Merging development agencies
Making the right choice
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Key messages

- Mergers are often justified in terms of efficiency gains, performance improvements and policy coherence. The evidence to date, however, suggests a mixed record for generating these outcomes.

- Mergers between development and foreign policy administrative bodies largely occur because political leaders seek control over weak development agencies.

- Political leadership and institutional capacity to set and deliver development matter more than organisational structure.

- In a merger, consideration should be given to safeguards that protect development principles and objectives from excessive dilution. Some options include designing-in legal protections, positioning dedicated ministers of development in cabinet, greater engagement of elected officials through formal committees and informal coalitions and increasing the space for autonomous action by development professionals.
Acknowledgments

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1. Introduction
Every few years, the reorganisation of foreign aid bureaucracy becomes a topical issue for development policy. The last time this happened was 2013, and it resulted in both Canada and Australia folding their development agencies into their diplomatic services. Current talk of reform and renewal of development agencies in the US and the UK is once again centring on the possibilities of merging development and foreign affairs departments. This raises several questions, which this briefing note aims to address:

- How are development agencies currently structured?
- Why do mergers happen?
- What have mergers achieved?
- What safeguards can protect development ambitions within merged agencies?

To answer these questions, this paper takes a multidisciplinary approach to examine literatures on donor organisational design and draws on illustrative examples of countries that have recently merged their development and foreign affairs functions.

2. How are development agencies structured?
The location of the lead development agency1 within a nation’s government apparatus is an important way to distinguish between bilateral Development Assistance Committee (DAC) donors. The Organisation for Economic Co-operation and Development (OECD) groups development agencies into four ‘models’ according to their governance structure (Figure 1). Models 1 and 2 tend to be described as integrated agencies – though the former is a starker form of integration because development cooperation loses a distinct identity from a ministry of foreign affairs (MFA). By contrast, model 2 development agencies retain a distinct organisational form within foreign affairs departments. Model 3 is a hybrid model, where development policy-setting functions sit in a body separate from an implementation agency, while model 4 retains the structure of a classic bureaucracy with autonomy over both policy and implementation functions.

Integration of development and foreign policy into a ministry of foreign affairs is the dominant structural arrangement in OECD countries (Figure 2). Donors most at risk of structural mergers lie in models 3 and 4, though donors in model 2 may also be subject to greater demands for integration.

Figure 1. A structural typology of development agencies

Model 1. Ministry of foreign affairs responsible for policy and implementation
- e.g. Denmark, Norway

Model 2. A directorate or agency within the ministry of foreign affairs leads and is responsible for both policy and implementation
- e.g. Australia, Canada, Finland, Greece, Hungary, Iceland, Ireland, the Netherlands, New Zealand, Poland, Slovak Republic, Slovenia and Switzerland

Model 3. A ministry has overall responsibility for policy and a separate executing agency is responsible for implementation
- e.g. Austria, Belgium, Czech Republic, France, Germany, Italy, Japan, Luxembourg, Portugal, South Korea, Spain, Sweden, the United States

Model 4. A ministry or agency other than the ministry of foreign affairs is responsible for both policy and implementation
- e.g. United Kingdom

Source: Author's own elaboration

Figure 2. DAC donor governance structures

Source: Author's calculation

1 We use the term development agency to refer to the primary organisation delegated with responsibility for Official Development Assistance (ODA). We recognise that the label can designate either a government ministry or an independent government organisation.
3. Why do mergers happen?
Mergers are deliberate acts of government to structurally alter the governance relationship between development and another government department. Mergers between development ministries and foreign affairs departments are often justified in terms of improving bureaucratic efficiency, development impact and the whole-of-government effort on development (Troilo, 2015). While de-mergers occasionally happen, this is a rarer occurrence.\(^2\)

The main trigger for structural reform of development architecture – including decisions over merging or de-merging – is often government’s desire for visible political control over development policy directions. For example, the decision to liberate the development functions from the UK’s Foreign and Commonwealth Office (FCO) and create the Department for International Development (DFID) lay primarily in a decision made by the incoming Labour government in 1997 to safeguard the independence of development policy from commercial interests (Barder, 2005).

Similarly, in 2004, the Norwegian Minister of Development sought to increase influence over development policy-setting and implementation functions that had traditionally operated at arm’s length within the Norwegian Agency for Development Cooperation (NORAD). A public-sector modernisation strategy provided an opportune moment to re-centralise control over NORAD into the Ministry of Foreign Affairs, thus returning powers to the Minister of Development (Gulrajani 2010).

