Architecture without Blueprints:
Opportunities and Challenges for the Next Prime Minister in International Development Policy

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Introduction and Context

Few people could have imagined, even in 1990, the radically different circumstances that would face the world community at the turn of the century, particularly those in the developing world as well as those in richer countries engaged in the development enterprise. Against the promise of a "peace dividend" at the end of the Cold War, there have been global financial crises, massive crimes against humanity, episodes of genocide and brutal civil conflict, and a devastating pandemic (HIV/AIDS) that has hollowed out much of the working population in Africa and elsewhere. There have been recurring droughts and famine, due both to climate change and to human folly or malevolence. Most recently, the U.S.-led wars against terrorism in Afghanistan and Iraq portend a massive reallocation of world resources to security and defence.

At the same time, regions of prosperity and greater well-being have surfaced in the developing world, most recently in the two "Asian giants", China and India, home to 40 percent of humankind. Industrial development, powered by modern technology and international commerce, is transforming many parts of Asia and Latin America, providing people with employment and income opportunities their parents only dreamed about. In Africa, the New Partnership for African Development (NePAD) and the formation of the African Union signal a new mood among African leaders to grapple collectively with the issues of development, governance and conflict.

In this rapidly changing environment, Canada's role is bound to be different from the one it enjoyed until 1990. It is also true, however, that during the decade of the 1990s, Canada deliberately chose to scale down its role and commitments on the world stage because of its fiscal crisis. However, Canada was not unique in facing a fiscal crisis, though it arguably took more severe measures than many of its peers in the industrial world, particularly the Nordic countries and the Netherlands, which sustained their high levels of support for foreign aid despite similar fiscal pressures. Moreover, Canada's aid program took a disproportionate share of the cuts in federal funding as part of its deficit-reduction initiatives (Morrison 1998: 412-414).

By the end of the decade, the fiscal deficit was clearly vanquished and many Canadians called upon their country to recover some of the ground it had ceded (Andrew Cohen 2003). It is not possible, though, to regain the *status quo ante* because the world is a very

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different place, and Canada's new Prime Minister must make choices that are attuned to it and to its likely future course.

Our paper is organized as follows. This section describes the key elements of the new context in which development must take place in the years ahead. The following section reviews Canada's development record, both positive and negative. Two spheres of policy and programming are addressed: foreign aid, which is explicitly oriented toward development cooperation, and "non-aid channels" such as trade and private investment, motivated by other objectives. The ensuing section sets out the key challenges and opportunities that face leaders, including Canada's next Prime Minister, as they contemplate the reshaping of development policy. The final section sets out an agenda for the next Prime Minister in the new context, taking advantage of Canada's key strengths.

There are two aspects of the current global context particularly worth noting. First, the picture is not all bad. Arguably, an overall assessment might be that the developing world is a better place today for most of its people than it was half a century ago. Second, the relations between rich and poor countries are considerably more complex. The ubiquitous forces of globalization have made developing countries part of a system in which foreign aid is increasingly insignificant relative to other linkages with the industrial world—trade, finance, migration, and technology. As a result, thinking about development, and about development policy, have shifted substantially in recent years.

Good news as well as bad. Over the last decade, a considerable amount of "bad news" has emanated from the developing world, disseminated by the media, ever more able to transmit instantaneously and in graphic detail, accounts of tragedies from the remotest corners of the globe.

Accordingly, it is now commonplace, amid the worsening HIV/AIDS pandemic, recurring famine, protracted civil conflicts, and multiple natural disasters that have afflicted many of the world's poorest countries, to assert that the postwar struggle for development has failed. Without denying the scale of human misery involved in such catastrophes, such an assessment would be unbalanced. There is, on the contrary, evidence of substantial progress in much of the developing world. Since 1970 there have been substantial improvements in longevity and in other indicators of health such as the infant and maternal mortality rates. Other social indicators of well being, notably literacy and school enrolment rates, have also improved considerably (Table 1). Most important, particularly in Asia, there have been dramatic reductions in the incidence of poverty (the percentage of people living below the poverty threshold), although globally the absolute number of poor living below the $2/day threshold increased in the 1990s (Table 2).

Table 1

Social indicators, 1970-2001

	Life expectancy at birth		Infant mortality rate		Adult literacy rate		Youth literacy rate		Net primary school enrolment	
	1970-75	**2000-05**	**1970**	**2001**	**1990**	**2001**	**1990**	**2001**	**1990-91**	**2000-01**
	years		per 1,000 live births		% age 15 and above		% age 15-24		%	
Developing countries	**55.8**	**65.1**	**109**	**61**	**67.2**	**74.5**	**81.1**	**84.8**	**80**	**82**
Least developed countries	43.7	51.4	150	99	43.7	53.3	56.5	66.3	54	60

Source: UNDP, *Human Development Report 2003*

However, it is certainly true that some regions of the world have experienced social and economic progress more than others while some have actually experienced a decline. Sub-Saharan Africa, home to 34 out of 48 of the world's least-developed countries, has witnessed widespread retrogression. In such regions, people's unmet needs are manifold, complex, and extremely urgent: food and sustainable livelihoods; protection against HIV/AIDS and malaria; and resolution of protracted civil conflict, to name the most obvious.

In contrast, parts of Asia and Latin America have made remarkable strides. Indeed, countries in East and Southeast Asia have achieved historically unprecedented rates of economic growth, unmatched by any of the industrial countries (although some of these countries experienced a severe setback in the Asian Financial Crisis). Perhaps most significant of all, since 1980 the developing world's two "giants," China and India, between them accounting for perhaps half of the entire population of the developing world, have enjoyed rates of economic growth that have lifted millions of people out of chronic poverty.

To be sure, even in areas of the developing world where there has been social and economic progress, it has not been evenly distributed throughout the population; wealth and poverty have grown side by side. Thus, there have been increasing disparities between those benefiting from development and those left behind. Particularly in Latin America, where there have been setbacks in the latter half of the 1990s, the greatest inequalities between the rich and the poor are to be found. These trends demonstrate the pressing need to make development more equitable, by empowering those with inadequate education or other assets (Kuczynski and Williamson 2003; Culpeper 2002).

Table 2
Incidence of Poverty in Various Developing Country Regions
1990-2000

Population Living Below $1.08/ day and $2.15/day								
	Poverty Rate (% below...)				**Number of poor (x1,000,000)**			
	$1.08/day		**$2.15/day**		**$1.08/day**		**$2.15/day**	
	1990	**2000**	**1990**	**2000**	**1990**	**2000**	**1990**	**2000**
East Asia & Pacific	29.4	14.5	68.5	48.3	470.1	261.4	1094.4	872.6
(exclude China)	24.1	10.6	64.9	50.8	109.5	57.0	294.8	273.1
China	31.5	16.1	69.9	47.3	360.6	204.4	799.6	599.5
East Europe & Central Asia	1.4	4.2	6.8	21.3	6.3	19.9	31.1	101.3
Latin America	11.0	10.8	27.6	26.3	48.4	55.6	121.1	135.7
Middle East & North Africa	2.1	2.8	21.0	24.4	5.1	8.2	49.8	71.9
South Asia	41.5	31.9	86.3	77.7	466.5	432.1	970.9	1051.9
sub-Saharan Africa	47.4	49.0	76.0	76.5	241.0	322.9	386.1	504.0
Total	28.3	21.6	60.8	53.6	1237.3	1100.2	2653.3	2737.3
Total (exclude China)	27.2	23.3	57.5	55.7	876.7	895.8	1853.7	2137.9

Source: World Bank http://www.worldbank.org/research/povmonitor/index.htm

Globalization and the North-South nexus. The decade of the 1990s ushered in a largely unanticipated boom in trade and investment flows between the North and South. Whereas in the 1980s developing countries' merchandise exports grew at an annual rate of 2.7 percent (compared to 7.4 percent in the industrial countries), in the following decade they grew at 9.6 percent (compared to 5.7 percent in the industrial countries). By 2001 developing countries accounted for almost 25 percent of world merchandise exports (World Bank2003, Table A-13) a share that is rapidly expanding.

The shift in the composition of aggregate net resource flows (including private capital such as foreign direct investment and official flows such as foreign aid) from North to South was particularly dramatic. In 1990, only US$44 billion of such flows emanated from private sources, or 44 percent of US$100 billion in total capital flows. By 1996, private flows had increased almost six-fold to $244 billion, or 85 percent of total capital flows amounting to $285 billion. While private flows subsequently fell to $143 billion by 2002, they still provided almost three times as much as ODA ($57 billion). Despite substantial fluctuations in the level of private flows, they have continued to dominate official capital flows through bilateral and multilateral agencies (World Bank, 1997 and 2003).

