

Submission to Standing Committee on Foreign Affairs and International Development (FAAE): Analysis and Recommendations on Canada's Countries of Focus

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Background and Introduction

Over the past decade there have been three major changes to Canada's development countries of focus.

- In 2005, efforts to improve the focus of Canadian aid, which had been criticized as highly fragmented, resulted in the announcement of 25 priority countries and a commitment to increase the proportion of bilateral aid to priority countries. However, the 2007 OECD-DAC peer review of Canada's development program noted that Canada should focus its aid on fewer partner countries and be more predictable about its aid flows.
- This in part led to the second change in 2009 when the focus list was reduced from 25 to 20, with a commitment to allocate 80% of bilateral assistance to the 20 priority countries.
- In 2014 the list was changed again. The "Focus Countries" list was increased, from 20 back up to 25 countries, with a commitment to allocate 90% of country programmable bilateral assistance in these countries. An additional 12 "Partner Countries" were added. Taking the total number of Focus and Partner countries to 37. This is the list in use at the moment.

Aid allocation decisions and frameworks have become overly politicized in Canada. This submission takes a data analytics based approach. While it is recognized that aggregate level data and data driven approaches are not a panacea, they should not be ignored either. Discussions about further changes to where Canada focuses its development efforts and aid allocation criteria should be grounded in at least a basic understanding of (a) trends and patterns in Canadian assistance; and (b) trends and patterns in the changing geography of poverty and development challenges.

The first section will address these by framing data and analytics (provided in an annex) around key questions:

- What do we know about the changing geography of poverty and development challenges?
- What are the key trends and demographic patterns in Canada's current focus and partner countries (human development, income and non-income poverty, inequality and other factors)?
- How aid dependent are the current focus and partner countries?
- What share of Canadian assistance goes to these countries?

- Where does Canada rank as a donor in these countries and what share does Canadian assistance make up relative to all assistance received from other sources?

Second, we compare Canada's focus and prioritization framework with that of other donors.

Third, we discuss higher order factors, many of which are beyond Canada's direct control, but impact how we think about current and future ODA allocations, prioritization and policy frameworks.

Fourth and finally, we conclude with specific recommendations.

1. Changing geography of poverty and development challenges

It is widely known and often repeated that over the course of the last couple of decades, especially since the global commitment to the Millennium Development Goals in 2000, there has been significant progress in poverty reduction and development. The share of global population living in extreme poverty (under \$1.90 PPP/day) was halved ahead of the MDG target and now for the first time is in single digits (9%). But this was largely down to achievements in a handful of large developing countries (like China and India). The actual number of poor (in absolute terms) in other regions like sub Saharan Africa is in fact higher (due to rapid population growth).

What is less discussed is the rate at which countries are officially "graduating" out of poverty or "low income country" (LIC) status. This has important implications for how we think about aid allocation strategies and frameworks. Simply put, while it is easy to talk about "focusing on the poorest" in abstract terms, mathematically, when it comes to allocation ratios (e.g. the share of the portfolio that should be allocated to the poorest) the picture is complicated because: the number of Low Income Countries (LICs) has more than halved since 2000; from 63 in 2000 to 31 in 2015.

Global extreme poverty in the future is very likely to be concentrated in a small number of fragile countries, and in hard to reach pockets of deep and persistent poverty in large middle income countries. Future poverty reduction, including meeting the SDG goal of "ending global extreme poverty" by 2030 will be hampered by the 'last mile' problem – the closer you get to zero the harder it gets to reach zero.

Key trends and demographic patterns in Canada's current focus and partner countries

At the overall level about 38-40% of total Canadian assistance goes to focus and partner countries.¹ This equates to about 84% of bilateral country programmable assistance.²

From on the Minister of International Development's mandate letter and the International Assistance Review (IAR) consultation document released by Global Affairs Canada (GAC) it is clear that focusing on the poorest and fragile states is a key emphasis in guiding Canada's strategy. How does the current list stack up in this regard?

Fragility: The World Bank's harmonized list of fragile situations takes the narrowest approach to state fragility. It currently has 33 countries. Among Canada's 37 focus and partner countries (including one

¹ Based on 2015 data, covers all countries but not the regional focus (Caribbean). Treatment of multilateral, unspecified or geographically un-coded amounts make exact calculation difficult, hence the range.

² We exclude bilateral unspecified and any regional allocations. In 2015 total assistance to focus and priority countries was approx. \$2.18billion.

region), 8 are fragile (as per the World Bank definition) –Afghanistan, DRC, Haiti, Mali, Myanmar, West Bank Gaza, South Sudan and Iraq.

Human development: The majority of countries on the focus and partner list are low or medium human development. However there are 5 high human development countries that are on the focus list³ and 2 among the partner country list⁴.

Income poverty: There is wide variation from the perspective of income poverty. While over 50% of the population in DRC, Mozambique, Burkina, Haiti and Benin live on less than \$1.90/day – i.e. the share of extreme poor is over 5 times the global average; in others, such as Jordan, Ukraine and Mongolia, the ratio is less than 1%.

Multidimensional poverty: Non-income or multidimensional poverty is at chronic levels in some countries: South Sudan, Ethiopia, Burkina Faso and Mali stand out. Income inequality is extremely high (above the 40% Gini level) in 17 out of the 31 countries (for which there are data).

Aid dependence: 7 out of 24 focus countries are highly aid reliant, i.e. the share of ODA to GNI is higher than the low income country average. Of these, in 3 (Afghanistan, Haiti, West Bank Gaza) aid (from all donors) makes up over 20% of the economy.

A summary of all of the factors, combined, indicates the following:

- a. Countries that have very high and persistent poverty; are highly aid dependent; and where Canadian aid is significant (above 5% of total received) are only 4: Haiti, Mozambique, Mali and South Sudan. Canada ranks among the top 10 donors for each of these countries.
- b. Another set of countries are those where aid reliance is lower; and poverty is (relatively) lower, declining and or less acute; but where Canadian aid nevertheless remains high (above 5% of total received), these include 5: Senegal, Ghana, Ukraine, Indonesia and Philippines.
- c. Finally a set of countries where poverty is high; aid dependence is persistently high, and Canadian aid is significant but Canada is not among the largest (top 10) donors includes 4: Afghanistan, West Bank Gaza, DRC and Burkina Faso.

These provide a picture of where Canadian is situated and how significant a player Canada is in these countries. Canada is among the top 10 donors in 15 out of the 25 focus countries, and 2 out of 12 partner countries. Which implies Canada is *not* among the top 10 donors in 20 out of its 37 focus and partner countries.

