The Strategic Investment Case for Development

Executive Summary:

1. Development support is not charity. It is a smart investment in a more stable, secure and prosperous world.
2. Canada's present commitment is low compared to any reasonable historical measure or peer-group comparison.
3. Canada can achieve strategic impact in a fiscally responsible manner with annual increases of 10-12%:
    - By doubling development investments by 2023, the Trudeau government can match the Harper government's commitment to development by 2019 and match our historical and peer commitments by 2023.
    - By committing to achieve 0.7% by 2030, the Trudeau government could set Canada on a path to development leadership
4. As Sustainable Development Goals are achieved, it would be responsible and appropriate for Canada to scale back its development support from 2040.
5. Private sector financing is positive but not a panacea. Increased private sector financing is a complement to, but cannot be considered a substitute for, Official Development Assistance (ODA).

I. The Strategic Case for Investing in Development

The world has never been more prosperous. Most global growth since 2008 came from developing/emerging economies. Countries that once were major aid recipients (e.g. China and India) are now motors of global growth, providing markets for Canadian products and opportunities for Canadian entrepreneurs. Africa's economic growth, while still fragile, shows similar promise. Development supports future global growth, enhancing the prosperity of Canadians.

At the same time, the globe has rarely seemed less stable or secure. In today's inter-related world, poverty, disease or conflict in one region can affect the stability, health or security of all. The weakest states, through their weakness, undermine the well-being of the strongest states. Development investments provide food security, education and health for the citizens of fragile states, and can strengthen the effectiveness and the credibility of their governments. Development reduces global insecurity and risk, reinforcing the health and safety of Canadians.

A few key principles should guide Canada's strategic approach to development:

- Helping other countries develop is a strategic imperative, not an act of charity. Our well-being and security depend upon the well-being and security of others. This is the true meaning of collective security in the 21st century.

- Our collective goal should be to resolve key development challenges, not just manage them. This requires a greater commitment of resources up-front but reduces total cost over time.

- Sustained development will come from creating the positive dynamics in a society and economy so that the country and its citizens can take charge of their own destiny in a positive way. Shaping the context (e.g. improved governance) is more difficult but increasingly more critical than traditional development programs.

- Two areas where Canadian leadership could have great strategic impact are: 1. Family Planning and SRHR (Sexual and Reproductive Health and Rights); 2. Peace, Justice and Strong Institutions—Sustainable Development Goal (SDG) 16. Both provide important benefits to those with greatest need, while creating the context for further progress.

- The next 15-25 years are key. If the SDGs are achieved, the world will be more prosperous and secure. If the goals are not achieved, if demographic transitions do not take place, if fragile states collapse, the consequences could be devastating.

- If success is achieved, future needs for Canadian ODA should decline. The underlying development challenges will be reduced. There will be a greater ability for middle-income developing countries to self-finance and a larger pool of potential donors.

II. Canada's Low Level of Development Assistance

By any reasonable measure, Canada's commitment to international assistance is low. We lag behind our historical commitment and international peers.

Today, Canada's commitment to ODA is barely 0.25% of our Gross National Income, or GNI. It was 28 bps (basis points, or 100ths of a percentage point) in 2015.

This is sometimes compared to a "DAC Total" of 30 bps for 2015. However, this is a lax measure for two reasons.

1. The "DAC Total" is total ODA of all OECD DAC (Development Assistance Committee) members divided by total GNI. Therefore, the poor development performance of the largest economies US (focused on military instead of development spending) and Japan (with its chronic economic malaise) drags the "DAC Total" number below the actual effort made by most OECD DAC countries.

To better assess our fair-share, we should compare Canada's ODA/GNI to the OECD DAC "Average Country Effort" calculation. This is the simple average of all OECD DAC members. In 2015, the "Average Country Effort" was 41 bps (45% higher than Canada's 28 bps). (Exhibit 1)

2. However, even the "Average Country Effort" underestimates how far Canada is behind its international peer group. The OECD DAC contains recent member-countries (such as Poland and the Slovak Republic) who are just starting to engage in development assistance.

To truly understand our peer performance, we should compare ourselves to the most relevant OECD DAC members: fellow G7 countries plus like-minded, open, mid-sized economies (i.e. Australia, Netherlands, Norway, Sweden, Switzerland). The average country effort of this group was 54 bps last year (90% higher than Canada's 28 bps). (Exhibits 2, 3)

Canada's present performance is also significantly below our historical performance.

