CANADIAN INTERNATIONAL DEVELOPMENT PLATFORM

Briefing Submission and Oral Testimony

Bill C-86, Budget Implementation Act, Part 4, Division 17 – Official Development Assistance

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Aniket Bhushan
Principal, Canadian International Development Platform
Adjunct Research Professor, Norman Paterson School of International Affairs (NPSIA), Carleton University
www.cidpnsi.ca
aniket@cidpnsi.ca | aniket.bhusan@carleton.ca
Tel: (613) 520-2600 ext. 6198 | Mobile: (613) 852-0265

Overview and Key Take-Aways

This briefing and oral testimony:

1. Provides in-line comments on 3 main elements of Budget Implementation Act (BIA) Bill C-86, Part 4, Division 17:
    a. Change to reporting timeline: welcomed with qualifications
    b. Repeal of "ODA" definition": welcomed with qualifications
    c. New authorities contained in IFAA: welcomed; with request for greater detail, specific consultation/further study, and supportive recommendations
2. Provides key considerations and recommendations for future work[1]
    a. Coordinate specific discussion and/or study the structure of Canadian ODA and development finance
    b. Address transparency gaps and persistent informational and accountability issues

Brief in-line comment on Part 4, Division 17 provisions

BIA[2] contains 3 main areas that are the focus of our intervention:

1. Change to reporting timelines.
2. Repeal of the definition of "official development assistance" (ODA).
3. Three new authorities contained in the new International Financial Assistance Act (IFAA).

Division 17 of Part 4 amends the Bretton Woods and Related Agreements Act, the European Bank for Reconstruction and Development Agreements Act, and the Official Development Assistance Accountability Act to have ***a common date by which the reports must be tabled in Parliament. This will allow these reports to be harmonized such that they can be consolidated into a single international assistance report to Parliament, and better aligned with the timing of when Canada's international assistance statistics and results from the previous fiscal year are finalized****.*

Change in timeline

- **On balance we welcome this change**. Our assessment of advantages vs. disadvantages is as follows:
- The advantage of the ODAAA reporting to parliament has been that it provides aggregate data at a mid-point, approx. 6 months after the fiscal.
- The disadvantage is that it provides only aggregate information. Supportive data (e.g. at the project level) to validate claims in the report, are unavailable with the same frequency. This is despite reporting to international standards and Canada's own open data sources.[3]
- This often creates a mismatch in understanding and raises validation issues.[4]

[1] Either by the Senate or Parliamentary Committees (relevant being FAAE and FINA).
[2] All refs are to Budget Implementation Act (BIA) Bill C-86, part 4 div. 17, unless specified otherwise.
[3] These include IATI, GAC's open data portal which contains the Project Browser data stream as well as historical projects data streams, and the Statistical Report raw data. All of which are used extensively by our organization.
[4] For e.g. the most recent Report to Parliament (Sept 2018) makes the claim that in 2017-18 '95% of Canada's humanitarian assistance fully integrated gender equality'. We analyzed this in a recent report. Integrating gender into responsive humanitarian spending is not only very

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- The reporting is also superseded by the end-fiscal (or close to end-fiscal) Statistical Report to Parliament, which is more comprehensive and does contain raw data (as these are also used for onward reporting).
- In our view there are too many overlapping reporting structures as it relates to Canadian ODA (with the ODAAA report being the latest of these). The lack of symmetry across these often creates more challenges and a veneer of transparency.
- Our perception is also that internally, within GAC and relevant departments, this creates additional reporting burden.
- There is a fine line between meaningful transparency and accountability, and reporting burden. When the perception is more the latter, this affects the quality of the reports and data.
- **Therefore, on balance, the disadvantages outweigh the advantages**, and if this change leads to greater harmonization in reporting, and greater alignment of timings, such that the quality of reporting, quality of underlying data, coverage of data (both in time and scope in terms of percentage share of actual activity covered; and, especially results information, which tends to be poorly reflected and communicated), then this change would be welcome. However, it must be **bolstered by further steps to improve the quality of existing mandatory reporting**.

