

Future-proofing Canada's Global Engagement: Smart, Strategic Investments in Development

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Summary

- Investing in development is one of the smartest long-term public investments an open mid-sized economy like Canada can make.
- This is the right time to step up Canada's investment in development and reverse declines.
- In Budget 2017 Canada should commit to doubling the International Assistance Envelope (IAE) over 8 to 10 years.
- Towards this effort, Budget 2017 should build in at least an 8% annual increase in the IAE till doubling (roughly 10years).
- In 2018, around the hosting of the G7, Canada should consider laying out a longer-term ODA/GNI objective.
- This is a smart thing to do because it will help future-proof Canada's development strategy, because we know the demand for development financing will grow.
- In addition, transparency surrounding the IAE base level, usage per year, treatment of balances, and roll-out of increases, should be increased through at least annual (if not more frequent) publication of key data and information.

Why invest in development

Canada is an open mid-sized economy. We depend on liberalized trade, investment and migration flows. A well-governed liberal global order is increasingly important from the perspective of Canada's relationship with developing countries:

- These countries are where Canada draws essential human capital, via immigration, that is necessary to support our labor market, economic growth and social development;
- Some of our fastest growing trade partners including destinations for Canadian exports are in developing countries;
- Some of the fastest growing investment destinations for Canadian capital are among developing and emerging economies;
- These reasons are in addition to our obligation as a prosperous and generous country to help the world's poorest and most vulnerable find a sustainable path out of poverty.

Canada's future prosperity depends on a safe, stable and prosperous global economy that works for all countries and all sections of society. Our contribution to global development in partnership with others helps achieve just that.

This is why investing in development is one of the smartest investments Canada can make.

The need to step up now to reverse the status-quo

Canada's investment in global development is at a low point by most reasonable measures. If unchecked, Canada's standing among its peers will decline further. The minor funding increases to the international assistance envelope or IAE (\$256mn over 2 years)¹ announced in Budget 2016 are not enough to stem this decline.

- Canada's overseas development assistance to gross national income (ODA/GNI) ratio, a widely used measure of development effort, is currently at 0.28²;
- This is less than half the UN target of 0.7;
- It is lower than the OECD-DAC simple (unweighted) average at 0.41 and also lower than the weighted average (0.3);
- Canada ranks in the bottom half (14th in 2015³ and 16th in 2014, out of 28) of the OECD-DAC donor countries. And Canada's rank has been falling since 2012.
- Based on current trends, the Liberal government elected in October 2015 which has talked at length about *getting Canada back on the global stage*, will end up with the worst development spending ratio of any past government.
- This includes the previous Conservative government, which, before freezing and cutting foreign aid as part of wider fiscal austerity, it should be recalled, continued the path of increases and launched the laudable Muskoka initiative on maternal and newborn child health (MNCH), which has delivered tangible results for the poorest.
- Global Affairs Canada forward planning data (below) shows that unless there is change, future spending will decline further in real terms.

¹ Which works out to approx. 2.4% increased based on latest known figures (2014-15) for the IAE.

² However this number includes 2 exceptional one-time entries: a double payment to the World Bank IDA in 2014-15, and loans to Ukraine. Taking these out the ratio is unchanged from the previous year at 0.24.

³ 2015 rank is again influenced by exceptional one-time entities, which, if taken out would lower Canada's standing. For more see: <http://cidpnsi.ca/canada-and-the-oecd-dac-aid-statistics/> and <http://cidpnsi.ca/canada-and-the-oecd-dac-aid-statistics-2015/>

GAC SO3 table summary

Strategic Outcomes/Programs	Sub group	2013-14 Expenditure	2014-15 Expenditure	2015-16 Forecast	2016-17 Main Estimates	2016-17 Planned	2017-18 Planned	2018-19 Planned
SO 3. Poverty is reduced, and security and democracy are increased for those living in countries where Canada engages.Footnote10	3.1 International Security and Democratic Development	Not Applicable	330,049,668	395,178,104	237,453,939	237,901,526	238,758,198	161,559,327
SO 3. Poverty is reduced, and security and democracy are increased for those living in countries where Canada engages.Footnote11	3.2 International Development	Not Applicable	2,392,774,063	2,704,403,772	2,332,030,755	2,335,188,938	2,302,838,638	2,451,856,263
SO 3. Poverty is reduced, and security and democracy are increased for those living in countries where Canada engages.Footnote12	3.3 International Humanitarian Assistance	Not Applicable	805,970,755	453,621,649	561,725,322	561,922,614	563,007,134	475,792,627
SO 3. Poverty is reduced, and security and democracy are increased for those living in countries where Canada engages.Footnote13	Sub-total SO 3	3,379,274,678	3,528,794,486	3,553,203,525	3,131,210,016	3,135,013,078	3,104,603,970	3,089,208,217

