Responding to the Changing Global Development Context

How Can Canada Deliver?

June 2017
Responding to the Changing Global Development Context

How Can Canada Deliver?

June 2017
Contents

1   About this Brief
2   Key Messages
3   The Politics of Development
4   The Landscape of Global Development is Changing Rapidly
5   Leave No One Behind
7   The New Normal for Development Agencies
7   From Aid Policy to Development Strategy
8   Foreign Aid has Become Increasingly Domestic
9   Realizing Canada’s Feminist International Assistance Policy
11  Putting Development Finance in Perspective
12  From Billions to Trillions
14  Endnotes
About this Brief

On April 28, 2017, the Canadian International Development Platform (CIDP) brought together representatives from 58 organizations, including the Government of Canada, diplomatic missions, the Canadian private sector, academic community and over 40 civil society organizations, to engage in a strategic conversation on advancing Canada’s contribution to sustainable and inclusive development. The event took place in Ottawa, Canada.


This brief was developed by the CIDP team: Aniket Bhushan, Ainsley Butler, Queena Li, Rachael Calleja, Norhan Awadallah, Robert Sauder, Kaitlin Walker, and Lance Hadley.

About the Platform

The Canadian International Development Platform leverages open data and big data from a development perspective, focusing on Canada’s engagement in development issues. It is a vehicle and venue for objective, non-partisan research, policy analysis, and data analytics. It is both an online and offline forum for exchange of forward thinking ideas on development.

Acknowledgements

The CIDP team would like to thank our partners, especially the Overseas Development Institute (UK), Bill & Melinda Gates Foundation, Norman Paterson School of International Affairs, and the Canadian Development Economics Study Group. Thank you to conference speakers and participants who gave generously of their time and efforts to enrich these conversations.
Key Messages

This brief highlights key messages in eight areas to help address how Canada can deliver in a rapidly changing global development context:

- **The politics of development are changing** and the sector needs to better adapt to new political realities. Global goals need to be embedded in domestic themes and priorities. The importance of development needs to be understood more broadly. It cannot be perceived as the exclusive preserve of progressives and elites.

- **The landscape of global development is changing rapidly while extreme poverty has declined considerably.** The hardest mile in the fight against poverty reduction remains. In the best-case scenario, between 3% and 7% of the world’s population will live in extreme poverty in 2030. This equates to over 400 million people.

- **The ‘Leave No One Behind’ agenda takes on new significance.** A hard-nosed conversation about risk, systemic level approaches and innovation is required in order to ensure the focus remains on the poorest and the most vulnerable.

- **Development agencies are confronting a ‘new normal’** characterized by important shifts. For example, away from traditional official development assistance (ODA) to the need for catalytic financing; adapting to fewer aid recipients, more concentrated in fragile, low and middle-income countries; fewer autonomous aid agencies and more specialized multilateral institutions.

- **Canada needs a development strategy**, not just an update to its aid policy: contemporary issues in development are well beyond the purview of traditional aid agencies and leveraging non-financial assets requires a broader strategy.

- **Driven by humanitarian crises and their fallout, foreign aid has increasingly become domestic.** The share of foreign aid spent within donor countries on refugee costs has more than tripled from under 3% in 2000 to nearly 11% in 2016.

- **The factors that will make or break Canada’s feminist international assistance policy** are its approach to risk, how it goes beyond semantics, and whether it is pragmatic about resources, time-frames, and results.

- **There is consensus on the need to go from ‘billions’ to ‘trillions’ in development finance—the question is how.** ODA is a stretched resource, going beyond ODA is no longer a matter of debate. New mechanisms, such as Canada’s development finance institution (DFI), can play a key role in leveraging private capital for development if they get their mandate and governance right.
The Politics of Development

Global development objectives are pursued within a rapidly changing political reality. The development sector needs to do a far better job of adapting to fast-changing political realities and update its narrative to respond to the same.