In addition, 8 generalizable characteristics stand out among the current list of focus and partner countries:

- Rapid population growth
- Rapid urbanization
- Serious social and economic (hard) infrastructure deficits
- Youth bulge
- Serious challenges around gender issues, rights and equality

³ Colombia, Mongolia, Peru, Ukraine and Jordan.

⁴ Sri Lanka and Cuba.

- Vulnerability to climate change
- Limited state capacity and fragility
- Endemic corruption and governance challenges

The data indicate that even with its current, relatively wide list, Canada does reasonably well when it comes to targeting the poorest and neediest regions (Africa consistently has the highest share), and relative to other donors does reasonably well on focusing on fragile states (though this has declined with reduction in assistance to Afghanistan and Haiti).

2. How does Canada's focus and prioritization framework compare with that of other key donors?

Canada's aid allocation prioritization framework is based on 3 variables: country need, ability to benefit from development assistance, and alignment with Canadian foreign policy. These criteria have been rightly criticized as being extremely broad and vague; moreover, there is little transparency around how they are applied to come up with focus and partner lists.

Are such frameworks needed?

Whether or not such frameworks are even needed is a reasonable question especially as the share of aid that is responsive, as in the case of humanitarian emergencies, now makes up such a large and fast growing proportion, and is by definition unpredictable. Moreover the demands of global public good financing, e.g. around climate finance, refugee settlement etc. will put additional pressures on fiscal budgets, potentially leaving less room for assistance aimed at long-term economic development.

In fact, reinforcing donor commitment to long-term development, especially in times when budgets are stretched, is precisely the reason why prioritization frameworks are important.

Most major donors have some form of aid allocation prioritization. A brief account is provided below:

- France: 16 priority countries where it allocates "at least half of State grants and two-thirds of French Agency for Development (AFD) grants."
- Australia: 90% of bilateral country program assistance in the Indo Pacific region.
- Germany: 50 "cooperation countries" that are the focus of bilateral assistance.
- Norway: as part of reforms in 2014 to reduce the number of countries in which it works to increase effectiveness, came up with a list of 12 focus countries divided into two groups, "fragile states" and "countries in the process of development" – together focus countries receive 41% of Norwegian assistance.
- Netherlands: 15 development cooperation "partner countries" using a differentiated 'type of relationship' approach.
- Sweden: 34 "enhanced development cooperation" partner countries.
- UK: 28 priority partner countries, and 50% of bilateral assistance to (its own definition of) "fragile countries and neighborhoods".

Others may not have explicit priority lists but prioritize in different ways. Japan for instance does not have an individual list but focuses on South and South East Asia. The US does not have an individual list but prioritizes within specific sectors.

On objective comparative measures Canada's level of focus is similar to the OECD-DAC average. Canada's top 5 recipients make up about 17% of total assistance, top 20 about 44%, similar to the DAC average of 15% (top 5) and 36% (top 20). Some donors, like Australia and Japan, are a lot more concentrated in their allocations as compared to Canada, but for specific geographic and historical reasons.

3. Factors that influence how we think about current and future aid allocation, country prioritization and policy frameworks

The key question is not whether prioritization frameworks like focus lists are needed or important, but, what is a better way to go about the same. Critiques surrounding Canada's broad 3-fold approach which can be suited to include or exclude just about any developing country, and the lack of transparency surrounding the application of the same, are valid, and a new approach would lend greater credibility to Canada's global standing as a development partner.

Key higher order 'pull-factors' that may cause allocation to be spread wide and thin

Global agendas are getting broader: the SDGs agreed in September 2015 are a great example. The number of goals has more than doubled compared to the MDGs, the number of specific indicators targeted range between 169 to over 200. Broad global agendas, be it the SDGs or climate change mitigation and adaptation, provide ample cover and entail risks, especially for a mid-sized player like Canada (that accounts for about 3.2% of OECD-DAC aid), in terms of spreading too wide and thin.

Changes surrounding what counts as aid or 'overseas development assistance' (ODA): the definition and criteria for what counts and how as ODA is undergoing major change. Financing to leverage and direct private capital to development efforts will count more easily in the future as ODA. The cost of refugee settlement may count more expansively as ODA. The perception that more spending on commercial as opposed to development objectives, domestic as opposed to overseas, could easily count as ODA, entails risks in how we think about prioritization.

Diplomacy and geostrategic interests: in an amalgamated department (GAC), the potentially contradictory objectives can put development at odds with diplomacy. For e.g. from a diplomacy perspective Canada cannot afford to ignore any part of the world. To win a UN Security Council seat in 2020, as has been suggested by the Minister of International Development, Canada needs a larger aid budget. Linking aid allocation with such interests flies in the face of all we have learnt about aid and development effectiveness, and is a risk that should be resisted.

Poor countries vs. poor people dilemma: as already discussed the number of LICs has halved since 2000. Countries including Bangladesh, Kenya and Myanmar are no longer low income. The number of World Bank IDA eligible countries will shrink from 81 to 31 by 2025. Yet countries like India, Vietnam, Turkey and Indonesia – all middle income and emerging – remain some of the largest aid recipients globally (in absolute terms). A key question is how to reconcile the fact that while the number of poor countries is declining, deep pockets of poverty will continue to persist in large middle income countries. Focusing on the 'poorest countries' alone and ignoring where 'poor people' are and contexts where severe development challenges persist (and may in fact be deepening), would be damaging to the cause of ending poverty.

A new approach for Canada would take into account such factors.

4. Recommendations

Long-term approach that is clear, transparent and specific

- Reinforcing commitment to long-term development, especially in times when budgets are stretched, is precisely the reason why prioritization frameworks are important.
- If the approach is systematic, there is no reason why the prioritization criteria cannot be clear, transparent and time bound from the outset.
- Past criteria (need, ability to use assistance, alignment with Canadian foreign policy) fail to reflect any sense of a systematic approach. How these factors led to the chosen countries or how they link to the associated 80% to 90% of bilateral assistance ratio is neither clear nor verifiable.
- A better approach would start with a sense of the timeframe Canada wants to be engaged (minimum 10yrs).
- Second it would identify key gaps Canada through its unique assets (monetary, networks, partners etc.) can contribute towards filling.
- Third it would benchmark this assessment back to what it implies for the share of Canada's overall allocation. And by implication, for the types of partnerships (bilateral, multilateral, private, philanthropic, civil society etc.) that may be most effective (and financially efficient) for Canada to bring to the challenge.
- Clear quantitative targets around long-term commitment to development engagement would show discipline and improve credibility.
- Ultimately development outcomes are not for Canada but for our partners and beneficiaries in partner countries. They are only achievable if both parties are equally serious about shared goals. Where Canada cannot find an equally serious and credible partner, it should resist from entering into a focus or priority relationship.