For over two decades, until our financial and political crises of the mid-1990s, Canada's ODA/GNI averaged about 45 bps—almost twice Canada's level of commitment today. It occasionally reached 50 bps and was never below 40 bps.

Canada's worst one-year ODA/GNI was 22 bps under Jean Chretien. The worst performance over a full term of office was 30 bps under both Paul Martin and Stephen Harper (see Exhibit 4). With present performance around 28 bps, the Justin Trudeau government risks completing its first term with the worst commitment to development of any Canadian government in the last half century.

It is certainly not the Trudeau's government's fault that Canada's development support is so low. It is a situation they inherited. However, it is their—and our collective—responsibility to address it.

III. A responsible approach to increasing official development assistance

Such a significant financing gap cannot be addressed over-night.

We propose 5 milestones:

1. By the end of this government's first term (2019): to not be the worst. The Trudeau government should better the previous government's average ODA/GNI commitment of 30 bps.
2. By the end of the next term of government (2023): to cease being a laggard, matching our historical and peer commitments with an ODA/GNI of 45 bps.
3. By 2030: to be a development leader with a 70 bps commitment. A significant portion, say 20 bps, could be committed to climate change and global public goods.

4. To 2040: Canada should maintain this 70 bps level for 10 years to ensure key Sustainable Development Targets are met
5. After 2040: Canada should responsibly scale-back its ODA/GNI to 50 bps, of which half could be committed to climate change and global public goods.

What does this mean in budget terms?

- Doubling ODA by 2023 with annual increases of 10.5% to achieve Milestone 1 & 2.

- Increasing ODA by an annual 10-12% from 2023 to achieve Milestone 3 by 2030 (exact increase depends on nominal GNI increases).

- Increasing ODA by nominal GNI (probably 4-5%) from 2030 until 2035-40 to achieve Milestone 4.

- From 2035-40 holding ODA flat until ODA/GNI declines to 50 bps to achieve Milestone 5.

IV. Smart investments in development now should reduce the need for development assistance in the future.

Milestone 5 is a key new concept. By investing more over the next few years, Canada will help reduce the need for future assistance.

Strategic development investments that solve problems, build institutions, prevent crises and empower populations to take charge of their economic and political development will reduce future needs.

Achieving the Sustainable Development Goals will mean the virtual elimination of extreme poverty and the emergence of an increasing number of middle-income states with good governance able to fully assume their continued economic and social progress. An increased number of middle-income economies will allow remaining Official Development Assistance needs to be shared among a larger number of actors.

V. Private Sector Financing as a complement to Official Development Assistance

Development requires a financing ecosystem with each actor playing complementary roles. Charities, foundations, remittances, official development assistance, private finance, and domestic mobilization are all important parts of this ecosystem.

The private sector has a critical role to play in development—enhancing local capabilities, creating jobs, accessing global supply chains, and mobilizing international investment capital. No country can develop without the effective, positive engagement of the private sector.

However, there is a danger that the role of private sector financing can be misunderstood, particularly if it is seen as a substitute for ODA.

Private sector financing has different characteristics than ODA:

1. It is not a permanent transfer. Whether invested in a company, an infrastructure project, or government bonds, it needs to be re-paid with interest or profit. Multiple debt crises in developing countries over the years are testimony to this.
2. It tends to be pro-cyclical. In good times, private financing is relatively easy to get. In bad times, private financing tends to pull back, exacerbating economic challenges. In 2008-9, the private sector pulled financing from developing countries. The counter-cyclical increase of ODA support and World Bank financing was critical to supporting developing economies through the crisis.
3. It finances different activities. The private sector can be the primary source of financing for businesses, factories, and other profit-creating activities. It can play a useful role in financing some infrastructure. ODA is critical for funding governance, primary/secondary health care and education, humanitarian assistance etc.

International private sector investment is a complement, not a substitute, for Official Development Assistance. They are like apples and apricots. Mobilizing private sector financing to complement increased ODA would be positive. Seeing private financing as an alternative to Canada's ODA commitments would be counterproductive.

