Development Round of international trade negotiations. In this context, developing countries agreed to negotiate new issues covering investment, procurement, competition, and trade facilitation in return for commitments from developed countries to provide accelerated support for trade capacity building and to address the implementation difficulties faced by developing countries in adjusting to previous rounds. Commitments addressing the effect of intellectual property laws on the management of health crises, and a long-term commitment to the elimination of export subsidies on agricultural products were additional elements in this compromise.
- This spirit of parallel obligations was very much in evidence at the United Nations Conference on Financing for Development held in Monterrey, Mexico, in March 2002. This conference succeeded in putting in place the framework for a "development compact" under which commitments by developing countries to transparency, good governance, and respect for human rights and the rule of law were matched by donor commitments towards policy coherence and accelerated support for good performers. Major commitments to increased foreign aid were made by the United States, the European Union and Canada. The Prime Minister of Canada announced a long-term commitment to increase international development assistance by at least 8 percent per annum, in addition to a previous commitment in the 2001 budget of \$500 million over 3 years for Africa.
- The G8 Summit at Kananaskis, Canada, in June 2002, represented a further step in solidifying the concept of a development compact. G8 leaders placed themselves squarely behind the New Partnership for Africa's Development (NEPAD) and committed themselves to supporting this African-led initiative through major new investments in countries that govern justly, invest in their own people and promote economic freedom.

Against this backdrop of rapidly unfolding events and increasing agreement on the goals and principles of development cooperation, this document outlines the steps the Canadian International Development Agency (CIDA) is taking to strengthen the effectiveness of its assistance. While elements of this response touch upon all aspects of CIDA programming, this statement addresses in particular its bilateral programming, with a special focus on low-income countries that are committed to reform.



The directions outlined in this document have benefited greatly from consultations on the discussion paper, *Strengthening Aid Effectiveness*, issued by CIDA in June, 2001. From September 4-20, 2001, the Minister for International Cooperation met with individuals and organizations across Canada to hear their views on this paper. Just over 1,000 individuals participated in these meetings. In addition, an interactive website was established which allowed Canadians and people overseas to send in submissions and post comments on-line on the issues raised in the discussion paper. In all, more than 6,000 people visited this website and 100 separate commentaries were posted to it. In addition, more than 160 briefs and submissions were presented to the Minister and CIDA. A dozen reports were submitted based on consultations among partners and Canadians in the developing world.

While a broad range of issues was identified in these consultations, two stand out in particular. First, that CIDA's approach to strengthening aid effectiveness must address the role of civil society in Canada's aid program and in development more generally, and second, many expressed support for a stronger public engagement program on development issues as essential to buttress CIDA's programs to improve aid effectiveness and to build support among Canadians for renewed funding for development cooperation.

Engaging civil society and the people directly affected by aid programs is an integral part of the comprehensive development model addressed in this paper. CIDA agrees with the importance of ensuring that local ownership is defined and achieved through consultative processes involving government, civil society and other groups within developing countries and will continue to foster this in its programming. CIDA will develop an approach which will prioritize responsive programming that is supportive of nationally owned poverty reduction strategies. Continued discussions with partners on how best to achieve this will be necessary.

Related to the above, work is ongoing to apply the principles and directions set out in this document to CIDA's programming delivered through its Canadian Partnership and Multilateral Program Branches. CIDA is also currently working on developing a new public engagement strategy to replace the current program which expires at the end of this year.



COMPREHENSIVE APPROACHES TO DEVELOPMENT COOPERATION

A more comprehensive approach to development cooperation has emerged as a result of the lessons learned over the last 50 years. It is an approach characterized by a set of key principles for effective development, and their embodiment in more programmatic approaches to delivering development assistance.

The Principles of Effective Development

The **Millennium Development Goals**, noted above, form one important element in the emerging consensus on development cooperation. A second important element is a set of key principles for effective development based on the experience of a half-century of development cooperation. These principles are best articulated in *Shaping the Twenty-First Century: The Contribution of Development Assistance*, a seminal document published in 1996 by the Development Assistance Committee (DAC) of the OECD. These principles include:

- **local ownership**, which means that development strategies, if they are to be sustainable, must be developed by recipient countries—their governments and people—and they must reflect their priorities, rather than the priorities of donors;
- **improved donor coordination**, with recipient countries bearing the main responsibility for coordinating their development cooperation with other countries and institutions;
- **stronger partnerships**, through the development of compacts that would identify the responsibilities of developing countries and their external partners, as well as those shared by all;
- **a results-based approach**, with improved monitoring and evaluation of development programs; and
- **greater coherence** in those "non-aid" policies of industrialized countries that can have profound effects on the developing world—for example, policies on trade, investment and technology transfer.



In addition to these principles, three other factors are of central importance to the effective use of aid investments:

- **Good governance.** Governance provides the broad setting for development and its quality has a profound effect on development success and aid effectiveness. A number of studies, including the World Bank's *Assessing Aid* (1998) and *The Role and Effectiveness of Development Assistance* (2002) provide compelling evidence that good governance and a sound policy environment are the most important determinants of aid effectiveness and development progress.
- **Building capacity.** Enhanced capacity—in public and private sectors—is also critical to sustainable development. It is necessary for developing countries to engage effectively in international trade and in the development of multilateral environmental agreements. Past aid programming often failed because it focused on resource transfers and did not provide enough support for local capacity development efforts to sustain these investments once donor countries had withdrawn support.
- **Engaging civil society.** Participatory processes, particularly those engaging civil society and the people expected to benefit, are essential to establishing clear, locally owned priorities for development cooperation. They are also critical to ensuring that aid investments help meet the needs of the poorest and most marginalized people in a society.

Programming Approaches for Greater Effectiveness

In recent years, development programming has been evolving towards approaches that best integrate these principles of effective development. This has essentially meant a growing shift from traditional project-based approaches towards more programmatic forms of development cooperation.

The project has long been the traditional means for delivering development assistance. Development projects have brought many benefits to people in developing countries, such as improved access to clean drinking water or better educational systems. Projects have also served as important test cases for new approaches to development and as indicators of the need for policy reform within countries.

At the same time, project-based approaches have weaknesses which must be addressed. In the past, projects were often developed and implemented with insufficient regard for the broader context which could affect, or undermine, their impact. For example, a project to boost literacy rates in



rural areas may overlook teachers' overall salary structures, which may be too low to attract qualified people. Thus, individual projects may have succeeded in the short term but have had more limited longer term impacts on a community or country as a whole.