Greater focus through a differentiated and integrated strategy

- Long-term strategy and engagement requires the right fit between tools/approach and context.
- As noted above (e.g. poor country vs. poor people dilemma) aggregate i.e. country level criteria may no longer be sufficient given the changing nature, geography, and complexity of poverty and development challenges.
- Canada should pursue a differentiated approach, but one that links aid with other policy dimensions in certain key countries.
- An example of a differentiated approach is the Netherlands, which has 3 explicit sets of countries around the 'type of relationship': aid relationship, mainly with fragile states; transitional relationship, with newly middle income and transitioning countries; and trade relationship, where past aid relationships have given way to mutually beneficial trade.
- Canada can and should take a similar approach.
- A differentiated approach would be built on differentiated financing and offering.
- Grant based, highly concessional support should be reserved for the poorest and fragile countries, responsive emergency needs, where no other options are viable.

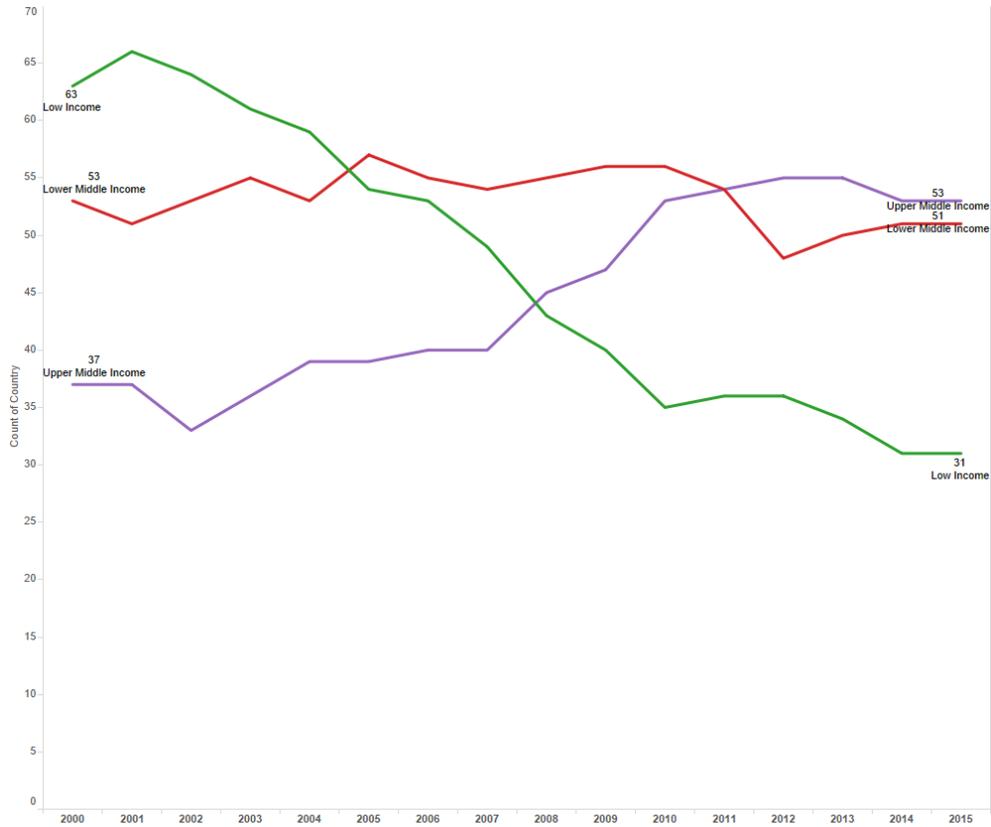
- Near market tools and options, including development loans and other solutions – such as through a Canadian development finance institution – would be available for transitional partners.
- In many cases development efforts are highly linked or need to take into account other forms of engagement e.g. defense and security; trade and investment; migration and refugee settlement.
- A differentiated approach would also be integrated across policy domains, which would improve overall coherence.
- To reinforce systematic and long-term thinking, the strategy can again be time-bound across stages.
- In many cases, even across current focus countries, trade relationships are already far more significant than purely aid relationships e.g. the value of imports into Canada from Bangladesh is 10x aid from Canada to the same, the ratio for Colombia is 19x, Vietnam is 30x, Indonesia 47x. Yet trade and market access policies, in many cases, from a development perspective, are incoherent.
- A differentiated but integrated approach would address such gaps, reinforce strategic and long-term perspectives, with a better fit between tools and outcomes.

Fragile states and contexts strategy

- Canada needs a specific strategy to engage meaningfully in fragile states and contexts.
- Fragile states and contexts represent unique, highly specific and fluid challenges.
- Canada would do well to recognize, as several other donors e.g. Norway, Netherlands, UK have, that the rules of the game can be very different in these contexts.
- Prioritizing engagement in fragile states requires a greater risk appetite to be engaged over a meaningfully long-term (often multiple decades).
- Such engagement is in part a function of the ability to find serious and credible partners.
- And a shared understanding with key partners of the rules of engagement and disengagement.
- These criteria should set parameters for where and how deeply Canada engages in fragile contexts.
- Absent a calculus regarding what Canadian aid aims to achieve and a hardnosed analysis of whether it is achievable given available assets, investing over the long-term in fragile contexts can come at high opportunity cost (in terms of pursuing results elsewhere).
- This is not to dissuade investment in fragile contexts, on the contrary, it is to set more realistic expectations and a healthy appreciation of the timeframes and risks, which make engagement in fragile contexts different from engagement elsewhere in developing countries.