The implication of these profound shifts is that the key North-South linkage is no longer via ODA (if it ever was), an instrument developed after World War II and now delivered by a plethora of multilateral and bilateral agencies. Rather, trade and international private investment, along with remittances from migrant workers in the North, must be seen as channels that are much more significant, at least potentially, than ODA. However, while ODA is, in theory, specifically designed to achieve development objectives such as the reduction of poverty (putting aside the effectiveness of ODA programs), these other channels serve a number of different objectives.

For example, Northern private foreign investors seek profitable opportunities for their capital in the South. Such opportunities may reinforce development and poverty-reduction objectives if they happen to be in the poorest countries or employ the poorest people. Typically, however, the lion's share of foreign direct investment (FDI) flows to more advanced developing countries and the more advanced regions within those countries, and tends to support manufacturing and service-sector expansion. In the poorest countries, in contrast, FDI tends to be concentrated in natural resource extraction, and is often a catalyst for local conflict. Host governments may, in theory, be able to tax foreign enterprises, or convince foreign investors to locate in poor regions, or offer employment to the poor—but in practice now typically give foreign investors a great deal of latitude in all these areas on the belief that all foreign investment is to be welcomed. Hence its impact on the poor depends on the extent to which the benefits "trickle down" directly or indirectly to the poor. In general, foreign trade and investment may, but do not necessarily, serve the fundamental objectives of development (as articulated by the Millennium Development Goals, on which more below). The details—the sectors, regions, and political conditions in which trade and investment take place—matter considerably as to their development impacts.

More generally, globalization has provided developing countries with both opportunities and threats. The opportunities include greater employment and income-earning possibilities for a large number of the poor, greater productivity and efficiency, and economic diversification. The threats include disruption to established producers and workers, and vulnerability to the shocks and vagaries of international markets, including the collapse of commodity prices, unfair competition from dumped products, financial crises and massive capital flight.

Finally, by virtue of their size and economic growth, some developing countries, including China, India, Brazil, and Mexico, wield increasing influence in the world's principal economic and political fora. In the wake of the Asian financial crisis of 1997-98, the growing importance of the "emerging market economies" was clearly recognized by the leading industrial powers. This led in 1999 to the formation of the Group of 20, comprising the industrial powers and the key emerging market economies. While the G-20 played a subordinate role to the Group of 7 industrial countries in managing the financial crisis and its aftermath, its establishment marked the beginning of a new phase in North-South relations (Culpeper 2001). Subsequently, at the WTO's Cancun Ministerial meeting in September 2003, another group surfaced, the "G-21", this one comprising only developing countries. The G-21, led by the more advanced countries such as Brazil, China and India, along with the African, Caribbean and Pacific (ACP) and least-developed (LDC) countries, successfully thwarted Northern attempts to put new issues, such as a multilateral framework on investment, on the trade agenda, and rejected as inadequate Northern offers to reduce massive agricultural subsidies, leading to the collapse of the negotiations.

At the ensuing World Bank-IMF annual meetings held at Dubai, proposals to increase the voting share and representation of the developing countries at the Bank were rejected. The industrial countries, which currently command a voting majority at the Bank, were unwilling to give up their share to developing countries. The issue was deferred to the next annual meetings in 2004, but is likely to become increasingly contentious until an increase in the relative voting power and representation of the developing countries comes into effect.

Thinking about Development and Development Policy. These profound changes in the global context within which development takes place have been accompanied by equally profound shifts in thinking about the *means* and *ends* of development.

During the 1990s there was increasing convergence around a specific set of development objectives. These emerged during a series of UN world conferences, were first codified by the OECD's Development Assistance Committee and eventually became universally adopted by world leaders at a "Millennium Summit" convened in September 2000 at the United Nations. The resulting "Millennium Development Goals" (MDGs) which specify a set of seven time-dated measurable goals (most notably, the reduction of poverty by at least one-half by the year 2015). These have subsequently been adopted as planning goals by most multilateral and some bilateral development agencies, and many developing countries. There is also an eighth set of goals for the industrial countries, although these are not stated as measurable or time-bound (see Appendix for a full list of the eight MDGs and eighteen associated targets).

While there is criticism of the meaning and adequacy of the MDGs, it can be said that there is now a degree of consensus around the fundamental *objectives* of development, along with a growing degree of commitment from the North and the South to achieve them over the next decade. However, the same cannot be said about the *means* by which such objectives are to be achieved—that is the development strategies, policies, programs, projects and institutions that might be required. And even where there has been agreement on such things, lack of follow-through on commitments has undermined their implementation and effectiveness.

For example, increasing emphasis has been put by the development policy establishment on the need for developing countries to adopt liberalization and deregulation policies to facilitate their integration into global trade and capital markets. Trade liberalization has meant, in theory, greater openness to the rest of the world's exports in return for greater market access, particularly to industrial countries. In practice, however, it is not clear how liberalization stimulates growth, development, and poverty reduction, or whether it results in instability and benefits captured mainly by the rich. Moreover, deregulation would deprive developing countries of instruments used by rich countries both in the past and currently, to manage their economies (Chang 2002; UNCTAD 2003). The collapse of the multilateral trade negotiations in Cancun in September resulted in large part from the South's unwillingness to liberalize its rules for foreign direct investors and government procurement, as well as from Southern dissatisfaction over the unwillingness of the North to follow through on its previous commitment to reduce the agricultural subsidies which have caused havoc for Third World producers.

Similarly, capital market liberalization has meant fewer barriers to inflows and outflows of finance, in theory giving developing countries access to the huge pools of savings in the North. In practice, the financial crisis of 1997-98 demonstrated that openness to such flows by countries without the necessary regulatory infrastructure, or sufficient exchange-rate flexibility, was a recipe for disaster. In addition to debate over the optimal speed and sequencing of capital market liberalization, there are debates over its compatibility with development objectives, as countries vulnerable to financial shocks experience deep recessions and social discord, while unrestricted capital outflows deplete scarce domestic savings (Rodrik 2001; Stiglitz 2002).

Another example illustrating disagreement over means relates to the Heavily Indebted Poor Country (HIPC) debt-relief initiative launched by the G-7 in the late 1990s. The aim was to reduce the debts of this group of countries to "sustainable" levels, i.e. to levels which did not significantly impair their development potential, and in particular, their ability to reduce poverty. Moreover, the dividends of HIPC debt relief were expected by the creditors offering relief to flow into poverty reduction (rather than, say, arms purchases).

Accordingly, the HIPC initiative gave birth to Poverty Reduction Strategy Papers (PRSPs). To qualify for debt relief, each beneficiary country was asked to prepare a PRSP articulating its macroeconomic strategy, including plans for the reallocation of debt-servicing obligations that would be reduced by HIPC. Subsequently, all low-income countries, whether eligible for HIPC or not, have been required to prepare a PRSP to be eligible for any World Bank borrowing. A dramatic innovation introduced with the PRSP was the requirement that governments engage in "broad-based consultations" with civil society and the private sector in order to affirm that the PRSP has public support. The rationale of such a process relates to the widely-recognized need for "ownership" of development policies by governments and their publics, if those policies are to be implemented[2].

The inadequacy of HIPC in yielding enough debt relief, and both the process and content of PRSPs, have all been subjects of debate. For example, some "beneficiaries" of HIPC actually saw their debt-servicing obligations rise after they obtained debt "relief", while others simply found their formal obligations reduced from levels they could not afford, to levels they were actually paying, so that there was little or no *de facto* change in their debt burden[3]. Additionally, the fact that donor countries have not delivered on funding commitments to pay for debt relief has not helped either. As to the content of PRSPs, many bore a striking resemblance to structural adjustment programs under prior dispensations of the World Bank and IMF, while the "participatory" process to affirm public support has often been criticized as token or superficial.

Debate and controversy over such measures continues. Disagreements have fuelled the anti-globalization movement, which tends to see largely the costs and threats of liberalization and globalization, while defenders (the Bretton Woods organizations, the World Trade Organization, and major industrial countries) tend to emphasize the benefits and opportunities. At the bottom of these disagreements is an awkward fact: there is no "blueprint," no magic bullet, for reducing poverty[4]. Developing countries face a wide variety of circumstances with hugely differing constraints and capabilities. A poverty reduction strategy for a small, impoverished landlocked country (e.g. Malawi) is likely to be very different from the strategy appropriate to Bangladesh, not to mention Malaysia or

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[2] In the absence of domestic ownership, national governments have little incentive to implement policy reforms. The failure of structural adjustment policies in the 1980s and 1990s, for example, is ascribed to the lack of ownership over policies prescribed by the donor and multilateral agencies, but for which there was little domestic political support.

[3] Of 20 HIPC countries that have reached the decision point, debt service payments will be higher in 2003-5 than in 1998-2000 in four cases and for a further six countries the reduction in payments will be less than $15 million (UNCTAD 2002:209).