Definition of ODA

Clause 656 repeals the definition of "official development assistance" under section 3 of the ODAAA; the existing definition does not reflect the most recent definition used for that term by the Development Assistance Committee of the Organisation for Economic Cooperation and Development. Clause 657 adds new section 3.1 of the ODAAA to allow the Governor in Council to ***define "official development assistance" through regulation****.*

- **"ODA" is not a static concept**. As defined and maintained by the OECD-DAC, the concept has gone through periodic review and change. Key changes in the past have related to accounting for debt relief, as well as accounting of the costs of the settlement of refugees (or in-donor refugee costs) as ODA.
- The main change is to make the definition of ODA subject to regulation.
- **This change makes sense and is in line with measures required to keep up with two related multilateral processes.**
- The first is the **modernization of ODA**. The process began at the DAC in 2012. Key steps have been taken by the DAC during the High-Level Meetings (HLMs) in 2014, 2016 and 2017.
- As summarized in the 2016 HLM communique and furthered in 2017, these changes affect (a) measurement of concessional loans (or soft loans); (b) private sector instruments (ranging from debt and debt-like, to mezzanine to equity and quasi-equity); peace and security expenditures; and in-donor refugee costs.
- The new 'grant-equivalent' system will go into effect in earnest in 2019. As of April-2018[5], the cash-flow based system remains in use.
- The main features of the current definition of ODA are as follows:
- *provided by official agencies, including state and local governments, or by their executive agencies; and*
- *each transaction of which:*
    - *is administered with the promotion of the economic development and welfare of developing countries as its main objective; and*

challenging practically speaking but should (in theory) affect responsiveness and entail additional cost. Otherwise it risks being seen as meaningless. We found no data or evidence to support the above claim, which is a key feature of Canada's turn to "feminist international assistance" (FIAP). The lack of validation, timely data, requisite transparency and accountability to taxpayers and parliament create risks for the GAC FIAP. For more see: http://cidpnsi.ca/canada-on-the-global-stage/

[5] Last high-level aggregate reporting from the DAC on ODA statistics. The 2019 headline ODA figures will reflect the new standard.

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- *is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)."*

- Furthermore, there are specific exceptionalities and conditions – funding can only count as "ODA" if it goes to countries on the DAC specified list of "ODA eligible countries" (which excludes higher income countries); military aid does not count as ODA, peacekeeping support is capped in terms of ODA valuation.
- The main changes[6] are to the concessional character. The shift is a move away from the flat 25% grant element and 10% discount rate to a differentiated approach:
    - For Least Developed and Low-Income Countries the grant-element requirement goes up to 45%; at a discount rate of 4%
    - For Lower Middle Income: 15% grant element and 2% discount rate
    - For Upper Middle Income: 10% grant element and 1% discount rate
- These changes explicitly consider and respond to the fact that: **while ODA - overall at a level of approx. $140-150 billion (annual) - is a "drop in the bucket" as far as financial flows are concerned, for some countries they are far more important than they are for others. The differentiation is stark even among developing countries. For e.g. ODA represents 70% to 80% of available external finance for LDCs and over 1/3rd of total public revenue and expenditure.** By comparison ODA is only 13% of external flows in lower middle income and 6% in upper middle-income countries.[7]
- The above **changes have the net effect of counting (and thereby incentivizing) more accurately i.e. giving more credit to donors where their spread of ODA is more consistent with the need for ODA** i.e. in the poorest countries.
- **The second key multilateral process that the Canadian framework must make note of and position to respond to is the new Total Official Support for Sustainable Development (TOSSD)**[8] measure.
- TOSSD is a broader and complementary measure to ODA. It does not replace ODA.
- While the process is still ongoing - the TOSSD Task Force is preparing a first set of Reporting Instructions with the intention of agreeing on scope and method in 2019 to enable the integration of TOSSD in the SDG monitoring framework in 2020 – TOSSD is expected to cover 3 main features:
    - i) the leveraging/catalytic effect of ODA,
    - ii) the use of blended finance packages, and
    - iii) the use of innovative risk mitigation instruments in development co-operation.
- Our early assessment shows that while progress is being made to better track and measure the catalytic effect or ODA, overall, there remain serious gaps and methodological shortcomings.[9]
- **These changes, new measures and processes at the multilateral level require Canada to have requisite flexibility to ensure its framework can keep up with the same. Therefore, the change to define ODA via regulation is welcome.** However, it also raises some important considerations:
    - Ensuring that ODA remains targeted and focused on poverty reduction.
    - Ensuring consistency with and respect for Canadian values such as equality, inclusiveness, human rights and cultural sensitivity.
    - Ensuring there is symmetry between tools/solutions and contexts/problems.