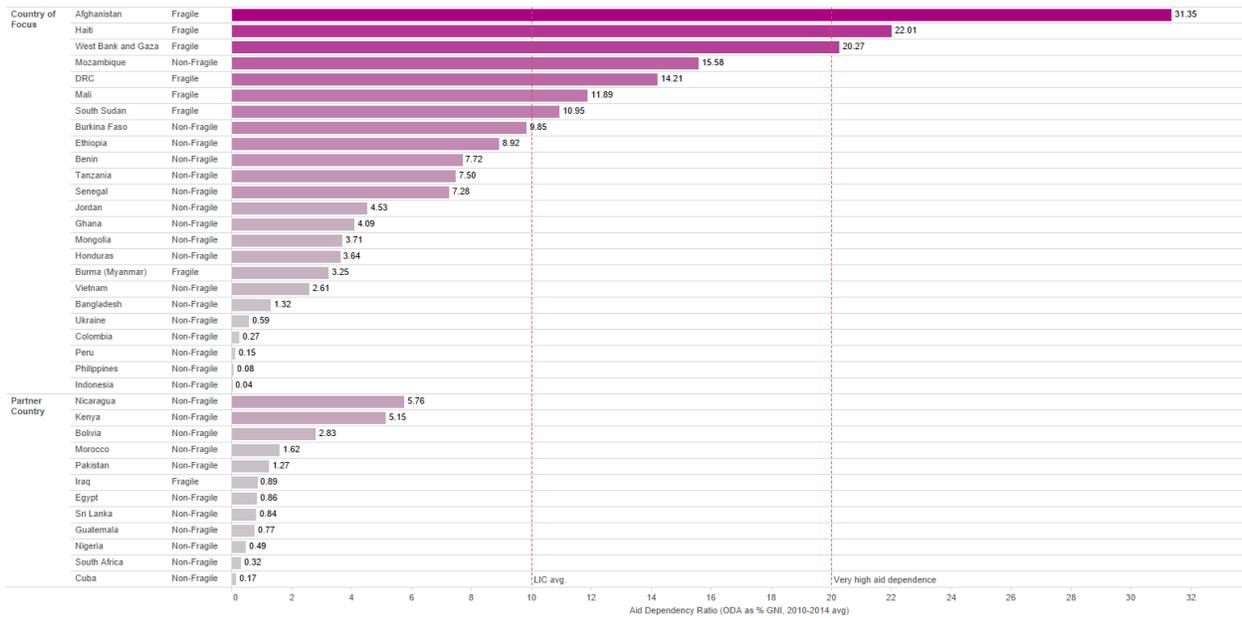
Data Annex

1. The number of “Low Income Countries” (LICs) has halved since 2000



Author calculations, based on World Bank classification system and data

2. How aid reliant are Canada's focus and partner countries



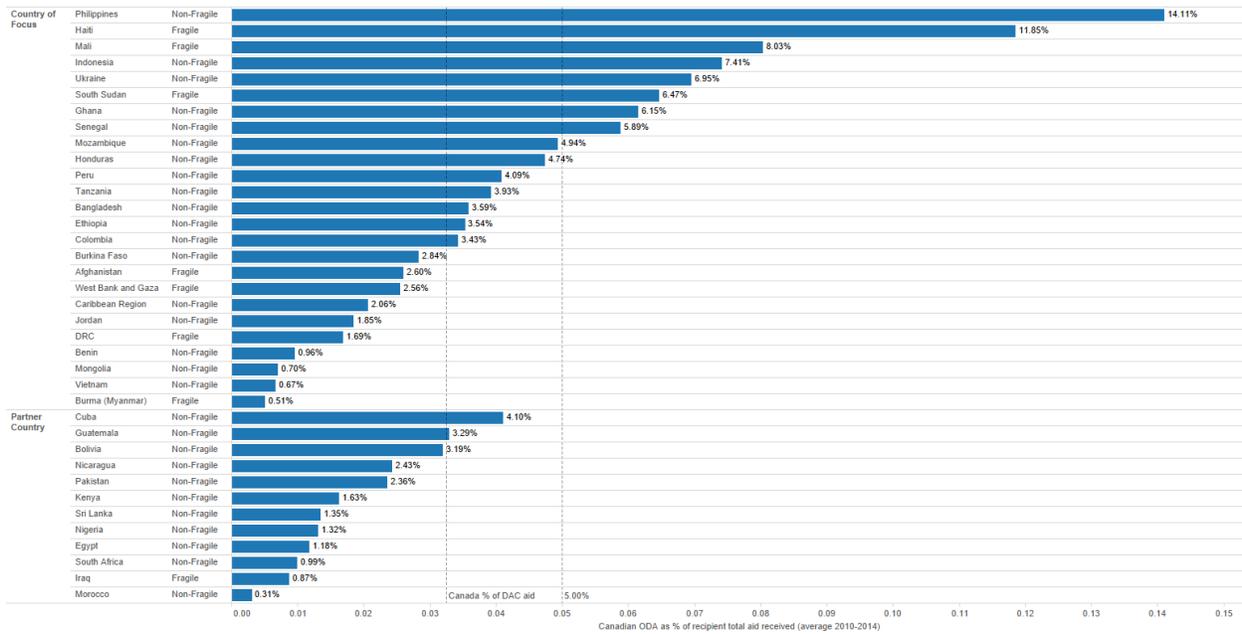
Author calculation, based on World Bank data

3. Where Canada ranks as donor?

Priority Countries	Rank
Afghanistan	Not top 10
Bangladesh	10
Benin	Not top 10
Burkina Faso	Not top 10
Burma	Not top 10
Caribbean Region	..
Colombia	7
Democratic Republic of Congo	Not top 10
Ethiopia	7
Ghana	5
Haiti	4
Honduras	5
Indonesia	Not top 10
Jordan	9
Mali	5
Mongolia	Not top 10
Mozambique	7
Peru	6
Philippines	6
Senegal	5
South Sudan	5
Tanzania	7
Ukraine	3
Vietnam	Not top 10
West Bank and Gaza	Not top 10
Partner Countries	
Bolivia	10
Cuba	Not top 10
Egypt	Not top 10
Guatemala	Not top 10
Iraq	9
Kenya	Not top 10
Morocco	Not top 10
Nicaragua	Not top 10
Nigeria	Not top 10
Pakistan	Not top 10
South Africa	Not top 10
Sri Lanka	Not top 10