[4] There is considerable agreement on the *necessary* ingredients at the macroeconomic policy level (e.g. non-inflationary fiscal and monetary policy) as well as at the microeconomic level (heath, education, access to credit, and an institutional framework that includes responsiveness and accountability of government, well-functioning regulation, etc.) but these do not comprise a *sufficient* list and may be needed in different orders of priority by different countries (Besley and Burgess 2003; Easterly 2003).

China. This poses a dilemma for developed countries like Canada and other donors seeking to optimize their contribution to development in an array of dissimilar countries—a question taken up further in the last section.

A final comment on the development discourse is in order: its overwhelming domination by Northern policymakers, thinkers, and institutions. Developing countries, in contrast, have been characterized as “policy-takers”. Some Southern academics or officials who make a name in their field—they are a growing number—often end up in Northern universities or institutions like the World Bank. Others, choosing to remain in the South, and lacking the imprimatur of a Northern institution, are more likely to be ignored. This imbalance is unhealthy, because ideas have the power to change the world for better or worse. A challenge for all who struggle for equitable and efficient development solutions is to give greater voice and space to the viewpoints and work of developing-country thinkers, officials and institutions.

Canada’s Record

Aid policies. The 1990s were characterized by the largest cuts in Official Development Assistance (ODA) disbursements relative to Gross National Product (GNP). Canada’s aid budget was cut by 29% over six years. As a result, the ODA/GNP ratio fell continuously from 1992 until 2001 from 0.49 percent to 0.25 percent.

However, over the course of the last two years, Canada has introduced a new overarching development policy framework, along with three new major sectoral initiatives, and made significant progress in commitments for assisting developing countries. During 2002, Prime Minister Chrétien personally took the lead in major initiatives on aid volume, development co-operation with Africa and trade liberalization for LDCs.

First and foremost, *Canada Making a Difference in the World: a Policy Statement on Strengthening Aid Effectiveness*, released in September 2002 by the Minister for International Co-operation, proposed a new policy framework and significant changes in CIDA's operational procedures to increase impact.

As its title suggests, *Strengthening Aid Effectiveness* (SAE) focuses on ways in which CIDA can enhance the impact of its programming. Key issues are summarized below:

• New approaches firmly situated within locally owned frameworks.
• Harmonization of donor practices.
• Enhanced partnership with a limited number of the poorest countries and reduced number of sectors.
• Moving towards a program approach and measuring results at the program and country levels.
• New strategies for agriculture and rural development and for private sector development.
• Improvement in policy coherence.

• Free market access for LDCs.
• Untying aid.
• Increased focus on Africa, particularly the poorer countries.
• Enhance field presence in selected countries.
• Continued commitment in doubling resources over five years to Social Development Priorities.

Canada has already made a number of strategic decisions in compliance with the new framework. Decisions on two issues—country focus and aid untying—are particularly noteworthy. Canada's geographical dispersion of aid has been a long-standing issue. CIDA has for some time had aid programs in 30 so-called "core countries" but has been actively involved in 100 countries altogether. CIDA announced in December 2002, as part of its new strategy, that it would focus its development cooperation program on nine countries: Bangladesh, Bolivia, Ethiopia, Ghana, Honduras, Mali, Mozambique, Senegal, and Tanzania. This is not to say that all others will be abruptly excluded from assistance but that the greater share of incremental funding coming into the Agency will be allocated to these nine countries in particular. There is clearly a focus on the poorest countries and a geographic focus as six of them are in Sub-Saharan Africa. Within these countries CIDA will focus more resources, as they become available, on a small number of sectors chosen in partnership with the recipient countries themselves, and based on the priorities identified in their national plans for poverty reduction. However, it is not clear whether CIDA will constrain its countries of focus to this group of nine recipients; in the December 2002 statement the Agency asserted that "additional countries may be identified for increased Canadian assistance as circumstances and resources permit."

Moreover, Canada has also pledged significant amounts to the reconstruction of Afghanistan (totalling $366 million) and Iraq ($300 million) in the wake of the US-led military campaigns in those countries. The announcement in March 2003 of a $250 million contribution to Afghanistan's reconstruction was the largest single country pledge ever made by Canada[5]. In contrast, in 2001-2 CIDA's bilateral allocation to Tanzania, one of the nine "countries of focus," was only $15.9 million[6]. Given these precedents and the possibility of future large allocations on the basis of international security rather than development needs, along with the incremental approach to allocating resources to the nine countries of focus, and the possibility that other countries of focus might be added to the list, the priority given to concentrating Canada's aid program remains in question.

On the second issue, following the OECD Development Assistance Committee's (DAC) Recommendations on Untying Aid to LDCs, SAE introduced a new policy for aid untying. Since competition is restricted to suppliers from the donor country alone, the

[5] "Canada's Continuing Support in Afghanistan," Notes for Remarks by Susan Whelan, Minister of International Cooperation, (Dubai, September 21, 2003).

[6] The allocation to Tanzania actually declined from $20.9 million in 1999-2000. (Source: CIDA, *Statistical Report on Official Development Assistance 2001-2*). The commitments to Iraq and Afghanistan will be disbursed over three years, but they still exceed by a considerable margin the annual allocations to countries of focus.

costs of the goods and services procured from donors tying their aid are typically higher by 15 to 30 percent, and hence the effectiveness of aid is by definition lower. Tied aid also biases aid toward donor priorities and not necessarily toward the recipients' needs, undermining local ownership. Finally, untying aid in favour of the recipient countries or developing countries more generally would help build the capacity of suppliers from those countries and thereby make an important additional contribution to development.

Clearly, Canada had been one of the poorest performers: according to the DAC's Development Cooperation Report 2000, Canadian bilateral aid was 66 percent tied, placing Canada as the third most highly tied donor behind Spain and the US. The new framework of SAE rescinded CIDA's earlier policy which placed a ceiling on untying, and adopted the 2000 OECD-DAC agreement on untying aid to the least developed countries (LDCs). It introduced international competitive bidding on CIDA contracts covered by the agreement and on a case-by-case basis opened the door to such bidding in circumstances not covered by the agreement. However, certain restrictions still apply—for example, no more than 10 percent of food aid can be used for procuring food outside Canada; and the practices of CIDA's Partnership Branch (tied to Canadian companies and NGOs) remain unchanged. Overall, while it is too soon to assess the impact of these measures, they certainly point in the right direction and will help to untie Canadian aid over time.

In addition to the overarching framework of SAE, CIDA has also recently released three sectoral policy statements regarding social development, agriculture, and the private sector. In crafting both these policy statements, there appears to have been broad consultations with Canadians. It is not clear though, how broadly the policy framers consulted with developing country partners.

Two years before SAE was announced, the *Social Development Priorities* (launched September 2000) initiative committed CIDA to a five-year action plan (2000-2005) in four specific areas: basic health and nutrition; basic education; HIV/AIDS; and child protection, with gender equality as an integral part of these priority areas.

Promoting Sustainable Rural Development through Agriculture (launched April 2003) outlines the importance of agriculture in achieving several of the MDGs while making and reinforcing linkages to other sectors. The programming priorities address five broad thematic areas: strengthening national capacity, creating and using traditional and new knowledge for development, enhancing food security, agricultural productivity, and income, agricultural sustainability and natural resource management, and developing well-functioning markets.

Expanding Opportunities through Private Sector Development (launched July 2003) is an initiative that seeks to expand access to productive assets (particularly by women), to facilitate job creation through expanding sustainable enterprises, to support well-functioning markets, to foster an enabling business climate, and to increase developing countries' participation in regional and national markets. In addition, implementation will be assessed through three "lenses" – pro-poor (how do specific initiatives benefit the poor?); business (do they make business sense and are the results sustainable?); and governance (do initiatives address institutional and systemic constraints on private sector development?). The “slant” of the initiative is toward small and medium-sized enterprises, and domestic investment by local entrepreneurs, unlike the recently-announced World Bank policy on private sector development, which is more friendly toward private foreign investment.

Overall, does the new aid policy framework articulated in SAE, along with the sectoral initiatives on social development, agriculture and the private sector, constitute a reform of Canada’s aid policy, in response to its critics over the years? Many criticisms had been leveled at the federal government’s previous foreign policy framework, *Canada in the World*, released in February 1995[7]. Among other things, that policy was criticized for shying away from declaring the primacy of development and for its lack of priority assigned to poverty reduction and the human side of development. It offered no concessions on untying aid and jettisoned efforts to achieve greater geographic concentration. Perhaps most important, *Canada in the World* made no commitments on aid volume, other than a vague promise to move toward the 0.7 percent ODA/GNP ratio “when Canada’s fiscal situation allows it.” A few days after its release, Finance Minister Paul Martin brought down his February 1995 Budget announcing a three-year, 20.5 percent reduction International Assistance Envelope (Morrison: 380-424).