The danger of confusing the different roles of ODA and private financing is particularly acute with blended financing. The logic is: "Developing countries require trillions of dollars of investment. ODA at best provides hundreds of billions. Put into blended financing, each dollar of ODA can attract 10-15 dollars of private sector investment."

The sub-text is too often that by "crowding-in" the private sector, overall need for ODA can be reduced. However, a dollar of ODA spent on blended finance does not "crowd-in" 10 dollars of private funds to support ODA-relevant activities—rather, it takes a dollar away from ODA-relevant activities to subsidize investments that ideally would be entirely financed by the private sector alone.

Rather than subsidizing private sector investments, the preferred use of ODA should be to create a context—through, for example, well-structured and fairly-enforced regulations—wherein private sector investments take place without subsidies.

In conclusion, blended finance should be used in a targeted and limited way. The private sector financing that is attracted should never be considered a substitute for the ODA that is needed to support other critical areas of development.

TABLE 1: NET OFFICIAL DEVELOPMENT ASSISTANCE FROM DAC AND OTHER DONORS IN 2015
Preliminary data for 2015

	2015		2014		2015	
	ODA USD million current	**ODA/GNI % (1)**	**ODA USD million current**	**ODA/GNI %**	**ODA USD million (2)**	**Percent change 2014 to 2015 (2)**
					At 2014 prices and exchange rates	
DAC countries:						
Australia	**3 222**	**0.27**	4 382	0.31	3 897	-11.1
Austria	**1 207**	**0.32**	1 235	0.28	1 424	15.4
Belgium	**1 894**	**0.42**	2 448	0.46	2 257	-7.8
Canada	**4 287**	**0.28**	4 240	0.24	4 965	17.1
Czech Republic	**202**	**0.12**	212	0.11	236	11.4
Denmark	**2 566**	**0.85**	3 003	0.86	3 028	0.8
Finland	**1 292**	**0.56**	1 635	0.59	1 541	-5.7
France	**9 226**	**0.37**	10 620	0.37	10 919	2.8
Germany	**17 779**	**0.52**	16 566	0.42	20 855	25.9
Greece	**282**	**0.14**	247	0.11	343	38.7
Iceland	**39**	**0.24**	37	0.22	42	11.3
Ireland	**718**	**0.36**	816	0.38	831	1.9
Italy	**3 844**	**0.21**	4 009	0.19	4 577	14.2
Japan	**9 320**	**0.22**	9 266	0.19	10 418	12.4
Korea	**1 911**	**0.14**	1 857	0.13	2 011	8.3
Luxembourg	**361**	**0.93**	423	1.06	418	-1.2
Netherlands	**5 813**	**0.76**	5 573	0.64	6 932	24.4
New Zealand	**438**	**0.27**	506	0.27	515	1.7
Norway	**4 278**	**1.05**	5 086	1.00	5 528	8.7
Poland	**442**	**0.10**	452	0.09	528	16.8
Portugal	**306**	**0.16**	430	0.19	361	-16.1
Slovak Republic	**86**	**0.10**	83	0.09	103	23.3
Slovenia	**62**	**0.15**	62	0.12	75	21.1
Spain	**1 604**	**0.13**	1 877	0.13	1 905	1.5
Sweden	**7 092**	**1.40**	6 233	1.09	8 527	36.8
Switzerland	**3 538**	**0.52**	3 522	0.50	3 758	6.7
United Kingdom	**18 700**	**0.71**	19 306	0.70	19 919	3.2
United States	**31 076**	**0.17**	33 096	0.19	30 765	-7.0
TOTAL DAC	**131 586**	**0.30**	137 222	0.30	146 676	6.9
Average Country Effort		**0.41**		0.39		
Memo Items:						
EU Institutions	13 848	-	16 451	-	16 374	-0.5
DAC-EU countries	73 477	0.47	75 230	0.42	84 778	12.7
G7 countries	94 233	0.28	97 103	0.27	102 418	5.5
Non-G7 countries	37 353	0.41	40 119	0.39	44 258	10.3
Non-DAC members:						
Croatia	51	0.09	72	0.13	57	-20.5
Estonia	33	0.15	38	0.14	39	4.7
Hungary	152	0.13	144	0.11	180	25.0
Israel (3)	207	0.07	200	0.07	218	9.4
Latvia	23	0.09	25	0.08	28	9.6
Lithuania	44	0.11	46	0.10	52	14.7
Malta	14	0.15	20	0.20	16	-23.7
Russia	1 140	0.06	876	0.05	1 688	92.7
Turkey	3 913	0.54	3 591	0.45	4 535	26.3
United Arab Emirates	4 389	1.09	5 080	1.26	4 892	-3.7