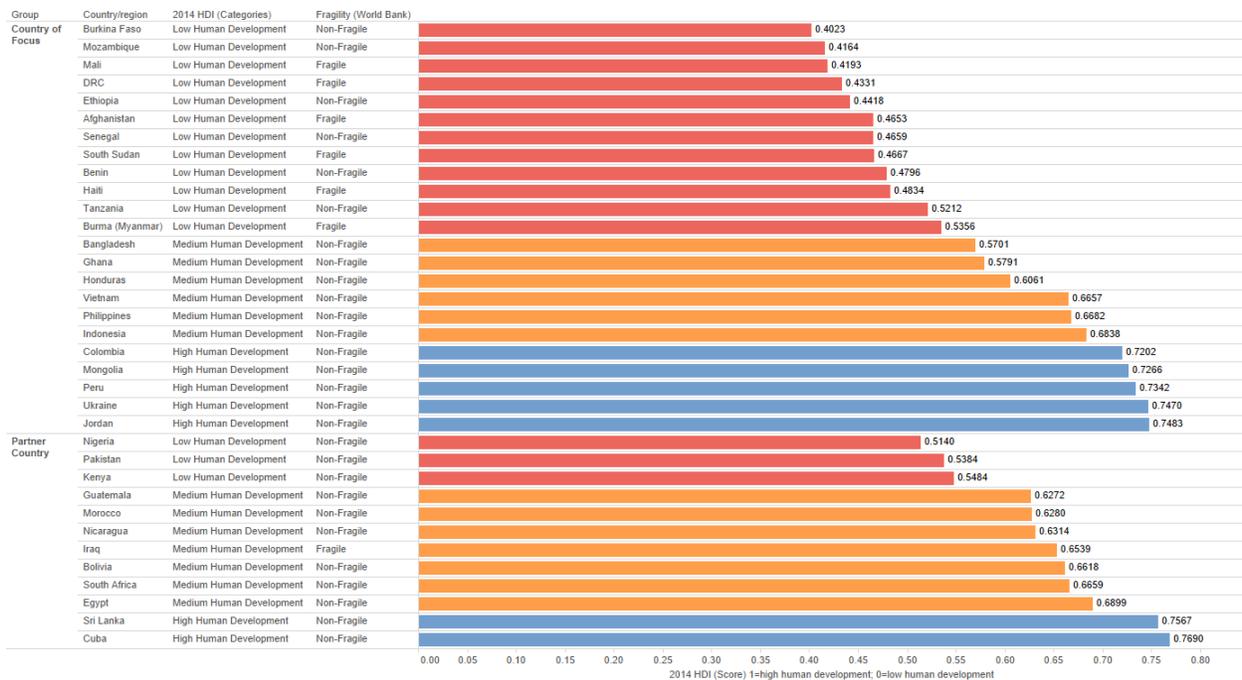
Data is for 2014, OECD

4. Share Canadian aid makes up



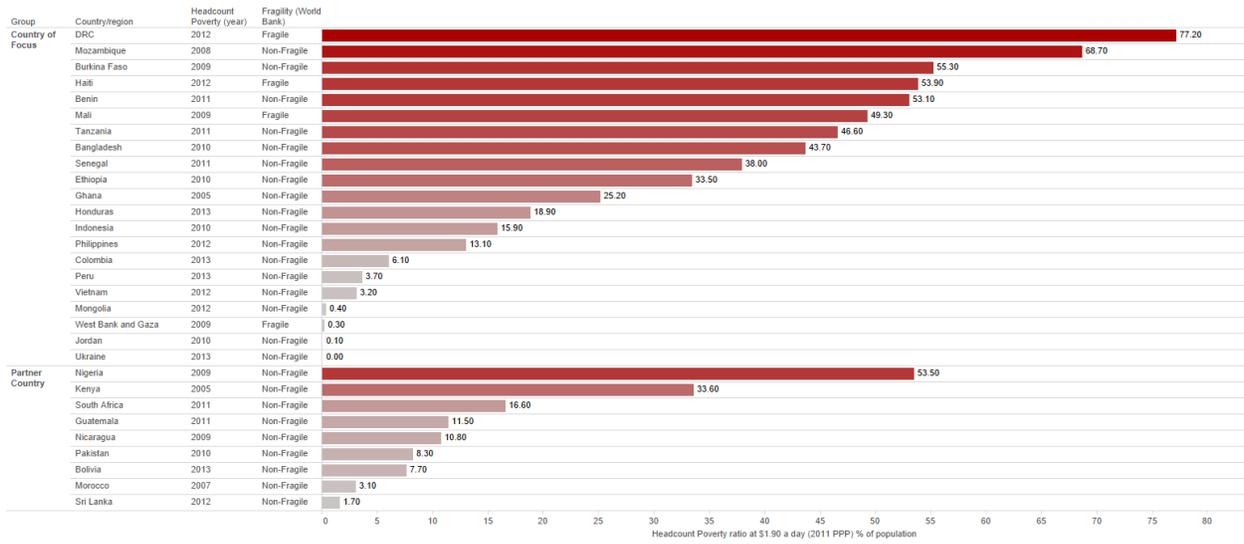
Author, based on OECD-DAC

5. Human development across focus and partners



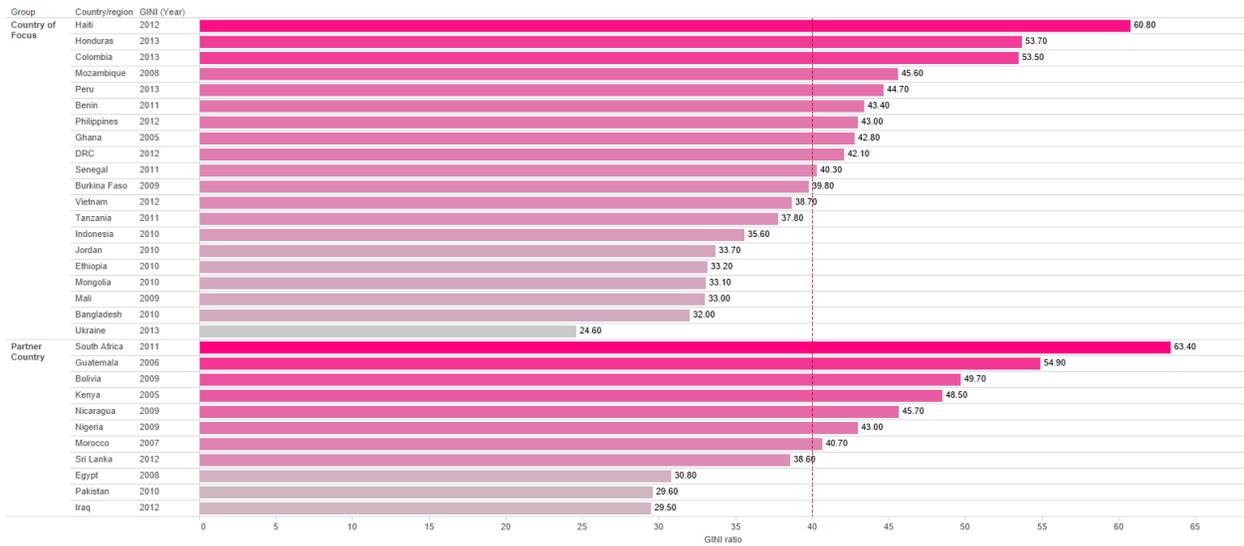
Author, based on UN HDR database and World Bank