A narrative that appeals primarily to charitable and humanitarian impulses, or one that relies heavily on the logic of global public goods, no longer mobilizes adequate support for development in a Trumpian, Brexited world.

Embed ‘global’ goals and ‘foreign’ issues in domestic themes and priorities.

• Pursuing a narrative that frames development as both altruistic and in the national interest is necessary to foster wider support. The key is to embed ‘global’ and ‘foreign’ issues in domestic themes and priorities. The linkages are clear and resonate powerfully, but are inadequately unpacked.

• Inclusive growth, job creation and economic empowerment that works for all sections of society (especially historically marginalized groups like the aboriginal population of Canada), empowerment of women and girls, climate change and clean technology, resettlement of refugees, access to quality healthcare and education, innovation and the future of work in the new economy are issues that resonate not only with the 17 Sustainable Development Goals agreed in September 2015 but are the main issues of the day for policymakers across the Government of Canada.

Support for development cannot be the exclusive preserve of ‘progressives,’ ‘elites’ and ‘liberals’.

• Broadening the conversation and engagement—who the development sector speaks to, in what language and across what media—is paramount.

• A narrative that is diverse (one that speaks to different partners in the way that works best for them) and coherent (such that it drives at a common purpose) is critical to build support for development across the political spectrum. Such support has been vital in other donor countries. The UK’s resilient commitment to development spending, both in the face of austerity and Brexit, is a case in point.

• Engaging the conservative media, business community, grassroots groups and social movements in a new dialogue on development is now necessary to build broad-based support for development in Canada.
The Landscape of Global Development is Changing Rapidly

The number of Low Income Countries more than halved from 63 in 2000 to 31 in 2015.\(^1\)

Number of Low Income Countries

\[
\begin{array}{c|c}
2000 & 63 \\
2015 & 31 \\
\end{array}
\]

According to the World Bank’s income classification.

Extreme poverty has declined considerably as a share of world population.\(^2\)

However, between 3\% and 7\% of the world’s population will live in extreme poverty in 2030.\(^3\)

In the best-case scenario, this equates to over 400 million people living in extreme poverty in 2030.

Over 80\% of the extreme poor will be in sub-Saharan Africa.

60\% will be in fragile countries (mostly in sub-Saharan Africa).
Leave No One Behind

‘Leaving no one behind’ requires a hard-nosed conversation about risk, systemic level approaches, and innovation.

What is the ‘Leave No One Behind’ (LNOB) agenda and why is it relevant?

- The LNOB agenda is not new. It has its roots in anti-discrimination movements and debates. **What is new is that it is now enshrined as a global policy commitment under the Sustainable Development Goals (SDGs).** The framing is intuitive, universal, and easy to relate to—whether in a poor or rich country. LNOB responds directly to the biggest weakness of the Millennium Development Goals (MDGs), which focused on aggregate country-level progress and masked many disparities. LNOB represents a tough challenge: to act urgently and to innovate.4

Espousing rhetoric and setting technocratic targets on ‘focusing on the poorest and most vulnerable’ or ‘fragile states’ is easy. Delivering tangible results is hard.

- **The poorest and most vulnerable are almost always the costliest to reach.** Humanitarian interventions from the Sahel to Syria show this clearly. Progress, where achieved, is fickle and at the greatest risk of reversal. Vaccination and girl’s education in Afghanistan and Pakistan are cases in point.

- **Risks are real and cannot be papered over.** Donors, such as Canada, that aim to focus on the poorest and most vulnerable, will see risk in their development portfolios rise incrementally. Supporting women’s movements entails risk, working with small and medium-sized enterprises (SMEs) entails risk.
Two bright spots that can help:

Foster a culture of data-driven innovation.

- **LNOB requires unmasking disparities hidden by traditional measures.** Not only investing in, but making disciplined use of, sub-national, disaggregated data, including blending non-traditional and non-official sources will separate the winners from the losers.\(^5\)

Focus on systemic approaches.