Based on latest Global Affairs Canada departmental level Reports on Plans and Priorities data.

Beyond restoring Canada’s standing among peers there are real practical reasons why now is the time to step up investment.

- Extreme poverty (at \$1.90/day PPP) is at or near single digits as a share of global population for the first time in history, this is a major development success story (that goes beyond simply China and India);
- However the best projections show global poverty reduction will face the ‘last mile problem’ i.e. the closer we get to zero the harder it gets to reach zero.
- Extreme poverty will be concentrated in fragile and low income contexts, and deep pockets of persistent poverty and deprivation in middle income countries.

If the signature Sustainable Development Goal (SDG) of ending extreme poverty by 2030 and leaving no one behind is to be achieved, this is the right time to step up investment in development. Doing so will help secure hard won gains – such as in the area of global health – and ensure Canada maintains the momentum needed to deliver on ambitious agendas we have already committed to such as the SDGs and the climate targets agreed in Paris at COP21.

Recommendations

Future-proof development strategy and enhance IAE predictability by adopting an escalator

As we have shown in our 2016 Data Report and submission to the international assistance review (IAR), Canada needs a development strategy not just tweaks to foreign aid policy.⁴ This requires thinking more strategically about policy coherence, leveraging resources beyond traditional foreign aid⁵, linking growth in financial resources to the scale of global needs, and fixing transparency and accountability gaps.⁶

Demands for future development financing will grow. For example:

⁴ See: <http://cidpnsi.ca/data-report-2016/> and <http://cidpnsi.ca/wp-content/uploads/2016/07/Canada-needs-a-development-strategy-IAR-CanadianIntDevelopmentPlatform-.pdf>

⁵ See: <http://cidpnsi.ca/canadas-dfi/>

⁶ See: <https://www.opencanada.org/features/follow-money-where-canada-heading-global-stage/>

- Contributions to multilateral institutions for e.g. to support global health, where Canada is already among the leaders will increase;
- Financing needed to respond to emergencies and to support humanitarian efforts will increase;
- New funding for climate change adaptation and mitigation, and promotion of clean energy adoption in developing countries (including promoting Canadian clean tech) will be needed to keep pace with climate targets.

The smartest response to this scenario is to take steps to future proof Canada's development strategy.

In 2002 Canada announced that it would double the IAE. This was achieved in Budget 2010 which noted the IAE was increased from the approx. \$2.5 billion level in 2002 to the \$5 billion level by 2010.

- This was achieved through an annual 8% budget escalator built into the IAE.
- This enhanced predictability and transparency.
- It was also the last time Canada had a transparent development financing anchor.
- It is also worth noting that the commitment spanned different political parties (the Liberals made the commitment but the Conservatives upheld it till achieved), a significant achievement both in terms of commitment to development and going beyond politics.
- Ironically, the most recent level of ambition as indicated in Budget 2016 to take the IAE to the \$5 billion level by 2018-19⁷, implies the same nominal level achieved in 2010 and therefore a substantial decline in real terms.

In Budget 2017 the government should future-proof Canada's development strategy and, at minimum, commit to doubling the IAE over 8 to 10 years.

- In the attached annex we outline 3 scenarios which make it realistic in Budget 2017 to take IAE levels up to the \$7 billion level at or before 2022.
- In one of these scenarios, adopting a 15% annual escalator, the Liberal government could commit to reaching the \$7 billion level within its current mandate i.e. by 2018-19.
- An 8% escalator over the long-term, assuming nominal GNI growth of around 4%, we project could take Canada's ODA/GNI ratio close to 0.5 before the SDG deadline of 2030.
- While this is short of the UN target of 0.7, it would be a significant improvement and put Canada among the better performers in the OECD-DAC (all else being equal).
- Precise anchors can be debated, but the key is to commit to a long-term path in Budget 2017.