6. Poverty in focus and partners



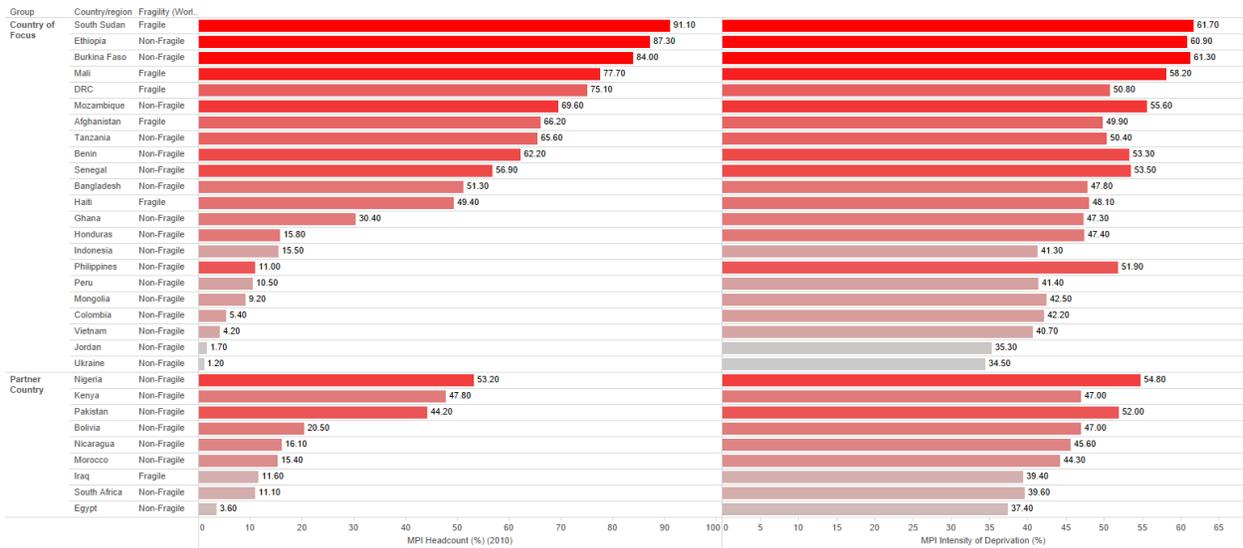
PovCalnet

7. Inequality in focus and partners



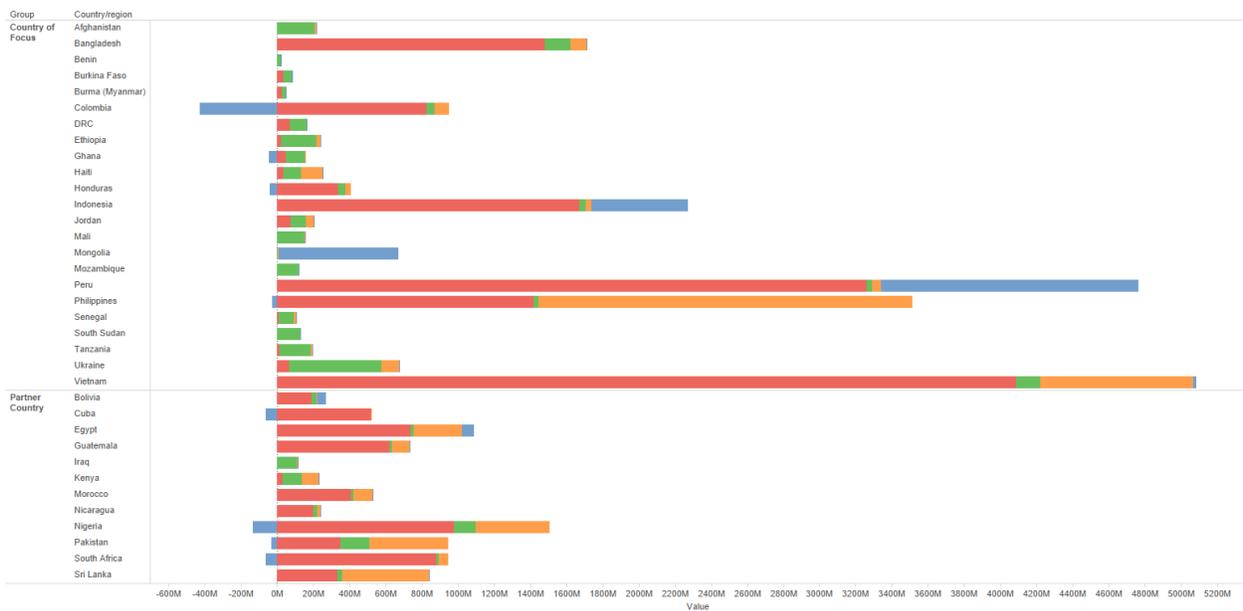
PovCalnet

8. Multidimensional poverty in focus and partners



UN-HDR database

9. Comparison of aid, trade, investment, remittance flows from Canada to focus and partners (2015 in all cases but remittances-2014; CAD in all cases but remittances-USD)