In some cases, as in the UK and Australia, structural reforms of development bureaucracy have been the result of new governments assuming power. In others, such as Canada, the decision to merge was made by established governments mid-way through their tenure. However, almost all mergers target weak development agencies lacking political capital to muster a defence of their independence.

The first half of 2017 saw new governments in the UK and US reflect on merging their development bureaucracies into departments charged with foreign policy. This follows Iceland, which merged its former implementing agency (ICEIDA) into its Ministry of Foreign Affairs in 2016.

In the US, the new administration issued an executive order in March 2017 asking United States Agency for International Development (USAID) to submit plans to improve its efficiency, accountability and effectiveness (The White House, 2017). A recent Congressional Task Force set up to investigate reform of US development assistance concluded that while reforms were needed, a merger between USAID and the State Department would be suboptimal (Savoy and Yayboke, 2017). A range of reform and reorganisation proposals for US development cooperation are now under consideration (Portelance and Collinson, 2017).

Meanwhile, the previous UK Secretary of State for International Development is on record as having championed (before her appointment) the replacement of DFID with a trade-focused body (Patel, 2013). Had the Conservative Party won a majority in the 2017 election, DFID was widely expected to have been under pressure to reorganise as some political figures and parties demanded (Shapps, 2017; UKIP, 2017). Instead, there was minor but not insignificant restructuring – with separate DFID and FCO State Ministers replaced by two State Ministers accountable to both departments. More recently, speculation on a possible takeover of DFID by the FCO was rejected by former Secretary of State Priti Patel (McVeigh, 2017).

4. What do mergers achieve?
In the private sector, mergers occur to diversify products and services, increase capabilities, cut costs and increase market share. In the case of development mergers, there are parallel logics, including greater efficiency, performance improvements and better policy coherence. But to what extent are these achieved in practice?

While this analysis cannot prove causality between mergers and their consequences in any of these dimensions, a comparison of pre- and post-merger efficiency, performance and coherence is possible by looking at a few illustrative examples. This provides a preliminary indication of the likelihood that the proposed benefits of integrating development and foreign affairs departments will be realised.

4.1. Efficiency: possible, but not necessarily
The OECD Creditor Reporting System collects a single efficiency measure from all bilateral donors: the cost of administrating the aid budget. Admittedly, there are important weaknesses in using this variable to assess comparative efficiency over time, including divergent definitions of administrative cost and its self-reported nature. Nonetheless, administrative costs remain the most robust efficiency measure collected across the DAC.\(^3\)

The 2013 merger between the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade resulted in administrative costs falling in the new amalgamated department, now named Global Affairs Canada (GAC). Between 2013 and 2015, administrative costs as a percentage of gross official development assistance (ODA) disbursed fell from 5.2% to 4.6% of ODA, rising immediately after the merger but dropping in 2015.

Similarly, the 2013 merger between AusAid and the Australian Department of Foreign Affairs and Trade (DFAT) triggered a decline in administrative costs, falling...
from 6.5% of ODA in 2013 to 5.2% in 2015, though costs were still far greater in 2015 than they were pre-2010.

In both cases, donor administrative costs tipped towards the DAC average. The expectation that costs fall as development administrative bodies merge has, to some degree, been realised in the Australian and Canadian examples. But any potential association between falling administrative cost and integrated organisational structures would also need to make sense of the DFID example, where an independent ministry still retains one of the lowest administrative cost profiles in the DAC.

Moreover, an exodus of experienced staff from DFAT post-merger resulted in the increased use of private contractors for programme delivery, potentially shifting the nature of cost burdens, rather than its absolute value (Cornish, 2016). In Canada, around 500 positions were initially shed in the aftermath of the merger (though not all from the development side), while 300 full-time-equivalent positions disappeared in the post-merger period (May, 2014). It should be noted, however, that this fall in staffing appears to be driven by planned public-sector layoffs, rather than by the merger per se.

In Canada and Australia, one might argue efficiency savings (if measured by falling staff overheads) are not the inevitable consequence of a structural merger. Falling administrative costs may indicate little more than a desire to transition these institutions away from direct implementation, and towards a ‘commissioning’ agency role – something which can be achieved without a full-scale merger, as exemplified by DFID (Standing Parliamentary Committee on International Development, 2017).

