

# Does merging improve aid efficiency?

by Rachael Calleja

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In foreign aid, ‘efficiency’ (which is distinct from ‘effectiveness’) usually refers to the costs associated with administering aid programs, that is, the costs of running aid agencies and activities related to ODA programming and delivery. Despite being necessary for operating an aid agency, administrative costs are frequently referred to as a negative function of ODA that donors seek to reduce. In Canada, for example, the 2007 Budget listed “improving efficiency through reduced administrative costs...” as a key way to improve the effectiveness of Canadian aid.

The 2013 merger of the Canadian International Development Agency (CIDA) with the Department of Foreign Affairs and International Trade (DFAIT) to form the Department of Foreign Affairs, Trade and Development (DFATD) led some to speculate that the **reorganisation would spark efficiency gains** for the government by reducing the duplication of efforts and cutting administrative costs. While efficiency gains were not the main or official justification for the merger, which was said to improve the coherence of Canada’s foreign policy, some observers at the time remarked that job cuts and efficiency gains would be “**hard to avoid**”.

## Greater efficiency in Canadian aid?

Over the past decade, Canada has reduced the cost of aid administration considerably. In 2003, Canada’s administrative spending peaked at 9.9% of ODA. That same year, the average administrative costs of OECD-DAC donors was 4.8%, giving Canada one of the most costly aid programs in the world. Over the decade that followed, Canada reduced its cost of aid administration by almost half, reaching a low of 4.9% in 2012 prior to the merger. (All data are from OECD.Stat database. See [Total Flows by Donor dataset](#).)

To date, however, there is little evidence to suggest that the merger of CIDA and DFAIT meaningfully changed the administrative efficiency of Canada’s aid program. From 2012 to 2014, Canada’s administrative costs increased from 4.9% to 5.6% as a proportion of the ODA budget. In large part, this increase was due to a reduction in the size of Canada’s ODA budget, which shrank from \$5.5 billion to \$4.4 billion

over the same period, rather than any real change in the value of administrative spending. While the dollar amount that Canada spent on administrative spending fell slightly over this period, from \$277.7 million in 2012 to \$259.7 million by 2014, the small reduction in administrative costs was outweighed by the large budget contraction that caused spending to increase proportionally. (All data are from OECD.Stat database. See [Total Flows by Donor dataset](#). There may be slight differences between OECD data and country data as the former are on calendar basis while the later, for example in the case of Canada, are on fiscal year basis.)

The Canadian case stands in marked contrast to Australia's merger experience. In Australia, administrative spending fell by more than 30% following the 2013 merger of the Australian Agency for International Development (AusAID) with Australia's foreign ministry, DFAT. From 2012-2014, Australia's costs for aid administration fell from 6.1% of ODA, to 3.9% by 2014.

It may still be too early to understand the full fall-out of the merger in either case. One question that remains is whether spending cuts and organisational changes will translate into actual efficiencies, or whether, at least in the Australian case, the program is simply becoming cheaper, and if so why.

For Canada, the marginal change in administrative spending may increase pressure on the new DFTAD to show improvements in the coherence of Canada's foreign policy. After all, without tangible changes to administrative costs, available data suggests that the new structure may be no more efficient.

### **Are autonomous aid agencies more expensive?**

There is little evidence to suggest that autonomous aid agencies are less efficient than other models.

Prior to 2013, Canada, Australia, and the UK each had autonomous foreign aid agencies. With Canada and Australia merging their aid programs with foreign ministries in 2013, the UK is now the only OECD donor that organises aid in a separate government department.

From 2000-2014, the UK spent, on average, 4.3% of ODA on administrative costs, slightly below the OECD-DAC average of 4.6% over the same period. At its peak in 2003, UK administrative costs reached 7.4%. By 2014, these costs had fallen to 2.2%, making the UK's Department for International Development (DFID) one of the most administratively efficient aid agencies among its peers.

As much as the UK case shows that autonomy can be efficient, the Australian case suggests that autonomy may not be efficient in all cases. This tells us two things.

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Firstly, the idea that an autonomous aid agency is less efficient than a merged structure appears untrue. Indeed, the UK example shows that autonomous agencies are capable of operating at low administrative costs. Combined with DFID's reputation for high-quality and innovative aid programming, the UK's experience suggests that autonomous agencies are not a less 'optimal' model than other forms of aid organisation.

Secondly, in the cases discussed, differences in the administrative efficiency of the three autonomous donor agencies suggests that efficiency may be more closely linked to donor-specific factors than to their choice in model. In other words, donors may be more or less administratively efficient with any given model, as long as it meets and is suited to their individual contexts and constraints (similar findings have been discussed by [Gulrajani 2012 in \*Struggling for Effectiveness: CIDA and Canadian Foreign Aid\*](#)).

Although the discussion here has focused on administrative costs, with foreign aid it is important to recognise that administrative efficiency is not the same as effectiveness. The purpose of aid, regardless of organisation, is to reduce poverty. Administrative efficiency is pointless if aid programs are unable to fulfill their core mandate.

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