Second, too great a reliance on project forms of delivery can lead to uncoordinated and artificial segmentation of development investments within a sector and a piecemeal, uncoordinated approach to development. This, in turn, can engender within developing countries a sense of lack of ownership, direction and control of the overall national development process.

Related to this is perhaps the most fundamental issue that must be addressed: capacity drain. Donor support for large numbers of discrete projects—which can number into the hundreds in any given sector—can generate an immense administrative burden on the already limited capacity of developing country institutions. Recipient nations are faced with the challenge of negotiating, managing and reporting on an array of projects that cut across a wide range of sectors and likely involve a dozen or more separate donors. Each project typically has quarterly reporting requirements—each with its own systems and methodologies. Each project is also the subject of numerous missions from donor headquarters. All of these competing demands must be dealt with by the governments of developing countries.

In response to these issues, donors have been shifting to more programmatic forms of support for development and to approaches which ensure that projects are better integrated into comprehensive strategies. These program-based approaches give more emphasis to comprehensive and coordinated planning in a given sector or non-sectoral area of intervention, or under a broader national plan for poverty reduction. They also have a strong emphasis on policy dialogue and strategic aid investments. For example, investments within a given sector, such as health, to help finance delivery of services, will also include policy support and capacity building to strengthen entire health systems. Donor coordination, ideally under the direction and leadership of the developing country, is a key element of these approaches. So too is local ownership. The final aim is to help establish the institutions, capacity and human resource base necessary for sustainable, self-reliant development.

Programming Instruments

Program-based approaches are intended to support locally owned programs of development. At the highest level, these programs usually consist of a country's poverty reduction strategy. They may also include sector programs, thematic programs such as an environment strategy, or the programs of specific organizations such as an NGO.



There are now several internationally recognized programming instruments which embody this approach. The most important of these instruments is the **Poverty Reduction Strategy Paper** (PRSP). PRSPs describe a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty. The PRSP process leads to pro-poor changes in public policies and programs and results in budgetary allocations that take into greater consideration the needs of the poor. PRSPs are prepared by developing country governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund. In essence, PRSPs are intended to be locally owned national poverty reduction plans. In low-income countries, the PRSP is becoming the main framework for mobilizing and programming external assistance. Originally intended as a mechanism to link debt relief with poverty reduction measures in heavily indebted poor countries, the PRSP process has now been extended to all low-income countries. A PRSP or an interim PRSP is usually a precondition for debt relief or increased development assistance funding from the donor community.

Often working in support of PRSPs are **Sector-Wide Approaches** (SWAPs), which involve coordinated efforts to set out strategic approaches in a particular sector (such as health or education). This may involve implementing projects that support sectoral plans or contributing aid funds to a common pot that the developing country would then use to implement its sectoral plan. Whatever the instrument, these strategies place a premium on local ownership and donor coordination and embody a comprehensive approach to development. They also reflect a strong emphasis on strengthening government capacity in developing countries, through the provision of technical assistance and the establishment of policy environments which enable social and economic progress. This is very much in keeping with research evidence and development experience which shows that good governance and a sound policy environment are the most critical underpinnings of sustained development and aid effectiveness.

CIDA's plan for strengthened aid effectiveness is firmly rooted in the rethinking of development cooperation that has taken place over the past decade. CIDA maintains programming in a large number of countries which are now involved in the PRSP process and increasingly aligns its programming along the priorities identified by the governments in their PRSPs. It is also now involved in program-based approaches of different sorts, including about a dozen SWAPs, and numerous non-sectoral program-based initiatives. Most SWAPs are in Africa.

- **Over time, CIDA will reorient its programming in the poorest countries towards new approaches that are based on the principles of effective development. In support of this orientation, CIDA will develop a portfolio of initiatives that reflects these effectiveness principles. This portfolio will be used to inform and shape the future work of CIDA so that best practices are more firmly integrated across the whole of the Agency's work.**



- In keeping with the principles of local ownership and donor coordination, CIDA will also firmly situate its country programming orientations within the locally owned frameworks identified by developing countries, particularly through the PRSP process where CIDA is satisfied that this process involves a legitimate participatory approach. It will also redouble its efforts to achieve better coordination with other donors, including through improved harmonization of donor processes and procedures.



COUNTRY FOCUS/ENHANCED PARTNERSHIPS

The Geographic Allocation of Canadian Aid among Developing Countries

Canadian aid through all channels (including multilateral and partnership) reaches virtually every one of the approximately 120 developing countries in the world (those with a medium or low Human Development Index). CIDA has traditionally described its bilateral assistance as being focused on 30 core (or Category 1) countries and regions spread throughout Asia, the Americas and Africa. Most of these countries have been important recipients of Canadian aid for at least 20 years. A few have recently become more important recipients of Canadian aid and they have been added to the list of core recipients while others (a very few) have been gradually withdrawn from the list.

Despite this "focus" on 30 countries and regions, Canadian aid can be characterized as being widely dispersed with at least some bilateral programming in approximately 100 countries. Canada has consistently been the *least* concentrated of all the donor countries of the DAC. In 1999-2000, the top 15 recipient countries of Canada's aid program received 15.8 percent of Canada's total ODA. The donor country average was 25 percent and no other donor country gave less than 20 percent of its aid to its top 15 recipient countries.

The Spectrum of Canada's Developing-Country Partners

Canada's developing-country partners can be divided into roughly three broad categories of countries along a spectrum characterized by their level of development and their ability to effectively use development assistance.

The first group of countries are relatively well-off middle-income developing countries. In addition to having a higher income per capita, they can be generally or roughly characterized as having a relatively strong and sophisticated governance capacity. While these countries may contain significant numbers of extremely poor people, they normally have in place their own sectoral plans or national plans for reducing poverty. Their requirements for development assistance are usually well-specified and often involve specific high-level technical assistance rather than large amounts of resource transfers. Assistance to these countries usually has a high success rate and achieves sustainable results. Canada does maintain considerable development cooperation programs with middle-income countries. While CIDA's presence there is determined more by foreign policy considerations, the content of its programs is driven by developmental priorities.