Organisational reform of complex bureaucratic structures may certainly reap the benefits of efficiency by eliminating waste and duplication – and all systems need updating from time to time. Indeed, in the US case, the fracturing of development expenditures across 20 agencies and departments might benefit from greater rationalisation. But mergers per se cannot guarantee efficiency improvements and these cases suggest any noticeable improvement may be the result of policy choices unrelated to the merger itself.

4.2. Effectiveness: a mixed picture

Donor performance can vary considerably, even if nominally operating within similar governance structures (OECD, 2009: 11). There has been some work suggesting that independent development agencies are more generous than merged bodies (Fuchs et al., 2014) and that integrated agencies are better able to align with international principles and coordinate aid policy (Choi and Bak, 2017). But the question of whether a merger between development agencies and foreign affairs departments enhances aid quality remains under-explored. Existing donor league tables rarely measure aid quality directly but instead assess whether donors are living up to global commitments to improve performance and transparency (CGD, 2017).

Nonetheless, research has been able to show that it is the political capabilities of a development agency that are associated with aid quality and quantity (Faure et al., 2015). Both integrated and independent agencies have the potential to be high performing if they are empowered to both set development policy and implement it. Furthermore, ensuring cabinet-level political representation for development, as in the UK and Canada but not Australia, safeguards against inferior aid quality, whatever structural configuration is in place (see Table 1). These findings highlight the importance of the locus and location of political authority and leadership for development agency performance under any governance structure.

Admittedly, an organisation’s practical capabilities to be effective may suffer in the aftermath of a merger. The 2015 Australian Stakeholder Survey certainly suggests the merger reduced the perception that DFAT staff were effective (Wood et al., 2016). This perception was strongly correlated with appraisals of an overall decline in the

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*Minister with dedicated portfolio on development

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*Development cooperation is not explicitly mentioned in the ministerial title but responsibility for it falls within the portfolio.

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4 This figure does not include jobs that were lost due to functions moving to other departments.
quality of the aid programme. In Canada, four years after the merger, GAC’s new Feminist International Assistance Policy acknowledges its ongoing bureaucratic limitations and the need to upgrade organisational processes and systems. A new unit reporting directly to Deputy Ministers has been created to address the procedural and institutional limitations that hamper delivery and implementation (Global Affairs Canada, 2017).

In both Australia and Canada, the logic of enhancing ‘results’ provided political justification for the merger, notwithstanding limited explanation of causal pathways or the capacities and investment needed to turn this into a reality. A results agenda will almost certainly fail if it relies solely on structural reform for its achievement.

4.3. Policy coherence: an uphill struggle
Development practitioners have long worried that merging development and foreign affairs departments will downgrade prioritisation of the world’s poor. Status as a donor is increasingly wielded as a diplomatic strategy for obtaining state legitimacy and advancing national interests (Gulrajani and Swiss, 2017). Foreign policy communities reject this logic, suggesting self-interest is always an underlying motivation for giving aid, otherwise nations would never contemplate it. Rather, they insist there are untapped opportunities for consolidating national and international agendas when the bureaucratic apparatus of foreign policy and development are integrated.

Do mergers provide a convenient way for side-lining development concerns in the name of policy coordination and coherence? Or do they truly allow for greater use of a nation’s entire policy arsenal to comprehensively address global development challenges?

In 2013, soon after his election, Australian Prime Minister Tony Abbott declared the closure of AusAid. He insisted on the importance of policy coherence:

[W]e want Australia’s aid program to be fully integrated into our overall diplomatic effort. We don’t want our diplomacy going in one direction and our aid program going in another direction (Troilo, 2015).

Post-merger, the result is that DFAT’s focus on economic diplomacy in the Asia Pacific region informs the bulk of its development activities (Santos, 2015). In Canada, where a strong justification for the merger involved leveraging synergies and transcending the silos of development, diplomacy and trade, there is a sense that the full potential of policy coherence has yet to be realised, particularly in the linkages between trade and development (Brown, 2016).

A crude way to assess a merger’s influence on policy coherence might be to examine changes to a country’s overall policy effort on development. Taking overall scores on the Commitment to Development Index as a measure of both aid and non-aid development effort (CGD, 2017), Australia and Canada improved their overall scores immediately after their mergers – although Australia’s score fell considerably in 2016 to below pre-merger levels (Figure 3). Canada’s score has also ebbed and flowed since the merger, though its 2017 score remains lower than its score prior to the merger in 2012. As such, there is minimal evidence suggesting the cross-governmental commitment to development has materially increased or decreased in either case. Moreover, the higher UK score suggests a comprehensive whole-of-government effort for development is not necessarily spearheaded through amalgamation of development and foreign policy functions.