- **LNOB implies the need for system-wide approaches.** In the health sector, it implies investing in health systems as opposed to more narrow interventions.\(^6\) A system-wide approach would pay attention to inter-sectional issues, such as the need to address data and health information systems gaps that prevent sustained progress. In the education sector, a system-wide approach would go beyond enrollment and test scores to measure progress based on whether schools are places where children learn how to exercise their rights and whether the education system fosters social change.\(^7\)

Early intervention and innovation are what development partners increasingly demand.

- **More than financial support, it is the know-how** that a partner like Canada—which boasts a world-class universal health care system and public education system—brings to the table. Getting it right early pays dividends in the long run, in both health and education.
The New Normal for Development Agencies

The ‘new normal’ is characterized by important shifts:8

- **Less traditional ODA; more catalytic funds**, increasing importance of knowledge sharing, technical assistance and coherence across policy domains beyond aid policy.

- **Fewer aid recipients**, fewer low income and least developed countries; **more fragile low and middle income countries** that demand horizontal partnerships.

- **Fewer individual humanitarian interventions; greater demand for integrated relief** and development in protracted crises.

- **Fewer autonomous aid ministries and agencies**, and bilateral interventions; **more specialist multilateral channels** and cross-governmental approaches.

This ‘new normal’ demands differentiated partnerships across fragile, non-fragile low income, transitional, and emerging countries and a more integrated approach to development strategy as opposed to aid policy.9

From Aid Policy to Development Strategy

Canada needs a development strategy, not just a review of aid policy.10

- **Global Affairs Canada launched its international assistance review process in 2016.** Such a review, the first in over a decade, has been long overdue. However, our analysis has repeatedly shown that **Canada needs an integrated development strategy and not just a review of its aid policy.**11

Contemporary development issues are well beyond the purview of traditional aid agencies, whether autonomous or amalgamated within wider foreign affairs.12

- **Climate finance in developing countries; financial innovation to leverage private capital in support of development; responding to the refugee crisis; peacekeeping, security and stabilization operations, including deradicalization and counterterrorism; promoting governance and the rule of law—these challenges require whole-of-government responses.**

Leveraging non-financial assets requires a development strategy.

- **Mobilizing political capital, making the most of network effects, leveraging knowhow and innovation, experimenting with new modalities, tools and partnerships requires a development strategy and a platform wider than that of an aid program or agency.**13
Foreign Aid has Become Increasingly Domestic

Driven by the humanitarian crises and their fallout, ‘foreign’ aid has become increasingly ‘domestic’. The share of foreign aid spent within donor countries on refugee costs has more than tripled from under 3% in 2000 to nearly 11% in 2016.

Share of Canada’s Foreign Aid Spent Within Canada on Refugee Costs

The share of Canada’s foreign aid spent within Canada on refugee costs, doubled from 2015 to 2016 from about 5% to 10% of total foreign aid (primarily due to the settlement of Syrian refugees).

Refugee costs now account for 17% - 25% of total foreign aid in 4 out of the 6 countries that met the UN goal of spending 0.7% of gross national income (GNI) on foreign aid in 2016.

Share of official development assistance (ODA) spent on immediate emergencies now makes up over 20% of total OECD-DAC ODA. A historic high.
Realizing Canada’s Feminist International Assistance Policy

Will Canada’s ‘feminist international assistance policy’ push the envelope?

Gender equitable societies are shaped by both institutional ‘bricks’ and normative ‘mortar’: formal laws and institutions can support gender equality, but deeply held social and cultural beliefs either hold the structure together or tear it apart.¹⁵

• **Canada's approach must go beyond technocratic solutions to address harmful and often deeply-held gender norms that act as barriers to change.**
  Empowerment of women and girls is a prerequisite for gender equality, but empowerment and equality are not synonymous. Although more girls are attending school, their learning scores remain low. Early marriages, young pregnancies, sexual and gender-based violence remain high in many countries.