At the other end of the spectrum are low-income countries in crisis. These are very poor countries which have extremely low governance capacity—usually because they are in a state of ongoing civil conflict or they are just emerging from such a state. Corruption is often rife and there is little demonstrable commitment to reform. Canada's programming in these countries is often limited to emergency humanitarian assistance, peace-building initiatives or projects delivered through non-governmental organizations. Civil society organizations which possess well-developed capacity and strong links with the most vulnerable people are key partners for CIDA in this type of country. CIDA, together with other donors, is working to find new approaches that respond to the needs of low-income countries in crisis. Where opportunities exist, this may take the form of promoting an enabling environment that would make political systems more responsive to the needs of their people; strengthening capacity of those governmental and non-governmental agencies committed to poverty reduction; and working with the international community to ensure that needed assistance is not withdrawn in times of crisis.

In between these two ends of the spectrum are the remaining low-income countries. Although poor, they have functioning governments, albeit with weak capacity. While corruption may also be an issue with these countries, they are (to varying degrees) committed to reforms, increased transparency and democracy. Their needs in terms of external resources can be substantial, but they are also committed to taking ownership of their development challenges. While CIDA often has substantial civil society programming in these countries, its main interlocutor is the government itself.

Reasons to Focus

It is in this last group of developing countries, those which are poor but committed to improved governance and effective use of resources, where the increased use of programmatic approaches is most appropriate. Programmatic approaches involve working closely with the recipient country with a substantial element of policy dialogue on sectors of intervention. These approaches also entail working closely with other donors and can involve pooling of resources with them. To play a role in the reform of a particular sector, a donor usually needs to bring a certain critical mass of program funds as a precondition for effective participation in such a sector-wide effort.

However, the lack of concentration of Canadian aid, combined with the impact of fiscal restraint on Canada's aid budget in the 1990s, has resulted in a significantly smaller average program size in our top recipient countries. In 1990-91, there were 16 country programs with disbursements of over



\$20 million². Ten years later, in 2000-01, there were only 7 country programs with disbursements of over \$20 million and in real terms (1990 dollars) only 5 above the \$20-million threshold.

The Concept of Enhanced Partnerships

Partnership is a concept based on the principles of an equitable sharing of rights, roles and responsibilities. A stronger partnership approach envisages compacts in which partners have articulated shared objectives and agreed-upon responsibilities. It is expected that in countries selected for increased resources and a more programmatic approach based on local ownership, the nature of the CIDA-developing country relationship will evolve to one in which these partnership principles guide the relationship.

CIDA's relationship with enhanced partnership countries will also be one in which governance issues, including support for human rights, gender equality, democratic development, and the rule of law will feature prominently. Drawing on well-regarded Canadian expertise in this area, CIDA will endeavour to assist these countries in building up their governance capacity, in particular in the area of public administration. This is in keeping with the importance of nurturing the entrenchment of reforms in these societies, and the importance of good governance and capacity building in the new development paradigm described previously.

It should also be noted that an "enhanced partnership" with the poorest countries committed to using aid effectively very much reinforces the mutual obligations at the heart of the Monterrey Consensus which emerged from the March 2002 Financing for Development Conference. In this Consensus, developing countries committed to sound policies, good governance and the rule of law and to mobilizing their own resources for development. In return, developed countries are committed to supporting these reforms through increased aid flows, enhanced debt relief and a more open international trading system.

- **CIDA will select a limited number of the world's poorest countries for an enhanced partnership relationship.**
- **The criteria used to select such a list of countries for enhanced partnerships will include a high level of poverty as measured by income per capita and a commitment to development effectiveness, as demonstrated through efforts to improve governance, ensure**

2 For the purposes of these statistics, disbursements include aid delivered through the bilateral channel, Canada Funds and bilateral food aid. They exclude aid delivered through Canadian Partnership Branch and multilateral channels where CIDA, in practice, exercises little control as to allocation by country.



local ownership of poverty reduction strategies, end corruption and make effective use of aid monies. Special consideration may also be given to countries with the potential to exercise regional leadership.

- Countries selected for enhanced partnerships will receive a greater share of the incremental funds coming into the Agency. Within these countries, CIDA will strategically allocate resources to a small number of sectors. Over time, CIDA resources in these countries will be well above threshold levels of funding for effective participation in programmatic approaches to development assistance.



SECTORAL PRIORITIES

Canada's 1995 foreign policy statement set out six priorities for the development program: basic human needs; gender equality; infrastructure services; human rights, democracy and good governance; private sector development; and the environment. However, these priorities cannot be seen as providing a focused agenda for CIDA. Rather, they are a broad menu of thematic options.

CIDA's Social Development Priorities

The launch in September 2000 of *CIDA's Social Development Priorities: A Framework for Action* marked a major step towards greater sectoral focus for CIDA. With its launch, CIDA indicated its intent to increase the relative importance of social development, with a particular focus on four key areas: health and nutrition, HIV/AIDS, basic education, and child protection, with gender equality as an integral part of all of these priority areas. A key feature of this social development initiative is a commitment to double CIDA's investment in social development over a five-year period with specific targets in each of the four areas for each year through to 2005.

Funding for health and nutrition will more than double over the 2000-05 period, increasing from \$152 million to \$305 million per year. This represents a total investment of more than \$1.2 billion over five years. *CIDA's Action Plan on Health and Nutrition* identifies several areas for action as well as an overarching goal of health systems strengthening. The areas include improving food security and nutrition, improving access to clean water and sanitation, preventing and controlling communicable diseases, improving sexual and reproductive health including safe motherhood, and preventing and controlling non-communicable diseases such as mental disease and the effects of tobacco use. In the area of preventing and controlling communicable diseases, Canada has made considerable investments through the Global Health Fund, the Global Alliance for Vaccines and Immunization, and the campaign to eradicate polio.

CIDA believes that the scale of the HIV/AIDS global pandemic and its implications for development are such that it merits special attention as a separate Social Development Priority. The SDP allocates \$270 million over five years to fighting HIV/AIDS. *CIDA's HIV/AIDS Action Plan* is based on an approach of promoting and protecting human rights and outlines a number of key areas for programming such as: prevention and education; empowerment of women and girls; supporting advocacy, policy development and legislation; building community capacity to assist and care for people living with HIV/AIDS; and supporting research in the areas of vaccine and microbicide development.