Certainly, SAE addresses all of the above criticisms. The primacy of development objectives is now articulated through CIDA’s adoption of the Millennium Development Goals, among which the reduction of poverty is pre-eminent. The human side of development is explicitly addressed through the social development priorities. The initiatives on agriculture and private sector development also recognize how the pre-eminent objective of poverty reduction must be achieved. Most of the world’s poor continue to make their living in agriculture, and the creation adequate job and income opportunities for the poor must involve well-functioning markets. With respect to untying aid and striving for geographic concentration, SAE clearly breaks with past policies, although the attempt to focus on a few countries has already been diluted by international security and other demands.

With respect to aid volume, SAE reaffirmed commitments made by Prime Minister Chrétien at Monterrey in March 2002 and at the Kananaskis G-8 Summit in June, when he announced a long-term commitment to increase Canada’s international development assistance by 8 percent per annum. The ensuing Federal Budget in February 2003 delivered on this promise for the following three years, but a number of unforeseen emergencies competing for resources (SARS, fallout from a mad-cow disease scare, extensive forest fires in BC, and a power blackout in Ontario), along with a rapidly shrinking fiscal surplus, have meant that the willingness of the government to meet its long-term foreign aid commitment will be severely tested. An overall assessment is that Canada’s aid policy has now been placed on a sounder footing. But it remains to be seen

[7] *Canada in the World* was a White Paper released after extensive hearings held by a Senate-House of Commons Joint Committee on Canada’s Foreign Policy.

whether the Government will follow through on concentrating its program or doubling aid volume on the schedule announced by Prime Minister Chrétien.

Non-aid Policies: Trade and Investment. First, some facts: Canada's foreign trade is overwhelmingly oriented toward the USA, where 87 percent of Canadian exports are sold and from which 67 percent of its imports originate. Trade with developing countries is relatively small in comparison, although the share of Canada's imports from the South increased from 7.4 percent of total imports in 1990 to 11.1 percent by 1999, when they amounted to C$35.5 billion and were growing at 11 percent per annum. Some 52 percent of those imports came from only two countries: Mexico and China. Over 45 percent of Canada's developing-country imports come from Asia compared to 15 percent from Central and South America and only 6 percent from Africa. Imports from Asia are dominated by textiles and manufactured products including machinery and electronics. Agricultural products (e.g. coffee, sugar, bananas) dominate imports from Latin America, whereas petroleum products and minerals loom large among Canada's imports from Africa (Blouin 2003:15-16).

Because of its size and trade orientation, Canada cannot be considered a large market for developing countries relative to the United States or Europe. But the fact is that Canada's total developing-country imports amount to over $35 billion and are growing at over 10 percent per year, compared to Canadian ODA of less than $3 billion. While trade and aid are "apples and oranges"—a million dollars' worth of developing-country exports is worth considerably less than a million dollars of pure resource transfer through untied grant aid—if developing-country exports continue to grow at current rates, trade will increasingly overshadow aid. However, it is important to recognize the regional composition of Canada's imports from the South. It is clear that more advanced Asian countries and Mexico are by far the chief sources of imports, which tend to be more sophisticated manufactured products, while imports from poorer African countries are much smaller and are dominated by natural resources such as oil and minerals with less value-added at the source. Thus, the fact that trade is growing rapidly does not meant that aid is less necessary, since the growth in trade is concentrated in middle-income countries, which are aid "graduates," or should be if the aid program is concentrated on the poorest countries.

The merchandise composition of Canada's imports from various parts of the world has meant that developing countries face higher tariff barriers than developed countries, even if the USA is not included in the calculation. Indeed, in 2001 Canada collected some $1.3 billion in tariff duties from developing countries, almost 45 percent of its tariff revenues. A large part of the explanation for this discriminatory treatment lies in the importance to many developing countries of textiles and clothing, imports of which are subjected both to high tariffs and tariff escalation (higher rates of duty on greater value-added products such as clothing, compared to textiles). Canada also imposes quotas on textiles and clothing from 41 countries, mostly in the developing world. Yet this is a sector in which developing countries have a comparative advantage, as did many of today's developed countries when they began their industrialization.

Given this background, to what extent has Canada liberalized access to its markets? In addition to the NAFTA which includes Mexico, Canada has negotiated bilateral free-trade agreements with a number of countries in Central and South America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Chile). In 2003, under the terms of an action plan announced at the G8 Kananaskis Summit, Canada removed tariffs and quotas from all imports from the 48 least-developed (i.e. poorest) countries, of which 34 are in Africa, except in the case of poultry, eggs and dairy products. Under the WTO's 1995 Agreement on Textiles and Clothing, Canada is to remove all quotas on those products in 2005. However, high tariff barriers against more advanced (middle-income) developing countries will remain, and there are strong domestic pressures to keep these in place to protect the Canadian industry.

Canada maintains high average tariffs on food products, i.e. 27.2 percent for developing countries eligible for the General Preferential Tariff (GPT). Imports are also subjected to tariff quotas—countries attempting to export chicken to Canada beyond the tariff quota levels would face a tariff of 264 percent. On the other hand, unlike the EU or the USA, Canada does not engage in a high level of subsidization of agricultural production, although this constructive feature of its policy is undermined by its position in multilateral trade negotiations (see below). Finally, like other industrial countries, Canada also deploys non-tariff barriers such as anti-dumping and countervailing duties, which can have dramatic effects in certain sectors such as steel.

This review of Canada's bilateral trade policy suggests that tariff and non-tariff barriers to developing country imports remain significant, particularly in the key sectors of textiles/clothing and agriculture, despite liberalization initiatives to date (Blouin: 2003, 20). However, the impact of the Kananaskis market-access initiative for the least developed countries (LDCs) implemented in January 2003 is projected to be particularly significant for some Asian countries such as Bangladesh, with an established textile and garment industry. For sub-Saharan countries it is likely to be small, since African LDCs currently lack the manufacturing capacity to take advantage of the opportunity. On the other hand, Canada announced that it would contribute $20 million over three years to help African countries identify export opportunities, produce new exports, and build capacity in African trade organizations (Weston and Blouin, CDR 2003: 44). In other words, the Kananaskis initiative was a step in the right direction, but should be complemented with a more flexible Canadian position toward the developing countries in the World Trade Organization.

Indeed, Canada has an important impact on developing countries as a player in multilateral trade negotiations, whether at the global level (through the WTO, under the Doha Development Round) or regionally (through negotiations on the Free Trade Agreement of the Americas). On three issues in the Doha Round, Canada has associated itself with the developed countries, particularly the "Quad"—comprising the USA, the EU, Japan and Canada—in opposition to Southern demands. The first was the demand to modify the WTO's trade-related intellectual property (TRIPs) agreement in order to provide access to affordable medicines by developing countries fighting the HIV/AIDS pandemic and other health threats such as malaria and TB. On this issue, after opposing

Southern demands, Canada eventually supported a compromise giving developing countries limited rights to produce or import generic drugs at a fraction of the cost of patented drugs, and at the time of writing was contemplating legislation that would enable Canadian generic drug producers to supply eligible developing countries.

The second issue pertains to agriculture. While Canada does not provide the egregious level of subsidies evident in the EU and the USA, for the sake of Canadian agricultural exporters it favours the opening of developing country markets to imports, even though when they originate from highly-subsidized producers they are dumped below cost, undermining the viability of poor farmers in the developing countries.

The third issue relates to a possible multilateral agreement on investment, whose inclusion on the Cancun Ministerial agenda was supported by Canada but opposed by many developing countries. Their opposition was based, first, on resistance to the proliferation of issues such as investment to be negotiated in the Doha Round, since many are still struggling to implement their obligations under the previous Uruguay Round. Second, many developing countries criticize the key principle underlying the proposed investment framework, that of non-discrimination between domestic and foreign investors. For its part, Canada, which has benefited in the past from discriminatory measures against foreign investors (for example in the Auto Pact—such measures are no longer permitted under the WTO), supported the establishment of a multilateral investment framework along with other industrial countries (Mehta 2003 and Weston and Blouin 2003).

Challenges and Opportunities

- **Challenges**

Conflict. Conventional wisdom at the end of the Cold War was that peace and prosperity would spread throughout the world, especially for the world's poorest countries. Unfortunately, conflicts, trans-border health risks, environmental degradation, and now the spectre of trans-national terrorism have combined to the make the post-Cold War era anything but peaceful and prosperous, especially for the world's poorest countries.

The resurgence of conflicts in some of the world's poorest countries is a cause for concern not only in terms of the heavy toll they exact on their population, but also because of its negative impacts on human development and international security. Over the past decade the international community has taken a number of steps to deal with armed conflicts. This includes increased attention to early warning and preventative interventions, diplomatic or otherwise; efforts to regulate the trade in diamonds and other commodities that fuel conflicts in certain regions; and expanded investment in postwar peacebuilding. Canada's role in the International Commission on Intervention and State Sovereignty (ICISS), which set out a framework for multilateral interventions to protect populations against grave human rights violations, shows what can be accomplished through leadership.