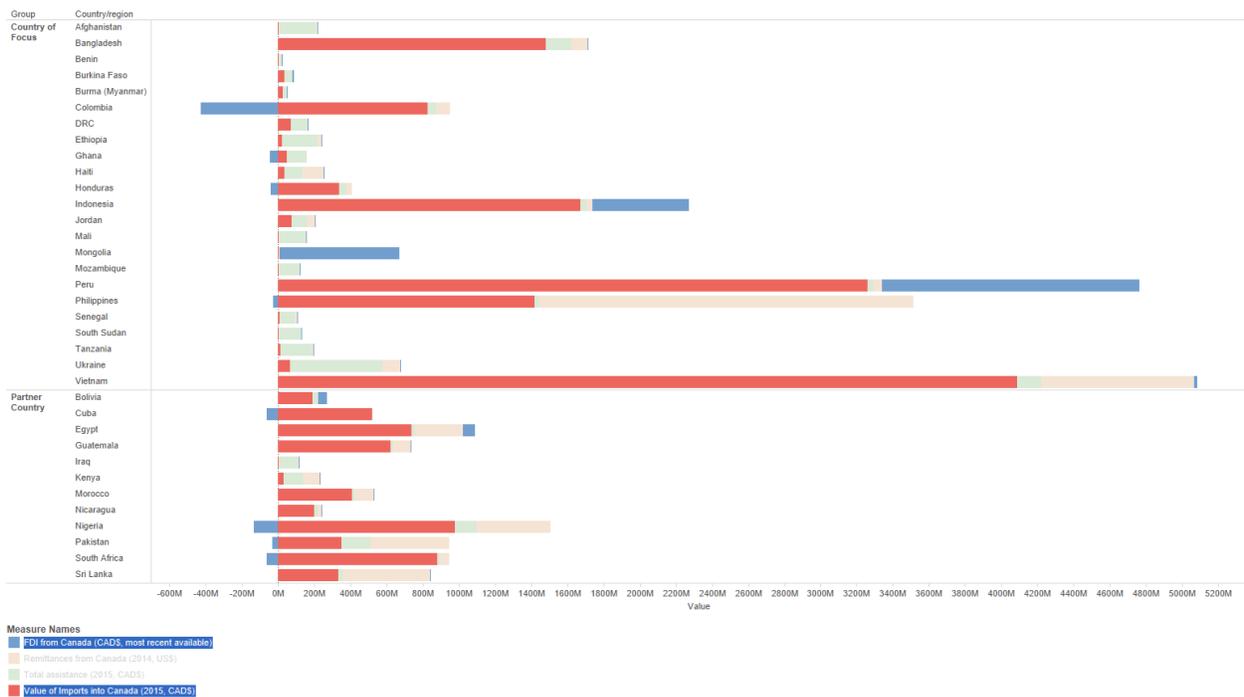
Author calculation, CIDP database

10. Relative importance of aid flows (green)



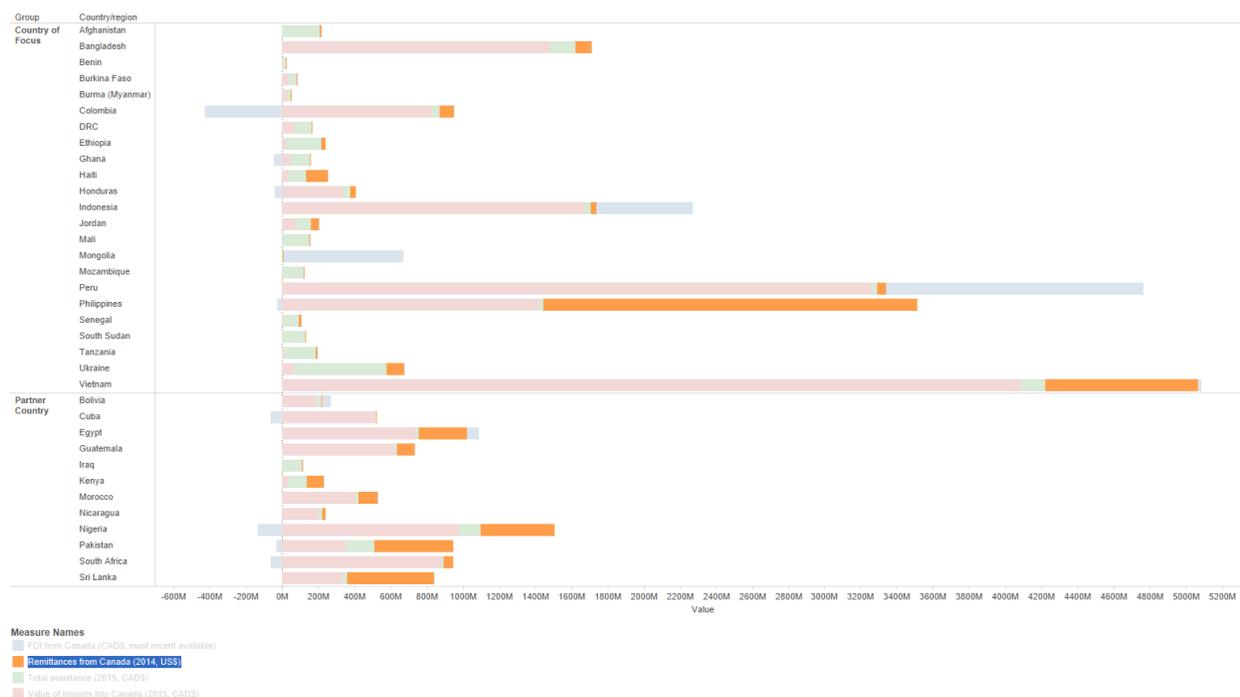
CIDP database

11. Relative importance of trade and investment flows (red and blue)



CIDP database

12. Relative importance of remittance flows (yellow)



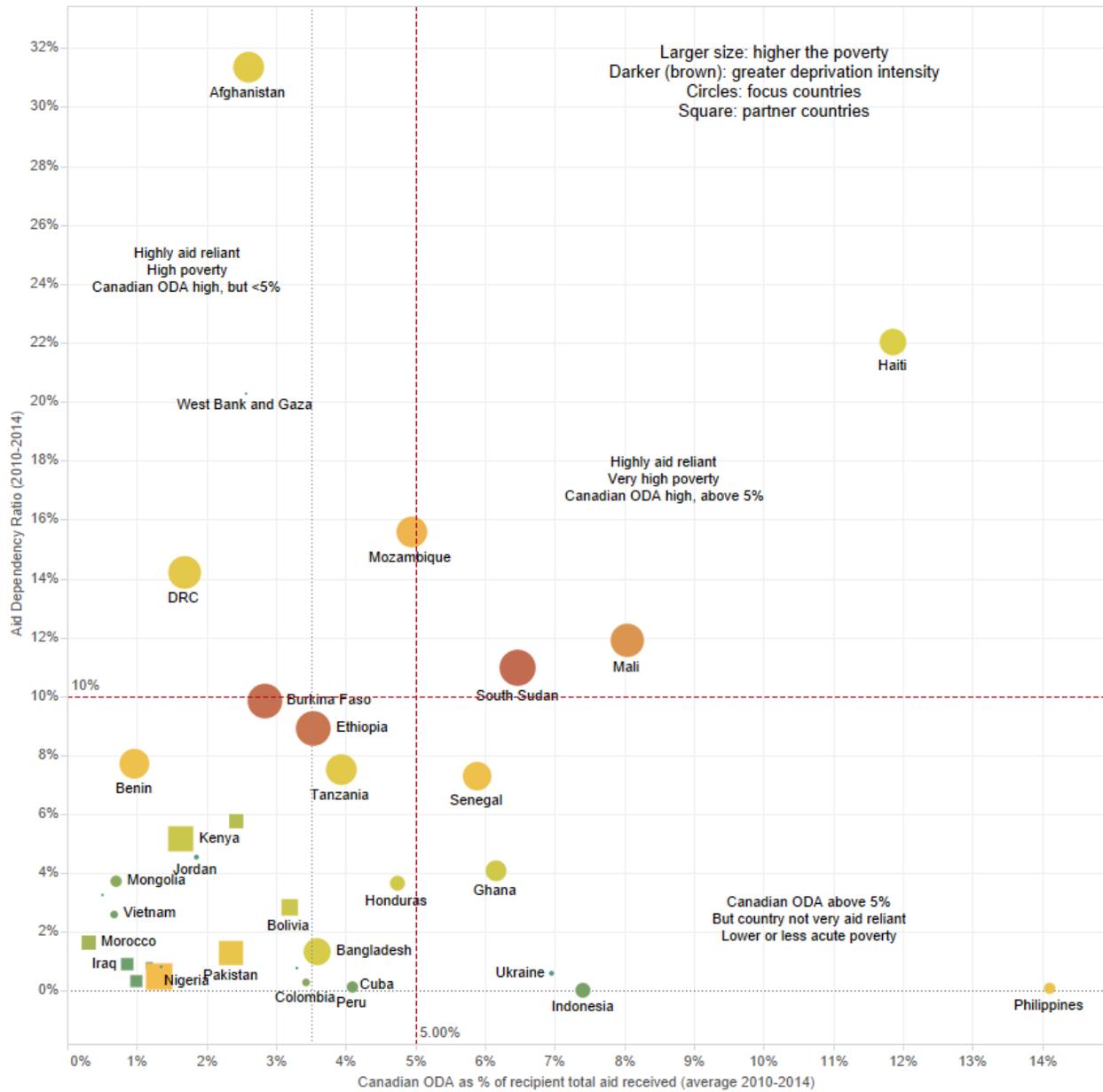
CIDP database

13. How does Canada's focus compares with others key donors?

	Top 5 recipients	Top 10 recipients	Top 20 recipients
Total DAC Countries	15%	23%	36%
Australia	36%	48%	59%
Canada	17%	29%	44%
France	24%	38%	55%
Germany	22%	34%	45%
Italy	11%	17%	25%
Japan	46%	59%	70%
Norway	20%	29%	38%
Sweden	12%	19%	28%
United Kingdom	20%	32%	47%
United States	18%	29%	43%
EU Institutions	29%	38%	50%

OECD-DAC, % of ODA received by top recipients, avg. 2013-2014.

14. Bringing aid allocation, poverty factors together for Canada's focus and partners



CIDP database, author calculations

15. Forward spending guidance: Focus, Partners, Multilateral

Group	Country	Fragility (World Bank)	Fiscal 2014-15 actual bilateral	Fiscal Year 2015-16 (\$)	Fiscal Year 2016-17 (\$)	Fiscal Year 2017-18 (\$)	
Focus	Afghanistan	Fragile	188,500,000	90,000,000	90,000,000	90,000,000	
	Bangladesh	Non-Fragile	70,300,000	55,000,000	55,000,000	55,000,000	
	Benin	Non-Fragile	7,000,000	7,000,000	10,000,000	15,000,000	
	Burkina Faso	Non-Fragile	23,600,000	20,000,000	25,000,000	35,000,000	
	Burma	Null	9,700,000	18,000,000	20,000,000	20,000,000	
	Colombia	Non-Fragile	39,500,000	23,000,000	23,000,000	23,000,000	
	Democratic Republic of the..	Null	39,400,000	15,000,000	20,000,000	25,000,000	
	Ethiopia	Non-Fragile	108,000,000	63,000,000	63,000,000	63,000,000	
	Ghana	Non-Fragile	70,000,000	80,000,000	80,000,000	80,000,000	
	Haiti	Fragile	80,900,000	90,000,000	90,000,000	90,000,000	
	Honduras	Non-Fragile	29,300,000	23,000,000	23,000,000	23,000,000	
	Indonesia	Non-Fragile	29,100,000	27,000,000	31,000,000	31,000,000	
	Jordan	Non-Fragile	83,600,000	45,000,000	40,000,000	40,000,000	
	Mali	Fragile	132,000,000	95,000,000	95,000,000	95,000,000	
	Mongolia	Non-Fragile	200,000	5,000,000	0	0	
	Mozambique	Non-Fragile	82,000,000	70,000,000	73,000,000	70,000,000	
	Peru	Non-Fragile	29,900,000	25,000,000	25,000,000	25,000,000	
	Philippines	Non-Fragile	27,100,000	15,000,000	17,000,000	20,000,000	