In the area of Child Protection, CIDA has allocated \$122 million over the five-year period ending in 2005. *CIDA's Action Plan on Child Protection* articulates a rights-based approach for working with children in need of special protection from exploitation, abuse and discrimination. The plan calls for a strategic focus on child labour and children affected by armed conflict. CIDA has also set up a Child Protection Research Fund, to help ensure that interventions in the area of child protection are grounded in the realities of children's lives.

In April 2002 CIDA launched its *Action Plan on Basic Education*, setting out CIDA's intention to invest \$555 million over five years in support of this sector—a figure which will quadruple CIDA's investments in basic education over this period. The three main goals of CIDA's Action Plan are: access for all to a free and compulsory primary education; elimination of gender disparities in education; and improving the quality of basic education. In June 2002, the Prime Minister announced that Canada would double its support to basic education in Africa to \$100 million by 2005. This is in addition to the commitment to quadruple basic education referred to above.

Canada is also pursuing an active role in promoting the international agenda in support of Education for All (EFA) through the Minister of International Cooperation's participation at the annual EFA High Level Group and through Canada's chair of the G8 Education Task Force whose recommendations were endorsed by Leaders in June 2002. Canada has also actively supported the World Bank's "Fast Track" initiative to focus donor support where it may be most effective, and will co-chair the first donors' meeting in furtherance of this initiative in November 2002.

Over the past two years, CIDA has exceeded its Social Development Priorities' sectoral investment targets. The overriding objective of the Social Development Priorities is to strategically invest in the four priority areas in order to make a stronger contribution to human well-being and accelerate progress toward achieving the **Millennium Development Goals**. Over the past two years, the critical importance of these four areas to breaking the cycle of poverty has gained further prominence on the international development agenda.

- **CIDA will meet its commitment for increased resources to the four Social Development Priorities—health and nutrition, HIV/AIDS, basic education and child protection with gender equality as a cross-cutting theme—with the objective of at least doubling its overall investments in these areas over a five-year period.**



Facilitating Economic Growth

A balanced approach to sustainable poverty reduction, however, also requires measures to stimulate economic growth. Research³ indicates that on average every additional percentage point in household consumption (which itself is strongly linked with growth) reduces the share of people living in extreme poverty by about 2 percent. The deviations above or below this average, however, can be quite significant, indicating that there are economic growth paths and policies which are more pro-poor than others.

An area which stands out in this context is that of agriculture and rural development. Nearly 75 percent of the absolute poor live in rural areas. Of these, women represent the majority (up to 70 percent) and play a major role in the survival strategies and the economy of poor rural households. Achieving the **Millennium Development Goals** will not be possible without significant increases in rural incomes and opportunities, which are most often linked with agriculture. Agriculture also has strong horizontal links with other key development priorities, including health and education, the environment, and water and sanitation, with agriculture providing the economic underpinning for investments in these areas. Notwithstanding its importance to development, investments in agriculture both by developing countries themselves and by donor countries have declined over the past decade, in part because of changes in the priorities of donor and developing-country governments and international financial institutions. CIDA's own agricultural programming investments show the same pattern, a trend which needs to be reversed.

There is increasing recognition that, for most developing countries, particularly the poorest ones, transformation of the rural sector is a key to achieving the sustainable poverty reduction necessary to attain the **Millennium Development Goals**. A critical challenge is therefore to promote sustainable agriculture as a source of economic growth that can bring about such a transformation. A key issue to be addressed in this regard is the issue of desertification and land degradation. Land degradation affects perhaps as much as two-thirds of the world's agricultural land with severe impacts on agricultural productivity, both in terms of yields and in terms of the nutritional content of food crops. The degradation of natural resources can also be a source of tension and conflict. As the current President of the Conference of the Parties of the UN's Convention to Combat Desertification, Canada can take a lead role on this issue.

3 World Bank: *World Development Report, 2000/2001*, p.47



Another area which plays a fundamental role in promoting economic growth is the private sector—with agriculture often the largest single part of the private sector in developing countries. It is now widely recognized that private sector development in developing countries is a powerful force for poverty reduction. For example, the informal economy is an especially critical source of income for marginalized groups. Microenterprise has a particularly direct impact on poverty alleviation, especially for women, when accompanied by complementary strategies that address legal, social and other barriers. Almost all of the PRSPs now being prepared by developing countries include a private sector development component. Typically, they have a strong focus on the development of small- and medium-sized enterprise and on microfinance/microenterprise development—areas viewed by developing countries as critical instruments for reducing poverty. An assessment of CIDA's programming in private sector development also demonstrated its positive impact on poverty reduction.

- **CIDA will develop a policy framework to guide its programming in agriculture and rural development and will strengthen its investments in this sector.**
- **CIDA will revise and complete its policy framework for its private sector development programming to set out clear directions for its activities in this area while also ensuring that it is designed first and foremost to meet the needs and priorities of developing countries.**



POLICY COHERENCE

Overview

Globalization is characterized by increasing linkages among states and among public policy issues. This means that the actions of a nation-state in one policy area can now have far-reaching impacts on other countries in a range of policy areas. For example, the trade policies pursued by industrialized countries have impacts on the environment, health and living standards of people in poorer countries.

In this context, the issue of policy coherence has emerged as a central theme in discussions of development cooperation. In its essence, policy coherence means that government policies should work together to reinforce common objectives rather than be at cross-purposes. In an environment in which investment and trade flows to developing countries increasingly dwarf flows of development assistance, the need to ensure that major policies which affect these areas work in tandem has never been greater.

The objective of policy coherence, with poverty reduction as a central goal, has been accepted and widely supported within the OECD, the G8, the World Bank, the IMF and the UN system. The process of translating principles into actions has been a challenge, however, and few would argue that the practices in most countries are ideal.

There are a number of reasons for this. First, democratic government requires that trade-offs be made by elected officials among competing objectives; the voice for poverty reduction championed by aid agencies will be one of many to compete for attention. Second, the vertical organization of most governments makes it difficult to ensure horizontal coordination and consistency across different policy areas at the best of times; these difficulties are exacerbated when departmental bureaucracies are not used to working with each other. Finally, the information base necessary to understand the impact of different policies on poverty reduction in developing countries is often lacking.