Yet despite some successes in each of these areas, more concerted, long-term strategies are needed to reverse the tide of armed conflict, particularly in Sub-Saharan Africa. Key challenges for Canada's next Prime Minister are to:

- Support the development of early warning and early response mechanisms in vulnerable regions, under the aegis of the United Nations and regional organizations such as the African Union, while insisting that military interventions be based on the principles set out in the ICISS report.
- Promote enhanced regulation of the trade in minerals and other resources, enjoin mineral extraction companies to adhere to emerging international norms on corporate social responsibility, and tie export credits to the good business practices of mineral companies in developing countries.
- Strengthen CIDA's capacity to mainstream conflict prevention in its ODA programming and its ability to advocate the harmonization of national poverty reduction strategies with measures to prevent conflict.
- Ensure that DFAIT and DND support CIDA's efforts on long-term structural conflict prevention, to complement their contributions to international protection operations. Canada must support the ICISS message that the responsibility to protect includes the responsibility to prevent and rebuild.

HIV/AIDS. The spread of the HIV/AIDS pandemic and its ongoing toll on human lives and sustainable socio-economic development in various parts of the developing world, especially in SSA ranks as a major issue on the development agenda. To date, 60 million Africans have been affected by AIDS, including nearly 30 million living with HIV, more than 15 million people dead from the disease and 11 million children who have lost one or both parents to the disease.[8] Currently, four African countries have HIV prevalence rates higher than 30 percent and 12 countries have at least 10 percent prevalence.[9]

Two significant challenges can be identified in the global war against the spread of HIV/AIDS. First, although significant new pledges have been made by donors individually and through multilateral institutions like the Global Fund against AIDS, TB and Malaria, the rate at which these pledges are actually received and put towards stemming the spread of the disease is much too slow.

Second is improving access to antiretroviral drugs. Making antiretroviral drugs available to countries most affected by HIV/AIDS has been held up by intellectual property controversies and opposition from international brand-name pharmaceutical companies to permit generic reproduction of such drugs. According to the latest UNAIDS statistics, at the end of 2002, only 50,000 people in sub-Saharan Africa were receiving antiretroviral treatment.[10]

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[8] UNAIDS, "New UNAIDS Report Finds that, Despite Increased Political Attention, Africa's AIDS Fight Remains Only Half Funded," http://www.unaids.org/html/pub/Media/Press-Releases01/ICASA_pressrelease_2003_en_doc.htm
[9] Ibid
[10] Ibid

Against the foregoing, there have been positive developments in confronting the disease. Several nations in Africa, including Cameroon, Lesotho, Malawi, Mozambique, and Rwanda have committed leadership in fighting the disease, and three countries—Botswana, Nigeria, and Uganda are among a handful of countries that have increased public health interventions including providing access to antiretroviral treatment.[11] In addition, Canada's endorsement of Stephen Lewis' initiative to make Canadian generic drugs available to AIDS patients in developing countries is a hopeful development that, if followed through by the next Prime Minister, could enhance access to much needed HIV/AIDS drugs.

Making Trade and Investment work for the Poor. Both at the bilateral and multilateral levels, Canada's policies on international trade and investment exhibit some movement toward a more development-friendly regime—for example, Canada's market-access measures for LDCs and its eventual position on TRIPs and affordable medicines. There is also recognition by Canada that the poorest countries need to build up capacity to manage trade and to diversify their production into non-traditional sectors; thus, bilateral resources are being allocated to trade-related capacity-building and technical cooperation.

At the same time there are a number of issues, including agriculture and investment, on which Canada needs to review its policies if its trade and investment regime is to support Southern development efforts. More generally, it is time to rethink some of the current "rules of the game" in the global trading system—under which all developing countries are considered as equals to the industrial countries in their needs, in their negotiating power, and in their capacity to manage change. They are obviously not, implying a need for continuing "special and differential" rules, particularly for the poorest countries.

Indeed, trade and investment should not be seen as ends in themselves, but as means to facilitating equitable and sustainable development. Thus, it is not only the volume of trade and investment that matters for development; it is the quality. As Rodrik puts it, there is no convincing evidence that trade expansion is predictably associated with subsequent economic growth. Rather, the only systematic relationship is that countries dismantle trade restrictions, and trade more, as they get richer; most of today's rich countries embarked on economic growth behind protectionist barriers, which they subsequently lowered (Rodrik 2001; Ha-Joon Chang 2001).

Achieving Genuine Developing-Country Ownership. Developing countries should be allowed the flexibility to determine whether, how, and when foreign trade and investment can best support their own efforts. This challenge requires, in turn, a more flexible international trading system and more accommodating global institutions. The WTO, for example, should function to manage the interface between different national systems rather than to reduce those differences to a common denominator, at present usually chosen by the North (Rodrik 2001).

While such a proposition may have seemed idealistic, or even utopian, a few years ago, today it is at least consistent with the principle of "developing country ownership" which

[11] Ibid

is now recognized, by the global institutions and major donors, as fundamental to effective development strategies and policies.

However, there is a conundrum. "Ownership" by developing countries implies that their policies are framed in the context of the circumstances faced by the country, reflect domestic aspirations, and garner political support both for their content and their consequences. But it continues to be the prerogative of donors and the global institutions (that is, the North) to offer (or withhold) financial support, or market access, to countries whose policies accord with (or deviate from) what the donors and global institutions deem acceptable.

This imbalance in the power relationship between the North and the South seriously undermines the possibility of genuine developing country ownership. Most obviously, developing countries whose preferred strategies run counter to the current policy wisdom in the North (the Washington Consensus or its successor) run the risk of disentitlement from bilateral and multilateral resources, or denied access to Northern markets. Cognizant of this risk, some developing country regimes have preferred to express "ownership" over policies they know will "fly" in Washington or Geneva, even though such policies may not command much domestic political support.

Nowhere is this tendency more evident than in the Poverty Reduction Strategy Papers (PRSPs). Typically for the poorest countries, which must submit PRSPs in order to qualify either for debt relief or funding from the IMF and the World Bank, there are constraints on how far they are prepared to wander away from the policy orthodoxy enunciated in Washington. Participatory discussions were meant to bring about domestic "ownership" by obtaining public buy-in for the policies governments are proposing. Available evidence suggests that such discussions tend to focus on health, education and social sector investments while the more fundamental macroeconomic policy framework is usually off-limits. If the macroeconomic policy content of PRSPs is largely non-negotiable (or subject to the parameters laid down by Washington), this challenges the legitimacy or usefulness of the participatory process. However, it is also true that today civil society has far more input into national decision-making in developing countries than prior to the advent of the PRSP. Equally, participatory discussions on development strategy constitute a radical innovation in national governance; few governments or members of civil society were well-prepared or well-equipped to engage in such dialogue. Over time, learning on both sides might enhance both the scope and the usefulness of the process.

The challenge is for Canada is to convince Northern players (including the multilateral organizations they effectively control, notably the IMF and the World Bank) to take developing-country ownership and all that it implies far more seriously. This means much greater willingness to accommodate developing countries choosing strategies and policies that diverge from the orthodoxy preferred by Washington. Indeed, since Canada itself maintains domestic policies and institutions that are viewed by some of its Northern partners (in the USA and the EU) as unorthodox—prominent examples include the Wheat Board and marketing boards in the dairy, poultry and egg sectors—it would not be inconsistent to support developing countries if they choose such interventionist policies. Further back in history, Canada's Auto Pact was an explicitly *dirigiste* policy to encourage the growth of the automobile industry in Canada through imposing domestic content requirements on automobile multinationals—an arrangement that would be disallowed under current WTO rules. Similarly, for prudential reasons, Canada has always maintained strict limits on foreign ownership in its banking sector, although these have been somewhat relaxed in the last decade. Drawing on its own experience, Canada could advise countries wishing to maintain such policies to ensure that the institutions operate efficiently and effectively.

Policy Coherence. All donor countries including Canada face a challenge in making the full spectrum of their policies—including trade, investment, debt relief, immigration, and of course aid—toward developing countries more coherent. The present situation, hardly unique to Canada, is that policies in these areas are often at cross-purposes or undermine the efforts of developing countries. However, according to one recent survey comparing the overall coherence of aid, trade, investment, migration, peacekeeping and environment policies, Canada actually ranks 18th, or near the bottom of the list of 21 OECD donors (Center for Global Development 2003). Canada's low overall ranking in this index results from the relatively poor performance of its aid program (which has been highly tied and allocates a relatively low proportion to the poorest countries), and its relatively poor environmental performance (due to high greenhouse gas emissions). On the other hand, Canada scored relatively well in its migration policies, due to the large number of immigrants admitted from the developing countries and its generous refugee policies.