In fact, the achievement of policy coherence via structural mergers may be thwarted by notable differences between development and diplomatic communities of practice. Development tends to run a long-game, unlike diplomacy, which looks to exploit fleeting political moments. Some evidence indicates that organisational
cultures diverge across development and foreign affairs departments in terms of clarity of purpose, commitment to results and, even, their sartorial choices (Ingram, 2017). For example, in a survey conducted two years after the Canadian merger, former CIDA staff expressed concerns over the conflict between development and diplomatic mandates, and few felt successfully integrated, valued or respected by their new department (PSAC, 2015). Post-merger culture clash may preclude collaboration at a practical level, resulting in disappointing progress on a coherent whole-of-government development agenda. Separate structures of development and diplomacy may in fact offer greater prospects for achieving policy coherence without diluting development ambitions.

4.4. Summary
The mixed evidence for mergers will do little to dissipate enthusiasm and interest in the structural reform of development agencies. As mentioned, mergers are highly visible instruments of political control, and this fact alone will ensure an ongoing preoccupation with matters of structure. Nonetheless, it should be recognised that mergers can challenge the integrity of development aims and ambitions. With renewed interest in development mergers, it is important to consider what safeguards can be built to ensure they do not always subordinate global development priorities to a narrower set of domestic interests.

5. What safeguards can protect development ambitions within merged agencies?
Although development agencies bear significant responsibility towards the welfare of non-nationals, the same obligations are not held by foreign affairs departments, where diplomats are caretakers for advancing the overseas interests of their own citizens (Gibson et al., 2005; Gulrajani, 2017; Martens, 2002). Moreover, although mergers tend to be presented as uniting equals, in practice the merging organisation tends to lose power, influence and identity as compared to the host into which it is merged. As development departments are usually the object of integration, they need to guard against both explicit and implicit subordination to their foreign policy counterparts post-merger.

A number of studies show that bilateral aid is predominantly ‘donor-oriented rather than development-oriented’ (Nielsen, 2013; Alesina and Dollar, 2000; Wang, 1999; Maizels and Nissanke, 1984; Morgenthau, 1962: 30). While the relative balance between altruism and nationalism can also shift in scope and scale, it is also largely outside the direct control of a development agency and results from the domestic political environment (Dietrich, 2016; Fuchs et al., 2014; Lundsgaarde, 2012; Lancaster, 2007). The following offers some ideas for designing organisational systems and incentives that can safeguard development principles and ambitions within an integrated agency.

5.1. Legal protections
Legal provisions that commit governments to important development principles and priorities minimise the risk that foreign policy priorities overwhelm a merged agency. A recent comparative study of the administrative arrangements for development in Norway, Sweden and the UK highlights the importance of legal statutes that define the government’s developmental mandate and priorities, orient implementation and ensure recourse if these priorities are side-tracked (Gulrajani, 2017). Notwithstanding difficulties of judicial enforcement (McAuslan, as quoted in Manji, 2016), legislation sends signals about development priorities against which government agencies can be held accountable. This is the case in both the UK’s International Development Act (2002), which commits DFID to the cause of global poverty eradication, and in Sweden’s Policy Coherence for Development legislation (2002). In contrast, the lack of strong development-related legislation in Norway grants the Ministry of Foreign Affairs relatively unconstrained power to instrumentalse development spending for foreign policy or national security gains, if it chooses to do so.

Having legislation in place prior to a merger can minimise future difficulties in obtaining political support for legal safeguards. But legislation is not a panacea. In Canada, the ODA Accountability Act (2008) preceded the amalgamation of CIDA into the Department of Foreign Affairs and International Trade. The 2008 Act stipulates that aid should have the purpose of poverty reduction and be provided in a manner that is:

Consistent with Canadian values, Canadian foreign policy, the principles of the Paris Declaration on Aid Effectiveness of March 2, 2005, sustainable development and democracy promotion and that promotes international human rights standards.