[6] There are other changes, such as to measurement of flows and re-flows, debt sustainability criteria; as well as changes in other areas such as peace and security and refugee costs, which are not taken up here.
[7] See: http://cidpnsi.ca/how-can-canada-deliver/ and http://www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20ODA.pdf
[8] For more information see What is total official support for sustainable development (TOSSD)? at: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm
[9] For more see: http://cidpnsi.ca/how-much-private-finance-is-mobilized-by-official-development-finance/

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- Ensuring that the perspectives of the poor and development partners across the spectrum are reflected in the process of policy development and prioritization.

New authorities within the IFAA

*The IFAA provides the Minister[10] with authorities to support three new programs: **The Sovereign Loans and the International Assistance Innovation programs and a climate change repayable contribution program**.*

- **We welcome these forward looking and necessary measures to ensure Canada's development policy and finance toolkit keeps up with global changes and helps position Canada for new opportunities.**
- These tools however also give greater flexibility, specifically to the Minister of International Development. Budget 2018 backed these with a strong resource commitment of CAD$1.5bn (over 5yrs) which will "double the level of Canada's international assistance provided by innovative tools".[11]
- However, beyond the broad strokes - explore the use of guarantees, equity and repayable contributions – details have been scant.
- More needs to be done to support capacity (both internal at GAC and externally in the Canadian ecosystem) to increase awareness of these modalities and canvas (as well as position for) new opportunities.
- **The changes outlined above as part of the ODA modernization agenda have significant implication for sovereign and soft loan programs**, such as the one being implemented by this BIA's new IFAA. Specifically, they affect the concessional character of ODA loans. Unlike in the past, loans to non-LIC/LDC countries would not count in full as ODA.
- Canada has had limited experience in this regard, compared to other bilateral DAC donors. According to our analysis the main recent instances were loans to Ukraine (US$181mn in 2014, and US$156mn in 2015).[12] Given Ukraine's income status these would not count in the future fully as ODA.
- Therefore, judgement needs to be exercised both by way of ODA-bility, but also, and more importantly, with reference to debt sustainability (which is enforced under the new standard).
- ODA loans are a small proportion of overall ODA. According to our analysis total volume of bilateral DAC ODA loans ranged between US$13.7bn in 2012 to US$16.5bn in 2016.
- 3 DAC bilateral donors are significant in this space: Japan ($7.8bn), Germany ($4.5bn), France ($3.3bn) in 2016.[13] However the use of ODA loans is also significant and a growing part of the development finance portfolio of a number of emerging donors – UAE ($2bn), Korea ($637mn), Arab Fund, Kuwait and OPEC Fund (each around $500mn).
- **Our key take-away is that while the sovereign loan program and authority are welcomed, far greater transparency is needed on loan terms and tenors, policy objectives and consistency with new grant-equivalent measurement as far as reporting as ODA must be ensured.**
- Similarly, beyond the broad strokes of the innovation program and authorities contained therein in terms of the acquisition and disposition of assets and the types of assets (the expansion of which to include securities, equity and equity-like instruments, is welcomed) there is very little detail to date regarding the content of the program.
- GAC has conducted 'consultations' on these new programs but even these have not (generally) provided sufficient detail regarding either the targeted content or the overall objectives.

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[10] Specified as Minister of Foreign Affairs or International Development.