A number of inconsistencies in Canada's policies toward developing countries have been mentioned, e.g. the fact that developing countries tend to face higher barriers to the Canadian market than industrial countries. Indeed, $1.3 billion (almost half) of its tariff revenues stem from duties on developing country imports, compared to Canadian foreign aid totalling $2.6 billion in the same year (2001). In other words Canada takes back from developing countries 50 cents in import duties for every dollar that it gives in foreign aid (although some of the duty is borne by consumers). Because of high tariffs, the textile and clothing sector, of strategic importance to many developing countries, will remain restricted in Canada even after 2005, despite the "liberalization" measures implemented under the Uruguay Round. And on the multilateral stage, Canada often takes positions (for example on the liberalization of agriculture and investment rules) that many developing countries oppose.

As the Development Assistance Committee of the OECD put it, "In a world where there is no longer a distinction between domestic and international affairs, effective development cooperation programmes alone will not adequately reduce poverty. Development objectives need to be integrated throughout the full range of government departments, not only in developing countries but also in OECD countries" (OECD 2001).

A recent study by The North-South Institute on the challenge of enhancing policy coherence around the objective of poverty reduction observed that there are many inconsistencies between the policies and objectives of federal government departments and agencies with regard to international development. For example, to make trade policy more coherent with development objectives, it recommended that having given the poorest countries greater access to the Canadian market, more access now needs to be given to middle-income countries such as Jamaica, particularly in the clothing sector. The study also recommended Canada should give greater support to the developing countries' special and differential needs in the WTO negotiations, and should increase the linkages between trade and poverty reduction by helping to ensure that the poor benefit fully from new trade opportunities.

The study identified scope for greater collaboration between CIDA and the Department of Finance on debt issues—for example, in Jamaica debt servicing has absorbed two-thirds of the annual budget. The study was somewhat more critical than the Center for Global Development survey on Canada's immigration policies—for example, Canada's recruitment of health professionals from developing countries, where they are in particularly short supply[12]. Finally, the most conspicuous lack of policy coordination is between CIDA and Export Development Canada, which provides export credits and risk insurance to Canadians exporting to and investing in the developing countries, without any reference to how the projects financed would contribute to CIDA's poverty reduction objectives or the country's development priorities (Weston and Pierre-Antoine, 2003).

- **Opportunities**

Changed Attitudes in Developing Countries. Notwithstanding the global sense of foreboding following the events of September 11, there have been a number of positive occurrences in the development arena, which can potentially serve as launching pads for improvements in the human condition in many developing countries, notably in sub-Saharan Africa. Of particular importance in this regard is the emergence of new thinking with respect to development cooperation at the regional and sub-regional levels in various parts of the developing world. Signalling this new development is the recent formulation of the New Partnership for Africa's Development (NePAD) agenda by a group of prominent African leaders. This agenda is remarkable in many respects both for its honest appraisal of the sources of the continent's dismal showing on the development front and for pointing the way forward in engendering sustainable human development in the continent. Of singular importance is the admission and recognition of African leaders that effective political institutions and committed national leadership that engages vital societal stakeholders are indispensable for the continent's economic revitalization. Further to this observation, is the overarching call within the NePAD document for a new spirit of development cooperation between African countries and the international donor community whereby the former are allowed to claim ownership for the directions of development policies and strategies in their respective countries.

[12] This caveat applies particularly to sub-Saharan African countries. Other countries, for example the Philippines, may deliberately follow a strategy of training medical professionals (such as nurses) for "export" to the North.

The NePAD has also proposed setting up a peer review mechanism for member countries that if successfully established and endorsed by the full membership of the African Union (AU) will go a long way to making governments in the continent accountable to improving the quality of life of their respective populations.

All of the foregoing is to say that if fully implemented, the NePAD agenda could serve as a framework for the continent's socio-economic transformation. Much of the promise of regional initiatives such as the NePAD will not materialize however without the tacit support of the international donor community and engagement with African publics. The possibilities for so doing are tremendous and offer immense opportunities for developing countries through their respective regional and sub-regional institutions to take control of their development destinies.

Canada can play a vital role in this regard by serving as a good interlocutor and bridge between developing countries, especially those in Africa, and the donor community through its overlapping membership in several of the world's multilateral institutions.

The Untapped Potential of Canada's Immigrant Communities. It is widely known that Canada is a country of immigrants with many interest groups that have contacts with and promote aid to certain recipient countries. But what are the likely implications of strengthening linkages with principal sending migrant countries as conducive to more effective development outcomes in those countries?

The new *Immigration and Refugee Protection Act* (IRPA) introduced in 2002 clearly implies that immigration is a tool for Canadian economic development and selection of migrants is placed in a competitive global market context. While family reunification is still an important selection criterion, it is not the preeminent one. The emphasis is put on attracting professional, highly skilled, specialized, and flexible workers which would contribute to fill an internal supply gap. Among the ten principal migrant sending countries in the last three years there are a number of advanced developing countries, namely China, India, Pakistan, Philippines, Iran, Romania, Sri Lanka, and Serbia and Montenegro.

As previously mentioned, CIDA has now decided to concentrate its development cooperation efforts in nine countries of focus (Bangladesh, Bolivia, Ethiopia, Ghana, Honduras, Mali, Mozambique, Senegal, and Tanzania). However, it is important to note that there is an implicit tension between these two foreign/international development policy directions. On the one hand, Canada promotes and finances technical capacity building within its aid program with the objective of contributing to increase human capital in developing countries. On the other hand, it seeks to attract the most skillful individuals from the developing countries with the result of impoverishing the human capital infrastructure of their countries of origin.

The key question is then: how can the more advanced developing countries benefit from the integration of their migrants in the Canadian economy? They could benefit in three different ways: through remittance flows, through investment, and through transnational entrepreneurship. The underlying assumption is that social networks/relations between those who migrate and those who stay behind remain in place.

Remittance flows have long been underestimated as an effective instrument of development. However, they represent a direct contribution in the hands of poor people and the magnitude of these flows is estimated as being greater than official aid flows. In 2002, for instance, global remittance flows accounted for US$63 billion (World Bank, *World Development Indicators* 2003) against $57 billion of ODA (OECD, DAC press release, April 22, 2003). On a second level, highly educated and skilled immigrants might think of investing in their home countries, opening up businesses directly or indirectly through relatives (as a condition attached to remitting). On a third level, entrepreneurs might also relocate to their home countries or relocate the bulk of their investing activities and by that means stimulate the local labour market, train local people and consequently introduce new skills which would contribute to increase the country's human capital.

Specific policies that would address these opportunities and facilitate business initiatives targeting migrants with prospective activities in their home countries would be highly beneficial to those who remain behind as they would become destinations of investment.

Changed Attitudes in Donor Countries. The International Conference on Financing for Development that took place in March 2002 in Monterrey, marked the first formal exchange of views between governments, civil society, the business community, and the institutional stakeholders on global development issues. The Conference adopted the Monterrey Consensus, in which developed, developing and transition economy countries pledged to undertake important actions in domestic, international and systemic policy matters.

What are the opportunities arising from this conference? The implementation of the Monterrey Consensus implies that all sides of the partnership are to deliver results: developing countries are to put in place sound policies and good governance, developed countries are to deliver increased and more effective development assistance and increasingly to focus their aid towards the poorest countries. All parties need to seek agreement on the need for coherent national policies towards developing countries. Canada in particular should be urged to deliver on its commitment to identify innovative and pragmatic ways in which it can promote the greater participation and voice of developing countries in their decision-making.

There was an agreement on better measuring, monitoring and managing for results. The importance of a coherent international information system, which delivers consistent and comparable data and reduces the data demands on developing countries, was recognized. Canada should also seek to ensure that it implements strategies for dealing with getting "good results" in difficult situations for "poor performers" and for countries in crisis. Hence, monitoring results at a country level would be more efficient as it would recognize the multiple influences on what those resources can achieve. Development partnerships, private sector investment and the country's policies all play a role in achieving results.

Aid untying and harmonization were also two major issues discussed at the conference. There is room now for pressing strongly for better implementation of these measures. Canada has begun move in that direction. Donors are in a position to focus on the poorest countries, finance recurrent costs and provide long-term commitments, which will allow developing countries to plan and budget their resources more easily.

There is also the need for full financing of the Enhanced HIPC Initiative and to provide genuine debt sustainability for all eligible countries. Canada should press the international community to further reduce the debt burden of HIPC countries in light of the fact that HIPC has not adequately reduced debt burdens. Moreover, donor countries agreed to adopt greater flexibility to harmonize aid behind poverty reduction strategy priorities, and to harmonize procedures around government systems to increase national ownership and domestic accountability. Canada should lead harmonization efforts to reduce the burden on developing countries.