Fix transparency gaps

There is limited transparency around the IAE at the moment. Budget 2016's discussion of the IAE added to confusion:

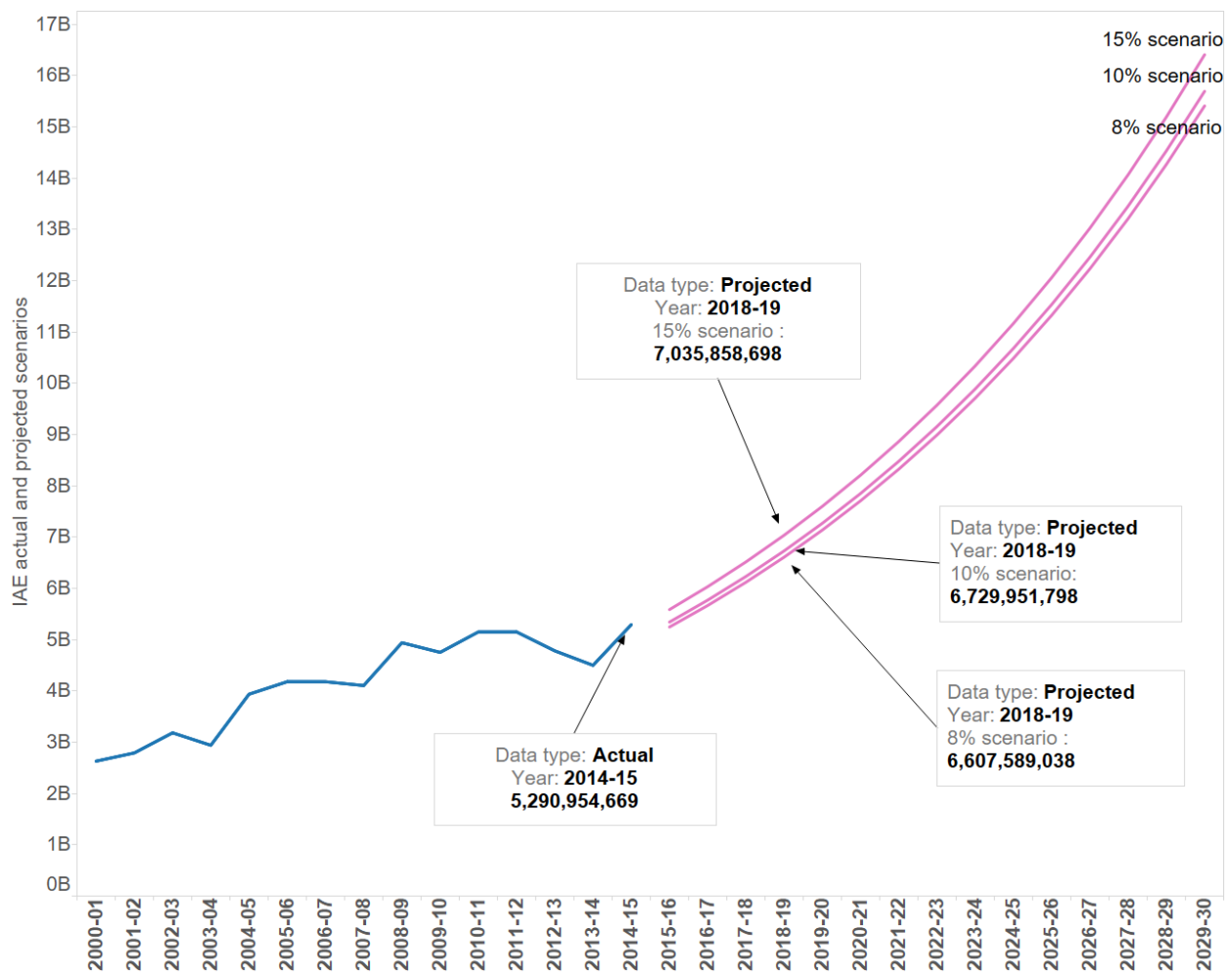
- The Budget document included a chart (6.1) with IAE base and increase levels without specifying the associated amounts (this is included in our annex).