In company with other forward-looking development agencies, CIDA is working to promote policy coherence in the policies adopted by the Government of Canada. It has recently taken steps to enhance its policy capabilities in trade and the environment, in part to bring the development perspective to bear on the policy position taken by the Canadian government in the negotiations of multilateral agreements—agreements which have major implications for the nature and magnitude of investment flows to developing countries. For example:



- in addition to fostering a number of initiatives to build the capacity of developing countries to participate constructively in the international trading system, senior CIDA officials are participating actively in the formulation of Canadian trade policy positions to help realize the promise made at Doha of launching a "development round" of multilateral trade negotiations; and
- CIDA is an active participant in the ongoing negotiations of Multilateral Environmental Agreements (MEAs) and is the lead agency within the Government of Canada on the United Nations Convention to Combat Desertification. It is the funding agency for the UN Global Environmental Facility established as the principal funding sources for MEAs, and is working to establish policies on governance and financing which will ensure a strong continued role for this facility.

The OECD has identified six areas as being of particular importance in achieving policy coherence:

- international trade and foreign direct investment;
- international finance;
- food and agriculture;
- natural resources and environmental sustainability;
- social issues (e.g. labour standards, immigration, public health, illegal drugs); and
- governance and conflict.

Canada is reporting on its efforts in these areas in its Memorandum to the Development Assistance Committee of the OECD, which is undertaking a Peer Review of Canada in 2002. Canada is the first country to report in detail on its efforts towards policy coherence and anticipates that the OECD report will provide useful guidance in charting future directions.

- **CIDA will continue to assess opportunities to improve policy coherence in the Government of Canada's policies affecting developing countries and is committed to working with other governmental agencies towards this end.**

Market Access

It is clear that economic growth is a fundamental prerequisite for reducing poverty in the developing world, and there is overwhelming evidence that economic growth will not take place in the absence of expanded trade. No country which has experienced sustained and rapid economic growth has done so without at the same time expanding its trade with other countries.



In these circumstances, the trade policies of developed countries have come under increasing scrutiny in the debates on policy coherence. While the nexus of trade and development issues is a broad one, two types of trade policies have come under particular scrutiny. The first is tariffs, quotas and regulatory barriers on products of export interest to developing countries. The second is export subsidies, particularly in agriculture, which have the effect of displacing domestic production in developing countries and making it difficult or impossible for them to compete in export markets.

Market access for developing countries will be addressed in the context of the Doha Development Round of multilateral trade negotiations. Canada will play an active part in these negotiations and is committed to working to fulfil the promises made at Doha. In this context, expanded support for trade capacity building initiatives has been identified as a key priority and CIDA will be expanding its programming in these areas.

But addressing the market access barriers faced by the world's poorest countries cannot await the completion of the Doha Round. Least-Developed Countries represent about 11 percent of the world's population, or 660 million people. But such countries account for just 0.5 percent of the world's exports of goods and services. In 2000, Canada's total imports from Least-Developed Countries represented only 0.1 percent of all Canadian imports and were valued at about \$425 million a year. About 58 percent of Canada's imports from Least-Developed Countries are currently subject to duties or tariffs, and Canada has in place quotas on several products of interest to Least-Developed Countries in areas such as clothing and textiles.

On June 27 at Kananaskis, the Prime Minister announced Canada's commitment to provide increased market access for the Least-Developed Countries.

- **Effective January 1, 2003, the Government of Canada will extend duty-free and quota-free access to all imports except dairy products, poultry and eggs from the 48 Least-Developed Countries.**

Tied Aid

The Debate on Aid Untying

Tied aid has been a contentious issue for bilateral agencies for decades. The practice of requiring that aid funds be used for purchases in donor countries is considered by many to represent a clear case of policy incoherence, and is at odds with trends towards trade liberalization and the dismantling



of investment barriers. Critics point to studies suggesting that tied aid may raise the costs of procurement financed by aid funds by between 15 and 30 percent. Tying practices are also seen as incompatible with the promotion of effective development partnerships, local ownership and capacity building strategies. Tied aid can increase the complexity of administrative controls on development programs and act as a constraint against greater donor coordination. Goods and services provided to developing countries coming from a variety of donors are sometimes incompatible with each other, thereby putting pressure on administrations in developing countries, and diverting scarce capacity from more productive uses.

Advocates of tying practices, however, point to a number of ancillary benefits. Tied aid ensures that donor countries receive some positive domestic economic impact from aid programs and this may help build political constituencies in favour of foreign aid. The active involvement in developing countries of Canadian firms, organizations, and individuals helps project a positive image of the country abroad, and is helpful in furthering our interests internationally. Supporters of tying practices also raise concerns about the lack of a level playing field internationally, and are concerned about the possibility of Canadian aid flows benefiting companies and organizations in other developed countries who may not provide reciprocity of treatment.

Historic Canadian Policy

In keeping with policies adopted by many other aid organizations, Canadian policy has straddled both perspectives. With respect to food aid, the policy authorizes CIDA under emergency and other special circumstances to purchase foodstuffs and other nutrients from other countries, provided that the total of such procurement does not exceed 10 percent of the food aid budget in any one year. Of the remaining food aid budget, only between 40-60 percent is actually spent on food produced in Canada. The remainder is spent on transportation within Canada or between Canada and developing countries. It is noteworthy that the Canadian content of the international transportation component is often quite low. As such, the percentage of the budget tied to Canadian goods and services is considerably below 90 percent.

With respect to non-food aid, Canadian policy varies according to the aid channel. Support delivered through the Canadian Partnership Branch is provided only to Canadian-based institutions or organizations. Under a 1987 policy, aid delivered through bilateral channels is subject to ceilings for "untied" aid of 50 percent for sub-Saharan African countries and Least-Developed Countries and 33.3 percent for all other developing countries. These untying authorities were intended primarily to facilitate local-cost financing. The policy permitted up to 10 percent of a project to be used for direct procurement from other industrialized countries, but only when alternative Canadian, local or regional goods or services were either unavailable or inappropriate.



The OECD-DAC Agreement

Aid delivered through the bilateral channel to Least-Developed Countries has been the focus of international discussions on untied aid in recent years. At the G8 Summit in 2000, leaders urged that countries which maintain low levels of untying for Least-Developed Countries improve their performance. In this context, tied aid levels for Canadian bilateral aid were reported at 66 percent tied in the 2000 Development Cooperation Report issued by the OECD. This placed Canada as the third-highest tied donor, behind Spain and the United States.