(1) DAC Members are progressively introducing the new System of National Accounts (SNA08).
This is leading to slight upward revisions of GNI, and corresponding falls in reported ODA/GNI ratios.
Japan, and the United Kingdom have reported their 2015 GNI on the basis of SNA93.
The UK Government has stated that for the period 2013 to 2015 it would measure the 0.7 per cent ODA/GNI target based on a GNI figure calculated using the National Accounts methodology that was in use when spending decisions were made (ESA 1995 unadjusted). Based on the latest National Accounts methodology for estimating GNI (ESA 2010), which was not available when spending decisions were made, the provisional ODA/GNI ratio in 2015 would be 0.67%.
(2) Taking account of both inflation and exchange rate movements.
(3) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Notes: The data for 2015 are preliminary pending detailed final data to be published in December 2016. The data are standardised on a calendar year basis for all donors, and so may differ from fiscal year data available in countries' budget documents.

Source: OECD, 13 April 2016.

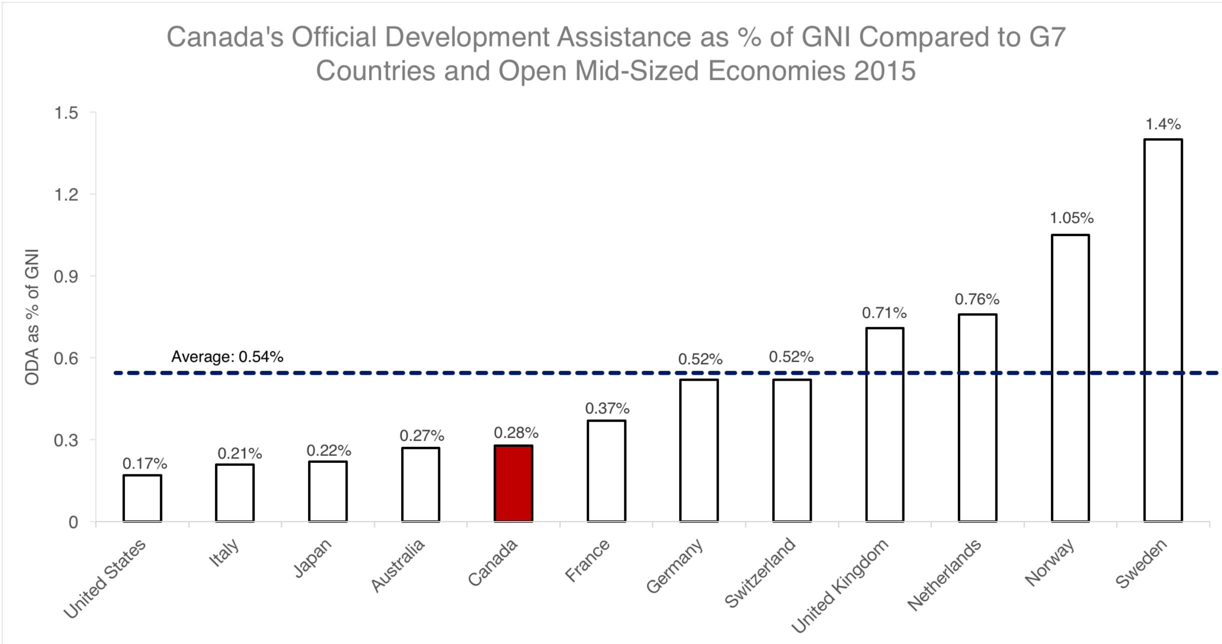
Exhibit 2: Canadian ODA Compared to International Peers: 2015