[11] See our early reaction and analysis of the same: https://www.opencanada.org/features/did-budget-2018-deliver-funds-canada-needs-lead-nice-try-no/

[12] More recently, 2017, Canada has provided ODA loans to the ADB Canadian Climate Fund for Private Sector in Asia (US$114.4mn).

[13] These are total ODA loans, a subset of which are sovereign.

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- **Regarding repayable contributions, GAC has received authorities**[14], and in the climate change space has already undertaken at least one instance of repayable contribution (to the Green Climate Fund).[15] This expansion of tools however is to be welcomed as it is well-known (though anecdotally) that the ability to quickly position repayable contributions and similar modalities puts other donors at an advantage over Canada in terms of flexibility and agility.
- Key issues again are around transparency and accountability. For instance, there is anecdotal evidence and information regarding the use of soft loans and other modalities especially in the climate change space. However, there is very little comprehensive and consistent information about these in the public domain.
- **These new IFAA authorities and measures are welcomed. However, specific caution is raised on account of limited visibility regarding the content and/or target objective(s) of these programs**. This is despite proforma consultations conducted by GAC (the outcomes of which remain unclear in the public domain). Moreover, public information regrading efforts, e.g. concessional loans in the climate change space or the use of guarantees, repayable contributions and other such modalities, remains inconsistent and unclear. A key reason is that **Canada lacks an overarching development finance policy or strategy**. Key considerations therefore include:
    - Clarification of the role and ownership of IFAA authorities between Ministers. Given the deference Ministers have in terms of IAE management (and because these authorities are funded out of the IAE) the addition of these authorities deserves specific periodic review. Consider mandating a review of new authorities every 5-7 years. This is a fast-moving space and such review would be an opportunity to ensure Canada (GAC) is keeping pace.
    - Greater transparency regarding the strategy (targets, objectives) of the new innovative finance measures, and regrading the content of initiatives undertaken within the new authorities.
    - Improvements to internal capacity (at GAC) and investment in the Canadian development finance and impact investment ecosystem to drive awareness and opportunities. To bridge capacity gaps and provide a permanent avenue for input GAC should consider organizing an expert investment advisory council to support new investments made under the purview of the new authorities.

Key Considerations and Recommendations for Future Work

Coordinate specific discussion and/or study the structure of Canadian ODA and development finance

Current deliberations within the purview of the BIA are largely technical changes on the margin. However there have been important updates in Canada's development finance landscape, most recently with the launch of the DFI FinDev Canada. The Canadian impact investment and blended finance space is also growing. But there are also risks of duplication, internal competition and lack of coordination. With new initiatives and efforts, such as the IFAA, there is a need to provide a more comprehensive and consolidated picture of the updated Canadian development finance landscape. *IFAA should present an opportunity for further specific discussion and study on Canada's development finance landscape* which could be undertaken either by Senate or Parliamentary Committees (FAAE or FINA).

Address transparency gaps and persistent informational and accountability issues

While the number of reports and data feeds on Canadian ODA have increased (substantially) in recent years, it is questionable whether the net effect of these is enhanced understanding of Canada's investments and more importantly whether these ODA investments are meeting their objectives and to what extent. There is still limited

[14] Report to Parliament on ODAAA (2018) references Canada's first unconditional repayable contribution to the IFC, which is in support of the G7 Africa Renewable Energy Initiative (AREI). The contribution level is $150mn. See: https://www.international.gc.ca/gac-amc/assets/pdfs/publications/odaaa-17-18-eng.pdf

[15] There is some confusion as to the application of the instrument, however this is as per GAC's own official information: http://w05.international.gc.ca/projectbrowser-banqueprojets/project-projet/details/d002420002

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ex-ante visibility on budget plans (as there is limited visibility surrounding the international assistance envelope, IAE, which funds most of ex-post Canadian ODA). Open data and other feeds, while much improved, still have coverage and comparability issues. *Despite publications to international standards, there is limited traceability across the value-chain of Canadian ODA (this is true for many donors). Little has been done to enhance civil society capacity and mandate greater accountability, specifically around taxpayer funded ODA from official agencies (e.g. GAC) that is intermediated by Canadian NGO/CSO partners. The lack of traceability of ODA implemented by Canadian partners is out of sync with Canada's official international commitments, such as on the localization of ODA.*