⁷ See <http://www.budget.gc.ca/2016/docs/themes/world-monde-en.html> and http://www.budget.gc.ca/2016/docs/plan/ch6-en.html#_Toc446106821

- Furthermore, (also in the annex), the chart (6.1) which indicated an increase to the IAE in 2015-16, was entirely inconsistent with the supporting table (6.1) which indicated no increase in the same year (see marked with yellow arrows in annex).
- Data released later by the department (GAC), both in December 2015 and March 2016, raised further issues, as 2014-15 IAE expenditures were reported at \$5.2 billion and therefore already higher than the targeted amount stated in Budget 2016 (released earlier in March 2015).
- Key issues are that: base IAE levels are not reported transparently; end year balances are not publically available; the rules guiding what can and cannot be financed via the IAE are unclear at least publically; there is lack of clarity regarding how new funding (such as for climate change, the Global Fund, and for the Syrian region) is accounted in the IAE, whether and to what extent it is already part of announced increases or additional.
- These transparency gaps undermine credibility and should be fixed in conjunction with any increases.

Annex

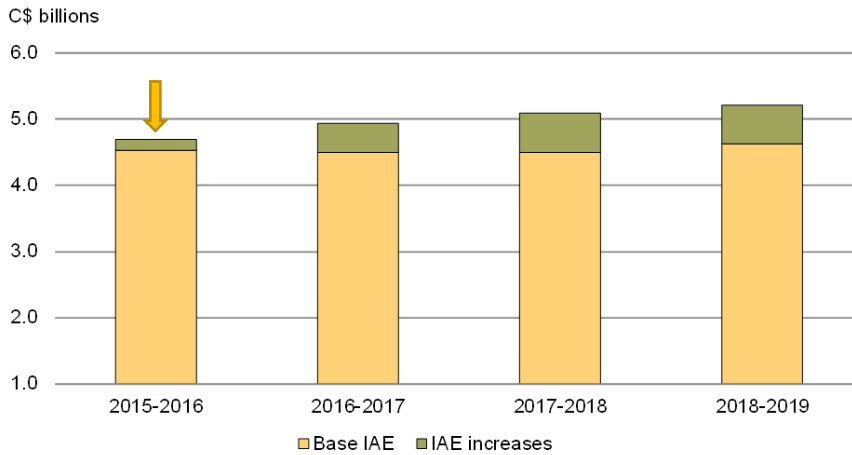
IAE path based on 3 scenarios: 8%, 10% and 15% escalator



Data for the IAE paths (projection in pink) are based on actual IAE expenditures reported in Statistical Reports on International Assistance from 2000-01 to 2014-15 (blue). Since 2014-15 expenditures were exceptional as they include double payments to the World Bank IDA and loans to Ukraine (made out of the IAE) taking expenditures well above even the Budget 2016 \$5 billion target (to be achieved in 2018-19), an average of 2012-13 to 2014-15 is taken to apply the linear projection. This figure is \$4.8567 billion.

Budget 2016’s discussion of the IAE

Chart 6.1 Canada’s International Assistance Levels



Note: Figures are provided on a cash basis. Source: Department of Finance.

Table from full version, same section:

**Table 6.1
Canada in the World
millions of dollars**

	2015-16	2016-17	2017-18	Total
Restoring and Renewing International Assistance				
Increasing the International Assistance Envelope		128	128	256
Promoting International Peace and Security		196	196	391
Subtotal—Restoring and Renewing International Assistance		324	324	647
Expanding Immigration				
Expanding Canada's Intake of Syrian Refugees		204	36	240
Reducing Application Processing Times		25		25
Achieving Higher Permanent Resident Admissions		20	18	38
Subtotal—Expanding Immigration		249	54	303
Improving Export Verifications		1	2	3
Defending Canada				
Renewing Major Equipment for the Canadian Armed Forces	-205	-90	-1,319	-1,614
Subtotal—Defending Canada	-205	-90	-1,319	-1,614
Total	-205	483	-939	-661
<i>Less funds existing in the fiscal framework</i>	0	-196	-196	-391
Net Fiscal Cost	-205	288	-1,135	-1,052

Note: Totals may not add due to rounding.