OECD DAC Commitment to Development
2015 Preliminary Numbers
ODA/GNI in percent

OECD DAC Members		Peer Reference Group
Australia	0.27	Like-minded, open, mid-sized economy
Austria	0.32	
Belgium	0.42	
Canada	0.28	Canada
Czech Republic	0.12	
Denmark	0.85	
Finland	0.56	
France	0.37	G7
Germany	0.52	G7
Greece	0.14	
Iceland	0.24	
Ireland	0.36	
Italy	0.21	G7
Japan	0.22	G7
South Korea	0.14	
Luxembourg	0.93	
Netherlands	0.76	Like-minded, open, mid-sized economy
New Zealand	0.27	
Norway	1.05	Like-minded, open, mid-sized economy
Poland	0.1	
Portugal	0.16	
Slovak Republic	0.1	
Slovenia	0.15	
Spain	0.13	
Sweden	1.41	Like-minded, open, mid-sized economy
Switzerland	0.52	Like-minded, open, mid-sized economy
United Kingdom	0.71	G7
United States	0.17	G7

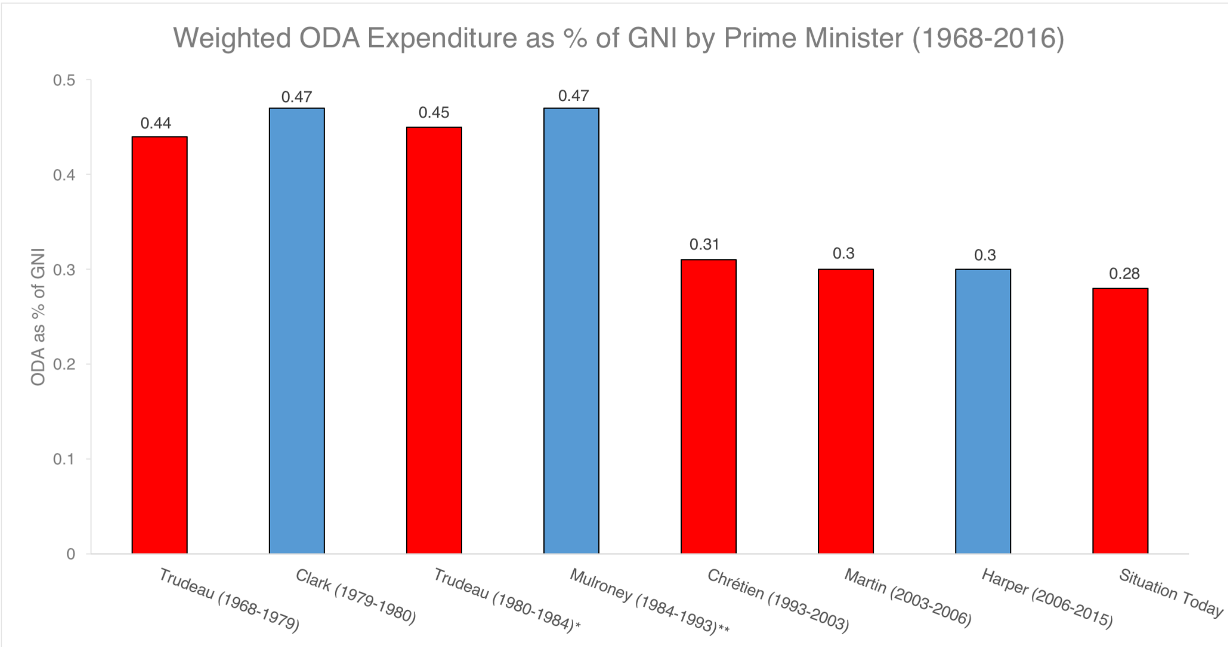
Average Country Effort	0.41
Peer Group Average Effort	0.54

Exhibit 3



Source: ODA spending calculated from OECD DAC 1 ODA Statistics: Fund flows: Net disbursements, Amount type: Current prices, Unit: US Dollars, millions.

Exhibit 4:



*Trudeau includes PM Turner (1984)
** Mulroney includes PM Campbell (1993)

Source: ODA spending as a percentage of GNI from OECD DAC 1 ODA Statistics. Fund flows: net disbursements. Amount type: current prices, US Dollar, millions; weight of each Prime Minister's tenure calculated based on Prime Ministers of Canada Biographical Information from Parliament of Canada, based on date sworn in; situation today estimate based on Report to Parliament on the Government of Canada's Official Development Assistance, 2015.