The wording of the legislation assumes that there is a high likelihood of consistency across these value systems, which one might argue is overly optimistic given the internal conflicts that can arise between ‘aid’ and ‘foreign policy’. Former UK Secretary of State Clare Short has herself described the Canadian legislation as ‘less stringent than the UK Act’ (Short, 2009). The importance of tight legislative drafting that buttresses development cooperation spending and operations, monitors all relevant governmental actors, maximises transparency and ensures that policy coherence does not dilute ambitions on development policy cannot be understated.

5.2. Leadership structures
As discussed earlier, countries with cabinet-level representation for development cooperation perform better on a range of indices of aid quality (Faure et al., 2015). Arguably, appointing a dedicated cabinet minister will have a stronger effect as it demonstrates prioritisation of development policy, and while this has yet to be tested empirically, multiple studies of the UK point in this direction (Barder, 2005; Gulrajani, 2010, 2012). The UK,
5.3. Engaging elected representatives

Cultivating stakeholders for development among elected officials can ensure mergers do not sacrifice development at the altar of foreign policy. Bipartisan political support for international development is a documented way to prevent short-term domestic pressures overwhelming longer-term development ambitions (Morrison, 1998). Informal and formal cross-party coalitions can act as monitoring and oversight mechanisms for the merged institution, scrutinising and protecting development priorities in the face of challenges.

Parliamentary committees with mandates to monitor the whole-of-government effort on development can provide a formal structure for such coalitions to emerge and accountability systems to operate. A committee on development has the space and the mandate to take development out of the politicised environment of the house floor, and provides a haven for cross-party discussion and consensus building. It can become a channel of communication linking the public, the government and the development agency in ways that ensures bipartisan political engagement and accountability of the merged institution.

In the UK, the Standing Parliamentary Committee on International Development (IDC) is one of the strongest mechanisms for monitoring and influencing DFID (Burall et al., 2009: 21). The IDC closely examines all reports submitted to Parliament and ensures the government responds to recommendations. This provides an important feedback loop between the development agency and elected officials. The IDC undertakes its own research, informed by visits to the field, personal contact with DFID staff and the testimony of experts, staff and academic observers. Such activities cultivate a deeper knowledge of development among elected representatives, which builds an important constituency for upholding development principles and agendas and maintaining sustainable bipartisan political support. At the same time, there are now concerns that IDC’s mandate does not extend far enough to include the growing expenditure of ODA by government departments other than DFID.

5.4. Create spaces for autonomous action

Both models 1 and 2 as set out by the OECD offer distinct variations on how to merge development bodies into foreign affairs ministries. Model 1 is a purer form of integration than model 2 because development units are mainstreamed into the overall departmental structure. However, the advantage of model 2 is it still offers unity of structure to the organisational function of development within a merged institution. This less extensive approach to integration can create the space for development professionals to hold onto policy and managerial autonomy to adapt, which in turn can catalyse higher performance given the complex and uncertain task environment of development (Honig and Gulrajani, 2017; Honig, 2016, 2014; Gulrajani, 2014).

Having the freedom to define and adapt development engagements can motivate staff who may be left demoralised after a merger, and be more conducive to the long-term goals of sustainable development. It can also permit greater possibility for brokering and negotiating compromises between development and foreign policy communities. There is value in the longstanding, in-country expertise and institutional knowledge of many development professionals. Heads of development cooperation should be selected as senior appointees with the authority and skills to manage and adjudicate on development-related matters. No assumptions can be made about the ease with which such roles may be substituted by either career diplomats or private contractors.

Beyond choosing the right structural form post-merger, ensuring decision-making powers sit with those closest to the issues and problems at hand and relevant expertise and knowledge can help maintain the profile and priorities of field-level development work. Retaining deconcentrated and decentralised organisational arrangements post-merger can ensure the ongoing visibility and flexibility to respond to changing situations on the ground.

6. Conclusion

The bulk of contemporary development agencies are ministries of foreign affairs, albeit with some variation in the degree of their integration. Such a structural arrangement is normal given development will always have at its core a foreign policy rationale. Nonetheless, there are real risks that mergers do not deliver on promised gains for global development. There is a mixed record of mergers delivering efficiency, performance and greater policy coherence. These attributes may even be hampered by the process of structural integration itself.

Mergers are often driven by political desires to control bureaucracy and instrumentalise development to advance foreign policy interests. As a result, mergers run the risk of under-cutting a robust commitment to global development. Future mergers require safeguards that will shield development priorities from dilution and distortion.