• **Canada's feminist approach to international assistance should link support for women's issues in Canada with global leadership on gender equality and empowerment of women and girls.**¹⁶
  Canada is well-placed to champion sexual and reproductive health and rights (SRHR), end violence against women, improve women's access to the workforce and representation in government and politics.

Factors that will make or break Canada's approach to feminist international assistance:

• **Approach to risk:** A feminist approach to international assistance entails risk. For example, social movements advocating for gender equality in developing countries may be the most important group to work with to address the gender equality ‘mortar,’ but these are not the groups Canada may typically work with because they are deemed too risky. Anticipating and accounting for risk, to the extent possible in advance, is an important marker that will signal how serious the new approach is.

• **Not just semantics and not just about us:** To date, discussions about the new feminist approach have been primarily about us, i.e. Canada as a donor, and not enough about how the approach will be qualitatively different in terms of working with new partners and champions in partner countries. The feminist approach may be semantically new to Canada, but is certainly not new. The first major United Nations
conference on the status of women took place in 1975 (Mexico City) and the landmark Beijing Declaration and Platform for Action was adopted in 1995. Development partners, such as the Nordic countries, have applied a feminist lens, and Sweden has an explicitly ‘feminist foreign policy’ that has entailed hard diplomatic choices. Canada need not reinvent the wheel, but neither can its approach to feminist international assistance be limited to semantics.

- **Pragmatism about resources, time frames and results**: A policy framework that guides programming and projects that are 3 to 5 years in duration is almost contradictory. Applying a feminist lens requires a long-term strategy, over decades. New and additional financial commitments—not merely re-framing existing resources—will be necessary to realize stated ambitions. Providing a sense of what success looks like in applying a feminist lens in development policy and programming is a prerequisite to drive a shared understanding of the objectives of Canada’s feminist approach.
Putting Development Finance in Perspective

- **$523 billion per year**
  - Total non-official development assistance (ODA) flows, excluding remittances, to developing countries (2015), most of which go to LMICs and UMICs.\(^\text{17}\)

- **$290 billion per year**
  - Infrastructure financing needs in Africa and South Asia over the next 20 years.\(^\text{18}\)

- **$143 billion per year**
  - Total OECD-DAC ODA (2016).\(^\text{19}\)

- **$7 trillion**
  - Total assets in sovereign bonds that had a negative yield as of Feb/Mar 2016, based on various market sources.\(^\text{20}\)

- **$6 trillion**
  - Conservative projection of gross capital flows to developing countries by 2030 ($13 trillion in a high-case scenario).\(^\text{21}\)

- **$3 trillion per year**
  - Estimated cost of achieving the Sustainable Development Goals by 2030.\(^\text{22}\)

---


- **ODA flows**
- **Non-ODA flows**

In **25 out of the 52 countries** classified as LDCs or LICs in 2015, ODA made up **70% or more of external financial flows**.

Share of ODA in total external financial flows (2015) in:\(^\text{23}\)

- LDC & LIC: Approx. **42% - 47%**
- LMIC: Approx. **13%**
- UMIC: Approx. **6%**

Total external flows comprise: remittances, foreign direct investment (FDI), ODA, other securities and official flows, private grants, and export credits.
From Billions to Trillions

“To meet the investment needs of the Sustainable Development Goals, the global community needs to move the discussion from ‘Billions’ in ODA to ‘Trillions’ in investment of all kinds: public and private, national and global, in both capital and capacity”.

— Opening statement of the discussion paper issued jointly by the World Bank, International Monetary Fund and the regional multilateral development banks in lead up to the Third International Conference on Financing for Development, 2015.24

ODA is an increasingly stretched and scarce resource.