New commitments to development by private sector players. A number of initiatives have recently been taken by business people active in world markets, demonstrating a new awareness by the private sector of the challenges of development and a new willingness to help find solutions by engaging with official and non-governmental organizations. These include the establishment of foundations to support the work of the United Nations and global health, working with the UN to support its economic and social objectives (in the Global Compact), and involvement with peers in organizations dedicated to advancing corporate social responsibility (such as the World Business Council on Sustainable Development).

Another sign is the growth of joint initiatives between the public and private sectors. For example, at the G-8 Summit in 2002 Canada announced it would contribute $100 million toward an Africa Investment Fund and invited the private sector to provide matching funding, an objective which appears to have been reached. A similar public-private partnership for infrastructure investment in Africa was launched by the UK in partnership with other European countries and South Africa.

New technologies. Information and communication technologies have the potential to transform everything from production possibilities, knowledge about market opportunities, and competitive choices to the reach of education and health systems and social programs. To fulfil the promise of such technologies means not only investing in infrastructure in the South in order to overcome the "digital divide", but also ensuring that quality education is universally available so that the poor (not just elites) are able to benefit (Strong 1996).

Medical and biological technologies are also of immense potential importance to people in the South. However, as the protracted debate over TRIPs and access to affordable medicines demonstrated, there is another divide, this one featuring the obvious health needs of the poor on one side, and the resources and incentives of the pharmaceutical industry on the other. Bridging this divide provides opportunities for innovative and bold policies.

An Agenda for the Next Prime Minister

Canada's next Prime Minister has not only the opportunity, but an obligation, to fundamentally change the way we work together as a nation to make a contribution to international development. This will require a new vision of the world and Canada's role in it, and a sense of urgency, because the needs of developing countries are enormous and the challenges complex.

Vision. A world of rapidly receding poverty, diminishing conflict, and increasing victory over life-threatening disease; a world in which all human beings enjoy basic rights and freedoms, and opportunities to lead fulfilling lives: this is a vision that most Canadians (and people around the globe) would whole-heartedly share, and therefore a vision the new Prime Minister must articulate. The fact that rapid social and economic progress has been achieved in two countries that are home to the largest number of poor people—China and India—prove that such a vision is not simply a romantic delusion. Canadians would likely respond enthusiastically to a renewed engagement of their country with the developing world—an engagement that must make a palpable difference to the quality of people's lives. The difficult questions are *how* Canada should marshal its considerable strengths to make a difference, and to what particular ends.

Policy Framework. To be effective, Canada's policy on international development must henceforth be interdepartmental in scope and execution. No longer can "development" be the exclusive domain of CIDA. Neither are the Departments of Foreign Affairs and International Trade, Finance, Agriculture, Health, Environment, Human Resources Development, Natural Resources, Industry Canada, and Defence the only ones involved with developing countries. Many other departments and agencies such as Export Development Canada, the Wheat Board, and the Canadian Commercial Corporation, to name a few, also have responsibilities and mandates in the developing world. Moreover, in two crucial sectors—education and health—the provincial governments have lead responsibility, not the federal government. The involvement of all these departments and agencies, at both the federal and provincial level, in development activities may mean that Canada's overall ODA effort is underestimated by the official figures.

It is crucial that Canada's next Prime Minister bring all these departments and agencies, including the provincial governments, under a single and coherent, national development policy umbrella. This will not happen without strong and clear direction from the Prime Minister as head of government; the natural tendency is for Departments and Agencies to pursue their own distinct mandates, whether or not they support what they perceive as the specific objectives of others.

Not only will the Prime Minister have to exercise leadership to ensure policy coherence. It is equally crucial that development policy is coherent around a clear objective, or set of objectives, related to the needs of developing countries first and foremost. That is precisely why, in its recent study, The North-South Institute framed the issue in terms of "*Poverty* and Policy Coherence." In other words, since poverty reduction and its eventual eradication are the overarching objectives of development, the policies and programs of all departments, agencies and organizations dealing with developing countries must cohere around these central objectives (rather than Canada's commercial or political interests and objectives).

The Millennium Development Goals, endorsed by world leaders and most international organizations, now provide a more comprehensive, time-bound set of objectives and targets around which to organize a coherent development policy. The first goal, for example, calls for reducing by half the proportion of people living in poverty (i.e. less than one dollar a day income-equivalent) by the year 2015. In Canada, the MDGs are certainly integral to CIDA's current policy framework. However, they should also form part of the policy and operational mandate of other departments or agencies with programs in or dealings (for example, through the Canadian private sector) with developing countries. The eighth goal, in particular, calls upon developed countries to form partnerships with developing countries, through the trade and financial system, debt relief, and cooperation with the private sector.

While the MDGs provide a framework under which a coherent development policy can be organized, it is important to recognize they fall short in certain respects. For example, there is no reference to the need to resolve and prevent conflicts, which are widespread in much of Africa and elsewhere (e.g. Colombia and Sri Lanka) and gravely undermine the possibility of achieving the MDGs. There is also no reference to the importance of basic human rights and freedoms, which a number of experts, including Amartya Sen (1999), consider fundamental to any holistic notion of development. Therefore, if it adopts the MDGs as an organizing framework for a coherent, interdepartmental development policy, Canada should integrate into that framework other elements, such as conflict resolution and prevention, and the protection and strengthening of fundamental human rights and freedoms. Other principles stressed in this paper should also inform this policy framework—including the twin principles of supporting *diversity* and *ownership* in the development strategies and policies that developing countries choose to adopt.

To achieve policy coherence around the MDGs, involving the full spectrum of federal departments and agencies, will require unambiguous commitment from the Prime Minister, as head of government, and will require embodying this commitment in a legislative mandate and organizational machinery, to ensure consistent follow through by departments, agencies and officials. The North-South Institute recommended in its study *Poverty and Policy Coherence* initiating the process with a White Paper, which could serve as a vehicle to re-energize public engagement on international development in Canada, which is imperative. The Prime Minister and the Government as a whole must communicate to the Canadian public its vision and inject a sense of passion and urgency to its commitment, and obtain public buy-in. Subsequently legislation could give statutory authority to the government's new policy framework and create the organizational machinery to implement and monitor it.

The approach suggested here has at least two precedents in Europe—the U.K., which has released two White Papers pointing toward greater policy coherence under the Blair

Government (UK Department for International Development 2000a and 2000b), and Sweden, which has introduced legislation. It would be useful, if Canada were to adopt a similar course, to take stock of achievements and shortcomings in those and other countries.

Organizational Machinery. There are a number of ways in which organizational machinery could be configured to ensure that the new policy framework is implemented. We recommend a Cabinet Committee on international development (or at least a subcommittee of the Foreign Affairs and Defence Committee), chaired by the International Cooperation Minister and comprising key Ministers whose responsibilities involve extensive dealings with developing countries. A parallel recommendation is interdepartmental coordination on country strategies, so that at a minimum Departments and Agencies would exchange information on their activities and programs in developing countries to strengthen synergies around the policy framework, and remedy inconsistencies or conflicts. More ambitiously coordination could aim at a unified set of country strategies in which the roles and interrelationships of various departments and agencies in particular countries could be spelled out, in the context of the overarching policy framework. The process of coordination and consultation should, as much as possible, engage civil society and private sector actors in Canada and developing countries, along with governments in those countries.

The approach suggested here could be implemented on several levels, beginning with CIDA's countries of focus, since Canada's relations with these are the countries are clearly dominated by development issues. Indeed, one of the first items of business for the Cabinet Committee should be to narrow the scope of Canada's aid program dramatically. Over the rest of the present decade, Canada should quickly wind down its bilateral program in all middle-income countries and allocate the lion's share (90 percent) to the least-developed countries of sub-Saharan Africa. Rather than increasing the number of countries of focus, Canada should work intensely with the nine and consider reducing the number further in favour of those most in need of external support.

Canada's commitment to the countries of focus, along with the shift away from project aid to sectoral and country support, should also serve as a vehicle to engage the public in a radically different way than in the past. There is an opportunity to reorient emphasis away from a compilation of what Canada's aid program achieves through its various projects scattered throughout a number of countries, toward the progress its countries of focus are making on a broad front toward the MDGs. The annual message to Canadians should be that, "Partly because of Canada's aid (along with that of other donors and, most of all, the partner countries' own efforts), poverty in Ethiopia, Mali, and Bangladesh (etc.) has fallen by so much, infant and maternal mortality by so much," and so on, with an overall assessment of how partner countries are doing with respect to the MDGs. If the countries in question are *not* on track to achieving the MDGs, an honest appraisal for the Canadian public would be in order, along with the remedies being considered and applied, as appropriate. Such an approach would also be more consistent with the aim of focusing on the longer-term macro-outcomes and national impacts of the aid program, consistent with the orientation of "results-based management," rather than with the short- to medium-term micro-outputs of a collection of projects.