At the 2001 G8 Summit, leaders endorsed an agreement reached by the OECD-DAC. This Agreement commits donors to untie aid on seven categories of aid to Least-Developed Countries⁴. The Agreement does not apply to food aid, all free-standing technical cooperation and management services arrangements.

Reasons for Changing Canadian Policy

Changes to Canadian policy on untied aid delivered through the bilateral channel are required to conform to the DAC Agreement, deal with implementation difficulties associated with the current policies, and support aid effectiveness principles.

The OECD-DAC Agreement on untying aid reflects a definition of untied aid that is based on the ability of other countries to compete for projects financed by donor countries. Under this concept, aid is considered "untied" only if the procurements financed by such aid can be sourced from substantially all aid recipients and from OECD countries. With this definition, for example, a project which in fact was delivered exclusively through Canadian sources would still be considered untied as long as other countries were free to compete for the project at the outset.

In contrast, the definition of untying used for the purposes of administering Canada's bilateral aid assistance has been based on a concept of domestic versus foreign content, measured at the project approval stage. Broadly speaking, under this approach, aid was considered to be untied if it would not result in the purchase of Canadian goods or services.

4 Balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector program assistance; investment project aid; import and commodity support; commercial services contracts; and ODA to non-governmental organizations for procurement-related activities.



Without changes to the policy approach, CIDA would find itself trying to administer two policies on aid untying within the bilateral program. One policy, based on the OECD-DAC Agreement, would apply to certain categories of aid to Least-Developed Countries. The other would apply to all other developing countries as well as to the categories of aid to Least-Developed Countries not subject to the OECD-DAC Agreement. Each policy would have its own definition of tied and untied aid. The complexities and possibilities for confusion in such a system would be considerable.

CIDA has also experienced considerable difficulties trying to implement the current bilateral policy. Since the policy is based on a concept of Canadian content, CIDA can only administer this policy by estimating at the project approval stage what proportion of the funds will be spent outside Canada. It is very difficult to estimate Canadian content, even for procurement from firms doing business in Canada. Moreover, projects often change considerably after the initial conception, and it would require a major auditing and accounting exercise to determine whether the tied-untied split initially estimated has in fact been realized.

A third, and indeed most important, reason for changing the tied aid policy relates to aid effectiveness principles. New programming approaches, based on concepts of donor coordination and local government ownership, place an increasing emphasis on building capacity in developing countries to ensure that development is sustainable. In this context, CIDA's contracting regulations have proved to be a considerable obstacle. While Canadian firms eligible to act as Canadian executing agencies may subcontract foreign entities, CIDA has not been permitted to contract directly with entities outside Canada. This hinders the ability of CIDA to access existing capacity in developing countries and support the strengthening of that capacity. Finally, participation in innovative programming approaches through sector-wide approaches, or promoting trilateral cooperation involving Canada and two or more developing countries, will be restricted as long as CIDA has insufficient scope for contracting with non-Canadian entities.

- **CIDA will:**
 - **rescind the 1987 policy on aid untying and associated minimum content levels for bilateral programming;**
 - **implement the OECD-DAC agreement for Least-Developed Countries;**
 - **adopt the OECD-DAC definition of aid untying as the framework for measuring tied and untied aid in bilateral programming;**
 - **report levels of tied and untied aid according to this definition as part of CIDA's Departmental Performance Report to Parliament;**



- seek amendments to CIDA's contracting regulations to permit:
 - on a case-by-case basis, the extension of eligibility to bid on CIDA contracts to entities in sub-Saharan Africa and Least-Developed Countries, subject to the approval of the Minister for International Cooperation;
 - the use of international competitive bidding in circumstances covered by the OECD-DAC Agreement;
 - the use of international competitive bidding in circumstances not covered by the OECD-DAC Agreement, subject to the approval of the Minister for International Cooperation; and
- make no changes at this time in the tied aid policies respecting food aid, or the programming in the Canadian Partnership Branch.



INCREASED FOCUS ON AFRICA

Challenge and Change in Africa

The continent of Africa is characterized by uniquely high levels of poverty and underdevelopment, which require special attention from the global community. Africa has become increasingly marginalized from the growth and prosperity of globalization, while HIV/AIDS, conflict, corruption, gender inequality and widespread poverty continue to create barriers to development and growth. For instance, over two-thirds of the world's Least-Developed Countries are in Africa, and sub-Saharan Africa's share of world trade is just 2 percent. Africa is currently home to 70 percent of those infected with HIV/AIDS and, as a result, average life expectancy has now fallen to 47 years in sub-Saharan Africa. These and many other challenges arguably impose greater obstacles to development than in any other developing region.

At the same time, however, the region is going through a process of democratic transformation. Although the pace and depth of the transition are uneven, democratically elected leaders in several key countries have signalled clearly their commitment to positive change and are taking actions in this respect. For example, sound policies have enabled strong rates of economic growth in countries such as Senegal, Uganda, Tanzania and Botswana.

In parallel with the growing commitment to positive change among African leaders, there is an increasing international consensus on the importance of taking accelerated action to reverse the marginalization of the continent. There is widespread agreement on the necessity of using new approaches to do so. The centrepiece of these new approaches is the acknowledgement that Africans themselves must lead and coordinate their own as well as international efforts toward development. The developed world also acknowledges that it must do more to support African efforts, particularly through supporting the initiatives of those countries committed to reform. In addition, the developed world now recognizes that it must go beyond improving policies respecting aid flows to address the continent's critical needs for increased trade and investment flows.

New Partnership for Africa's Development (NEPAD)

At the 2001 G8 Summit in Genoa, African leaders presented a clear articulation of their commitment to positive change in the form of a plan to promote stability, reduce poverty, and end Africa's marginalization. NEPAD is a pledge by African leaders to their people to consolidate democracy and sound economic management, and to promote peace, security and people-centred development.



NEPAD is the first comprehensive development plan created by African leaders, which demonstrates increased political will and leadership. It neither blames the developed world for Africa's problems nor suggests that increased ODA or debt relief alone will solve them. The main component of NEPAD involves building a new partnership between Africa and the developed world, based on mutual respect and responsibility and the international principles of aid effectiveness. It also stresses the importance of partnerships within Africa, including mutual accountability of African nations for achieving their goals. The plan emphasizes African ownership of the development process, where the conditions for development will be created primarily by Africans with assistance from development partners.