- Driven by humanitarian crises, the need for climate finance and ever expanding global agendas, the demand for ODA has increased substantially. While ODA has grown in absolute terms, relative to donor country income, spending levels have remained virtually static – OECD-DAC ODA/GNI has ranged between 0.27 and 0.32 since 2005. The rate of growth of ODA has also slowed. From 1996 to 2006 ODA grew at a CAGR of approx. 5.2%. However, in the face of increasing need such as the Arab Spring, Ebola outbreak and the Syrian crisis, in addition to natural disasters such as earthquakes, tsunamis and floods, the rate of growth of ODA from 2006 to 2016 nearly halved to 2.7%.25

Going beyond ODA is no longer a matter of debate.

- Most donors, including Canada, realize this. Recent efforts at the multilateral and donor level clearly show this. The World Bank IDA’s new Private Sector Window and collaboration to provide risk mitigation to IFC lending is a case in point. Discussions at the OECD to redefine ODA and introduce new measures (such as Total Official Support for Sustainable Development or TOSSD) are further evidence.26 The growth in annual commitments by bilateral development finance institutions (DFIs), which outpaced ODA by a factor of over 10 to 1 from 2002 to 2014, is another example.27 In 2017, Canada became the latest donor to set up a DFI, which will be based in Montreal. Canada is also leading in the blended finance space with the launch of Convergence, based in Toronto.

There is no shortage of investable capital in the global economy, especially in donor countries where significant funds are locked in a low yield environment, well short of returns needed to meet future liabilities.

- However, leveraging institutional investment at scale requires investment-grade assets. This is no easy task in developing, emerging and frontier economy contexts. Much more innovation is needed in this space. With the new DFI, blended finance
platforms, growing philanthropic community, some of the largest and best run pension funds and financial institutions in the world, highly liquid and efficient capital markets—Canada is well placed to lead in this area if it plays its cards right.

The challenge is not only to leverage greater private sector capital for global development, but to get resources to the right places on the right terms.

- DFIs, blended finance initiatives and others need to think extremely carefully about where and when they use scarce concessional finance, and the right balance between supplying capital to existing opportunities vs. investing in longer-term local capacity to increase the pipeline of bankable projects.

Canada’s new DFI needs to get its mandate and governance right. Development additionality and financial sustainability must be at the top.

- DFIs can only work effectively under a tight mandate. Experience shows that with a mandate that is focused, governed by a transparent scorecard and a deal-making playbook that is clearly understood within the organization, DFIs can make a huge impact in supporting the private sector, including in the poorest countries.

- Development impact and additionality should be at the top of the mandate. The DFI must work complementarily with Canada’s wider development strategy.

Greater attention is needed to the perspectives of transitioning and graduating countries.

- More and more countries are graduating from low to middle income status, and the pace of this transition is expected to increase. As countries get richer the share of ODA declines, but in many cases the domestic revenues are not enough to compensate for the loss of ODA.

- The graduation process needs to be reviewed in many cases, with an eye to large and persistent pockets of poverty and need in otherwise fast emerging economies.

- Countries that are successfully navigating the transition care less and less about the type or modality of external resources (ODA or non-ODA and the level of concessionality) and more and more about scale, speed of delivery and responsiveness of development partners, ownership of decision making regarding how and where resources are directed, and non-financial support, such as demand-driven technical assistance.
Endnotes


This is not to suggest that all of this capital can fund development, but only to compare and contrast scale, and point to the often lopsided nature of financial positions in the short-term, which should be a significant opportunity for patient public and private development finance; Zero Hedge, “$7 Trillion In Bonds Now Have Negative Yields,” *Zero Hedge*, February 9, 2016, http://www.zerohedge.com/news/2016-02-09/7-trillion-bonds-now-have-negative-yields; Jeff Sommer, “In the Bizarro World of Negative Interest Rates, Saving Will Cost You,” *The New York Times*, March 5, 2016, https://www.nytimes.com/2016/03/06/your-money/in-the-bizarro-world-of-negative-interest-rates-saving-will-cost-you.html.