Complementing special attention to those countries could be a regional strategy comprising other countries. This seems particularly important in order to include, in the purview of the new framework, countries which are on the periphery of the international system because they are failed states, or mired in protracted conflict, or for other reasons have become regarded as "poor performers". If such countries are ignored, or if attempts are not made to engage them and address their particular issues, there is a serious danger that they will become havens for conflict, terrorism, disease and other problems that do not respect international borders. Multilateral organizations (the UN, international financial institutions) and regional groups (the African Union, OAS) are better placed to deal with failed states or poor performers. However, there is currently no accepted approach to such countries—no acknowledged or proven way of helping "poor performers" turn into "good performers." Canada should take a leadership role in the multilateral organizations and in working with regional groups such as the AU to spearhead initiatives to deal with such countries satisfactorily.

There is an alternative approach, which would emphasize selectivity on a sectoral or thematic basis rather than focusing on specific countries or regions. For example, Canada could decide to take a lead role on one or more of the MDGs—for example, achieving universal primary education, or gender equality in public education. Or Canada could take a lead role, as it appears to be doing, in the HIV/AIDS campaign, for example by providing generic drugs to countries lacking manufacturing capacity to cater to their own needs. Such proposals merit serious consideration. However, while they may confer the advantages of specialization and increase Canada's profile internationally, they should not substitute for a more holistic country-focus approach recommended here. Canada has specific strengths that should be deployed in its relationships with specific developing countries, but they may not be needed in equal measure or at all by the countries of focus or other developing countries. As this paper has stressed, the twin principles of country diversity (there are no blueprints for development) and ownership (donors should be listening to, and not be telling, developing countries about their needs) must be taken seriously. For example, Canada could focus in Africa on the campaign against HIV/AIDS and related health-sector objectives, while in Bangladesh and Bolivia it may focus on gender equality through supporting opportunities and services for women.

We would *not* recommend following the example of some other industrial countries which have merged their development agencies and their foreign affairs departments. The time for such a bureaucratic marriage may have come and gone, if it was ever appropriate at all. The reasons are first, that international development is no longer the business of these two parts of the bureaucracy alone, but involve most if not all departments; and second, there is a clear danger that development would be subordinated to Canada's political and commercial interests (Morrison 1998: 401). In contrast, maintaining an institutionally distinct development agency, and indeed giving it some clout in the interdepartmental community by creating a new Cabinet Committee and implementing machinery would help ensure that the MDGs and development objectives are kept clearly at the forefront of the government's ongoing deliberations and activities.

Last but not least, the cultivation and dissemination of *knowledge* will be central to the emerging multi-sectoral and inter-departmental involvement in global development issues. Canada's strategic advantage in the rapidly-evolving global environment is likely to lie in its potential as a "knowledge broker," a country with historical advantages in international coordination, with a stock of international goodwill, and expertise in communications. This will require investment in research—the creation of substantive knowledge across a range of development issues, building knowledge-based networks, and enhancing the capacity to use, adapt and create knowledge for sustainable development at the local level in developing countries (Strong 1996). Through the International Development Research Centre, Canada has for thirty years made a singular contribution in all these domains and has demonstrated world leadership in many instances. Indeed, IDRC's capacity-building activities have generated substantial goodwill for Canada, as individuals participating in IDRC projects have gone on to assume prominent positions in their countries and elsewhere. That contribution is, ironically, more acknowledged outside Canada, among the many developing country beneficiaries of IDRC's programs, than in Canada. The next Prime Minister should not only build on the base of IDRC in coming years, but integrate its knowledge results and networks into the policy and programming framework of key departments and agencies.

Some details: aid policy. Getting the overall international development policy framework right should be the next Prime Minister's first order of business. But there will also be decisions to make early in the mandate regarding existing policies and commitments, and whether they should be reaffirmed. With respect to aid policy, it is clear that Canada has made a commitment to strengthening the effectiveness of its aid program, as the title of CIDA's current policy framework attests. The next Prime Minister should certainly reaffirm this commitment. However, aid effectiveness is complementary to, not a substitute for, aid volume. A highly effective aid program of $3 billion will only have half the impact of a highly effective aid program of $6 billion. The commitment made by Prime Minister Chrétien in 2002 to at least double the size of Canada's aid program over the present decade must therefore be reaffirmed as part of the process of policy review and renewal. As part of this decision to grow the aid program, investment in development research should grow commensurately, primarily through the International Development Research Centre. The next Prime Minister should also reaffirm the ODA/GNP target of 0.7 percent which was first articulated by former Prime Minister Pearson over three decades ago. If the commitment made by Prime Minister Chrétien is kept, it is likely Canada will be more than halfway to the 0.7 percent target by 2010; reaching 0.7 should be a goal for the next five years, to help achieve the MDGs by 2015 in the countries that are likely to need it most (particularly in sub-Saharan Africa).

In that context, there will also be a need to concentrate the aid program further, by disengaging entirely from countries that no longer need aid (like China) nor want it from all donors (like India), and reallocating it particularly to the poorest countries. This does not mean that development will no longer be a concern in countries where Canada has discontinued its aid program. That is why it is critical to put a policy framework and machinery into place so that Canadian engagement with other countries through trade, investment, debt and financial relations (predominantly through private sector actors) is consistently put through the prism of development impact.

Other dimensions of the aid program will also need to be addressed by the next Prime Minister, consistent with recommendations made in this paper (including the principles of diversity and ownership) and elsewhere:

- Canada should embrace the move away from project aid to program-based aid, including through budgetary support and sector-wide approaches;
- Canada should significantly untie its aid to all developing countries, at least to the level of best practice among DAC donors;
- Canada should engage in greater harmonization at the country level with developing countries' strategic priorities and with the practices of other donors;
- Canada should build on the critically useful work of IDRC as a global knowledge broker for development, and integrate its results and networks into the policy frameworks of departments and agencies involved in development;
- In multilateral organizations such as the World Bank and IMF, Canada should champion greater voice and representation of the developing countries, commensurate both with their growing importance in the world and the need to meet their particular concerns and challenges.

Non-aid policies. As argued in this paper, trade, investment, and finance (including debt) have an extraordinary impact on developing countries' welfare, for better or worse. The challenge is to make that impact consistently for the better. In that regard:

- Canada should complete the process begun at Kananaskis on liberalizing trade access to its markets, for countries other than the poorest;
- On the multilateral stage, Canada should heed the lessons of Cancun and take a more nuanced position with respect to the trade and investment agenda generally. While the trade negotiations should be revived, Canada should recognize the concerns expressed by developing countries that led to the collapse of talks, by supporting much greater flexibility and scope for a much slower transition to liberalization and deregulation and supporting their insistence on greater movement by the North on issues such as agriculture;
- With regard to debt and finance issues, Canada should support a review of the adequacy of the HIPC initiative for the poorest countries and press for further debt relief for the poorest countries, based on indices of debt sustainability that speak to capacity to pay and opportunity costs of debt servicing; and
- Canada should re-examine the consistency of projects and programs funded or supported by Export Development Canada with the MDGs in the context of a development policy framework as suggested in this paper.

Appendix: The Millennium Development Goals

In September 2000, 147 world leaders gathered in New York and agreed on 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, the annex to this road map sets out 8 Millennium Development Goals, along with 18 targets and 48 indicators to measure progress toward them. A powerful momentum is building behind these goals. They are becoming a measure of the commitment of donor countries and a measure of the success, or failure, of development assistance.

Goals	**Targets**
1. Eradicate extreme poverty and hunger	1. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 per day.
	2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
2. Achieve universal primary education	3. Ensure that by 2015 children everywhere—boys and girls alike—will be able to complete a full course of primary schooling.
3. Promote gender equality and empower women	4. Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
4. Reduce child mortality	5. Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.
5. Improve maternal health	6. Reduce by three fourths, between 1990 and 2015, the maternal mortality ratio.
6. Combat HIV/AIDS, malaria, and other diseases	7. Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.
	8. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
7. Ensure environmental sustainability	9. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources,
	10. Halve by 2015 the proportion of people without sustainable access to safe drinking water,
	11. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
8. Develop a global partnership for development	12. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction, both nationally and internationally).
	13. Address the special needs of the LDCs. This includes tariff- and quota-free access for their exports, enhanced debt relief for heavily indebted poor countries, cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction.
	14. Address the special needs of landlocked countries and small island developing states,

	15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.
	16. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.
	17. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.
	18. In cooperation with the private sector, make available the benefits of new technologies, especially information and communication.

Source: CIDA, *Expanding Opportunities: Framework for Private Sector Development*. Appendix 1. For more information, visit: http://www.un.org/millenniumgoals/

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