NEPAD responds directly to the views and concerns of development partners and therefore cannot be ignored by them. CIDA intends to take fully into account the evolving NEPAD agenda, including the implementation plans and the peer review mechanism. This approach is fully consistent with the spirit of strengthening development effectiveness by supporting local ownership and locally-defined development strategies outlined previously.

G8 Africa Action Plan

G8 countries, on the initiative of Prime Minister Chrétien, have created an Africa Action Plan, describing how they will take action on NEPAD. This Plan was approved at the G8 Summit in Kananaskis in June 2002. Its main purpose is to put in place a new partnership between G8 and African nations that will unlock greater financial and technical resources—both public and private—over the long term. The G8 supports African efforts to engage the African public in NEPAD, and will consult with African partners on how donors can assist with these efforts. The Action Plan encourages partnerships among and between Southern partners, other donors, and the private and non-profit sectors. It complements, rather than duplicates, existing G8 initiatives.

Further, G8 countries will establish enhanced partnerships with African countries which are committed to the principles of NEPAD, as demonstrated through measurement of results and peer reviews. This includes governments' political and financial commitments to reform policy, govern justly, invest in their own people, and promote economic freedom and growth. At least half of the new development assistance resources which G8 members announced at the recent Financing for Development conference could be directed to these countries. They will also work with "transitional partnership" countries which do not yet meet NEPAD standards but are working towards them. This type of partnership will mostly involve capacity building activities. Donors will not work with governments which disregard the interests and dignity of their people. However, donors will continue to



respond to situations of humanitarian need, regardless of governments, and will continue to address core issues of human dignity and development. Each G8 partner will decide with which African countries to establish enhanced partnerships. Progress on the implementation of the Africa Action Plan will be reviewed at the next G8 summit.

Canada Fund for Africa

The Canada Fund for Africa sets out Canada's contribution to the implementation of the G8 Africa Action Plan. Canada was the first country to identify a specific sum of money to support the Africa Action Plan.

The Canada Fund entered into force at the Kananaskis summit in June 2002. Its budget of \$500 million over three years is in addition to Canada's regular ODA for Africa. The Fund will be managed by CIDA, and will remain distinct from regular programming for Africa. Management of the Fund will be coordinated with the G8 process and other Canadian government departments. The Fund will focus on a relatively small number of large-scale, visible programs, and will include a mix of G8, African and Canadian initiatives. Countries will be selected based on their use of aid effectiveness principles such as local ownership, national poverty strategies, donor coordination, sector-wide approaches, mutual accountability, and results-based management. They must demonstrate a commitment to democracy, good governance and human rights. Eligible partners for Fund initiatives include recognized international and multilateral institutions; other donors; African governments; pan-African, regional, national and local institutions; private sector entities; and civil society organizations. The Canada Fund for Africa will provide a showcase for Canadian leadership in pursuit of effective development through a series of large-scale, flagship initiatives in support of NEPAD and the G8 Africa Action Plan.

Initiatives to implement the Fund focus on 3 clusters: Fostering Economic Growth (including increased market access and encouraging public sector investment), Strengthening Institutions and Governance; and Investing in People and the Future of Africa (including health and nutrition, water and agriculture, and basic education). A number of these initiatives are in direct response to the work of the Digital Opportunities Task Force. Public participation to develop African solutions to problems is a key component of these initiatives.

- **CIDA will build a strong basis for engagement with Africa over the long term through strategic investments in support of African development efforts in key sectors. Program investments in Africa will be based on the internationally accepted principles for**



development effectiveness, with a focus on enhanced partnerships with those countries which are committed to reform. Special consideration may also be given to countries with the potential to exercise regional leadership.

- In total, Canada will allocate \$6 billion in new and existing resources over five years to Africa's development, including the \$500 million Canada Fund for Africa.
- CIDA will develop a two-part strategy, on the one hand, to deepen our engagement with those poorer countries in Africa with a good track record on governance and commitment to reform, and on the other hand, to develop a response for those countries which continue to struggle with issues of conflict and instability.



CHANGES IN CIDA AS AN INSTITUTION

It is clear that the changes set out in this document will have significant implications for how CIDA operates. As CIDA moves towards more programmatic approaches in a select number of enhanced partnership countries, there will be some fundamental challenges to CIDA's existing systems and structures.

Becoming a More Knowledge-Based Institution

Programmatic approaches put a premium on the knowledge base of a development agency. The true value-added of aid agencies today is their expertise in development—knowledge of the country, of its development situation and needs, of the desired solutions and how to achieve them, and of the resources, physical and intellectual, that can be brought to bear on development challenges.

CIDA is already an organization composed of many highly knowledgeable and experienced development practitioners. The issue is how CIDA accesses, shares and uses its knowledge to improve the delivery of aid. CIDA has set up a Knowledge Management Initiative to deal directly with this challenge. The goal of the Initiative is twofold: (1) to make CIDA an organization that continually tests its experience and transforms it into knowledge that is easily accessible to the whole organization; and (2) to ensure the Agency uses systematic approaches to help knowledge from inside and outside the organization flow to the right people in order for CIDA to support development better.

CIDA has already begun to put in place a series of internal changes that, together, will strengthen its ability to bring its knowledge to bear on development challenges. This includes:

- strengthening policy capacity within the Agency;
- renewing the Agency's cadre of scientific and technical personnel;
- the Agency's human resource base to better prepare it for a more knowledge-based role, including through recruitment of young officers;
- updating and rebuilding its information technology and information management systems;
- revising its approach to information management; and
- strengthening its internal knowledge networks.



Over time, CIDA's business processes have become unnecessarily complex and an inordinate amount of staff time has been taken up with managing the processes rather than making optimum use of development knowledge. As the Government moves to transact an increasing amount of its business in an on-line environment, CIDA has taken the opportunity to consolidate its current 34 business processes into three simple but comprehensive categories: Directive, Responsive and Core/Institutional. Briefly, the Directive model contains initiatives in which CIDA directs the identification and design stages and manages the delivery stage of a project or program. The Responsive model comprises initiatives in which CIDA provides financial and possibly some policy support to specific programs or projects of others. Finally, the Core/Institutional model encompasses initiatives in which the Agency supports the activities of others at the institutional or program level.