	Senegal	Non-Fragile	66,600,000	60,000,000	60,000,000	60,000,000	
	South Sudan	Fragile	122,400,000	60,000,000	60,000,000	60,000,000	
	Tanzania	Non-Fragile	101,500,000	84,000,000	81,000,000	78,000,000	
	Ukraine	Non-Fragile	505,900,000	50,000,000	50,000,000	50,000,000	
	Vietnam	Non-Fragile	24,600,000	20,000,000	20,000,000	20,000,000	
	West Bank and Gaza	Fragile	29,900,000	65,000,000	65,000,000	65,000,000	
Total			1,901,000,000	1,105,000,000	1,116,000,000	1,133,000,000	
Partner	Bolivia	Non-Fragile		9,000,000	9,000,000	9,000,000	
	Cuba	Non-Fragile		4,500,000	4,500,000	4,500,000	
	Egypt	Non-Fragile		17,500,000	17,500,000	17,500,000	
	Guatemala	Non-Fragile		4,500,000	4,500,000	4,500,000	
	Kenya	Non-Fragile		15,000,000	15,000,000	15,000,000	
	Morocco	Non-Fragile		8,000,000	8,000,000	8,000,000	
	Nicaragua	Non-Fragile		12,000,000	12,000,000	12,000,000	
	Nigeria	Non-Fragile		26,000,000	26,000,000	26,000,000	
	Pakistan	Non-Fragile		24,000,000	22,000,000	22,000,000	
	South Africa	Non-Fragile		5,000,000	5,000,000	5,000,000	
	Sri Lanka	Non-Fragile		6,000,000	6,000,000	6,000,000	
	Total				131,500,000	129,500,000	129,500,000
	Multilateral	Afd - African Developmen..	Null		106,338,464	2,910,100	0
Agence Universitaire De L..		Null		600,000	0	0	
Asdb - Asian Development ..		Null		47,690,125	0	0	
Cdb - Caribbean Develop..		Null		16,705,000	0	0	
Commonwealth Of Learning		Null		2,600,000	2,600,000	0	
Consultative Group On Int..		Null		10,000,000	0	0	
Gavi Alliance		Null		100,000,000	100,000,000	100,000,000	
Global Environment Facility		Null		54,750,000	54,750,000	25,040,000	
Global Fund To Fight Aids, ..		Null		216,666,666	0	0	
Green Climate Fund		Null		0	0	132,000,000	
Idb - Inter-American Devel..		Null		865,000	865,000	865,000	
Ifad - International Fund Fo..		Null		12,500,000	12,500,000	0	
International Centre For Di..		Null		1,060,000	0	0	
International Trade Centre		Null		950,000	950,000	0	
Multilateral Fund For The I..		Null		5,294,830	5,294,830	0	
Ocha - Office For The Coord..		Null		2,000,000	2,000,000	0	
Oif - Organisation Internati..		Null		5,200,000	0	0	
Unu-Inweh - United Nation..		Null		2,000,000	2,000,000	2,000,000	
Total					585,220,085	183,869,930	259,905,000
Grand Total				1,901,000,000	1,821,720,085	1,429,369,930	1,522,405,000

Author calculation based on Statistical Report (2014-15) and IATI data