An important benefit of the new models will be that for our outside partners, there will be more clarity and transparency about how CIDA conducts business. A secondary benefit to the new models is that, after an initial learning period, it is expected that the new business models will free up time for CIDA's development officers to focus more of their energies on expanding and sharing their knowledge base.

It is also expected that the increased use of program approaches will reduce CIDA's project base and accompanying transactional workload.

- **In order to support the effective delivery of Canada's aid program on the ground, CIDA will continue its efforts to transform itself into a knowledge-based organization.**

Strengthened Field Presence

Closely related to CIDA's role as a knowledge-based institution is the issue of its field presence in enhanced partnership countries. Increased use of programmatic approaches in these countries places a premium on country knowledge, being around the table as sectoral strategies are developed, and having access to in-country networks where influence and input can be provided in policy dialogue. Field presence also helps donor agencies to develop a better sense of what local ownership means in a given country, and it can help to improve in-field coordination of the development efforts of both the developing country and its donor partners.

Canada, compared to other donors, tends to be fairly centralized with a relatively small field presence. The 1998 peer review exercise of the OECD/DAC, while generally positive, found CIDA to be too centralized. The 1998 report of the Office of the Auditor General (OAG) also noted diminishing strength in our field knowledge and highlighted the link between a more sophisticated understanding of our partner countries and successful programming.



CIDA's past experience with decentralization was seen as contributing to real increases in knowledge of local contexts and gains in the Agency's ability to take quick, informed and relevant decisions. At the same time, there can be significant costs to enhanced field presence, depending on the model selected. CIDA's experience with a major decentralization of staff to the field in the late 1980s was an expensive undertaking and this contributed to the decision to shift back towards more centralized operations. A move towards increased field presence would likely mean some increase in CIDA's operating costs.

However, there are a number of ways to limit impacts on CIDA's operating budget. First, the role played by many Program Support Units is being expanded to cover policy and programming as well as administrative functions. Second, greater use of locally engaged professionals will be pursued as another means to enhance field presence, but at lower cost. Locally engaged personnel will have the advantage of in-depth country experience and knowledge which Canadians often do not have. Finally and most importantly, the number of countries selected for an enhanced field presence will be limited.

- **CIDA will enhance its field presence in countries selected for enhanced partnerships so that it can effectively deliver new program approaches.**

Measuring Results

As the Agency moves toward greater use of new approaches for aid effectiveness, the way CIDA measures its results and achievements will have to change as well.

At the most macro level, the world community through the United Nations will monitor progress toward achieving the eight **Millennium Development Goals** on an annual basis. This will be done by measuring progress at the country level toward the related 18 development targets (such as universal primary education) and 48 indicators (such as literacy rates). This information in turn will assist CIDA in determining, at a broad level, how well it is translating its aid investments into results, especially in its selected focus countries.

At the Agency level, CIDA has moved to align its results framework with the **Millennium Development Goals** and new approaches for aid effectiveness. CIDA has developed a framework of **Key Agency Results**, with the **Millennium Development Goals** and related targets as the overarching development results the Agency is seeking to achieve. These Key Agency Results are being integrated into CIDA's existing corporate planning, budgeting and reporting structure to ensure that, on an annual basis, Parliament is kept aware of CIDA's expected key results and targets and its achievements.



CIDA has a strong reputation among the international donor community for successfully implementing a results-based approach at the project level. CIDA's challenge now, under the new program approaches, is to move the emphasis on results to the program and country level. At the planning and implementation stage, this entails agreeing with the partner country and other donors on the appropriate follow-up to implement the national poverty reduction strategy, or equivalent plan; setting targets to be achieved within a particular time frame (such as increased literacy rates, increased ratio of girls to boys in school, and immunization rates); designing a common performance measurement and accountability framework; and conducting joint monitoring and assessment of progress.

At the evaluation and audit stage, a similar change in approach will be required. Evaluations and audits at the project level, while necessary, can portray too narrow a perspective of CIDA's performance. A project in and of itself may be evaluated positively with respect to the results it was intended to achieve, but if the sector or country concerned is still not making progress, questions can be legitimately raised as to whether the project was addressing the "right" issue to begin with.

- **As CIDA moves to increased use of the program approach to cooperation, the Agency will move its emphasis on measuring results from a project level to a program and country level with a focus on the sustainability of these investments. Increasingly, these results will be directly linked to the attainment of the targets outlined in the Millennium Development Goals.**
- **CIDA will also adopt a new way of doing performance assessments. Evaluations and audits will now be conducted at the program and country levels with the priority on assessing institutions and countries receiving the largest investments from CIDA.**



CONCLUSION

The position statement outlined above illustrates the commitment of the Government of Canada towards strengthening the effectiveness of its development assistance program, and of the principles and approaches that will guide CIDA as it continues down the path of reform and renewal.

There is much work to be done to implement this approach, including the selection of countries for enhanced partnerships, the operationalization of the new approach to tied aid, the elaboration of policy frameworks for agriculture and private sector development, and the further development of our new partnership with Africa.

In parallel with this deepening of the aid effectiveness agenda, CIDA will also pursue opportunities to broaden the scope of this reform. In this context, a review is under way on how the principles and approaches outlined above can best be incorporated into the programming delivered through the Canadian Partnership and Multilateral Program Branches.

The appropriate approach for CIDA's programming in the more advanced developing countries is another area where further work is required. In these countries, however, the presence of CIDA reflects foreign policy considerations in large measure. Adjustments in CIDA's approaches in such countries will await the completion of the foreign policy update now under way.

As noted at the outset, the global environment for development cooperation has evolved rapidly through international events at New York, Doha, Monterrey, Kananaskis and Johannesburg. Clearly, the world has not stood still since CIDA's work on strengthening aid effectiveness was launched over two years ago. It will not stand still in the future. As such, CIDA's ongoing program of renewal will take place in an environment of continuous change and the Agency will need to be prepared to adjust and adapt accordingly.

In continuing this process, CIDA will be guided by two principles. The first will be a strong focus on results. In this context, CIDA will assess in two years' time its progress in implementing the above strategy and its impacts on aid effectiveness, with a view to making mid-course corrections should such be warranted.

The second principle is transparency. CIDA's policy approach to strengthening aid effectiveness has been undertaken in an environment of considerable openness, with the viewpoints of staff and external stakeholders sought throughout the process. This dialogue will continue as the Agency continues with its program of renewal.