Annex: Key developments in major donor markets and the need for a strategic Canadian perspective

Development finance in a global context

- The 2015 Addis Ababa Action Agenda highlighted the need to go beyond traditional ODA to employ innovative financing mechanisms in order to close SDG financing gaps estimated to be in the range of $2.5trillion (annually), relative to the current ODA level of around $140-150bn.
- Post Addis and establishment of the Sustainable Development Goals (SDGs) several major donors have updated their development policy and financing framework. These include – the US, UK, Japan and France. We provide a comparison of these below.
- In this context the IFAA is particularly welcome as it increases the range of financing mechanisms available to Canada's official development assistance delivery. It builds on Canada's leadership in mobilizing global efforts to support new and innovative financing for global development cooperation both domestically and internationally.[16]

Key changes in major donor markets

- The US Senate passed the BUILD Act with wide bipartisan support in October 2018. As per the act the US DFI, Overseas Private Investment Corporation (OPIC), which provides loans to US businesses in developing countries, is to be folded into a new agency called the International Development Finance Corporation (IDFC). The new IDFC significantly expands the former OPIC's parameters (also enhances USAID innovative financing offerings)[17].
- Similarly, there have been important changes in the UK both with respect to the CDC Group (the UK DFI, which is owned by DFID), and the UK's position on ODA modernization.
- The UK has been very active in modernization of ODA discussions (it is the only donor to have issued a formal study on the same: Parliament report on Definition and Administration of ODA in response to DAC's ODA definition modernization[18]).
- The definition of ODA is exceedingly important for the UK, given it has raised the bar by enshrining in law a formal commitment to spend 0.7% of gross national income (GNI) on ODA. The UK government has pushed

[16] Establishment of FinDev Canada; via international mechanisms such as the Advance Market Commitment (AMC) at the Global Vaccine Alliance (GAVI); via the OECD DAC/WEF Committee on "Redesigning Development Finance"; co creating "Convergence" the world's first marketplace of blended finance transactions for emerging markets; co-chairing with Jamaica the Friends of SDGs Initiative, to attract private investments in support of the SDGs. Past efforts such as the Canada Investment Fund for Africa (CIFA).

[17] By providing the ability to: make equity investments; provide technical assistance; increase the ability to make local currency loans, first-loss guarantees, and the provision of small grants; raise the spending cap of the DFC's investments to $60 billion, more than doubling OPIC's current $29 billion funding cap; provide a 7-year authorization; and create a "preference" for U.S. investors, rather than a requirement. IDFC will merge OPIC with some key private capital functions of USAID.

[18] See *Parliament of UK: Definition and administration of ODA: Government response to the Committee's Fifth Report of Session 2017-19* at https://publications.parliament.uk/pa/cm201719/cmselect/cmintdev/1556/1556.pdf

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to expand the definition of ODA. The Conservative Party manifesto also pledged to work with likeminded countries to update ODA to reflect the 'breadth of UK assistance'.[19]

- UK pressured DAC to consider introducing "reverse graduation" mechanism (foreign assistance to high-income countries that fall back to middle-income status is eligible to be considered ODA).
- UK has called for new ODA definitions to better address disaster relief assistance in high-income overseas territories with high climate vulnerability that currently do not qualify under DAC rules.
- UK has pushed for more UN peacekeeping operations to be counted as ODA.
- The UK DFI, CDC Group, has a wide array of financing tools and modalities. Recent changes have limited CDC's focus regionally to SS Africa and S Asia. CDC also administers the 'Impact Program' which invests in venture capital and other equity funding.
- Rule changes regarding ODA loans are of specific interest to Japan. A large share of Japanese ODA consists of loans (2/3rd) and is managed by the Ministry of Finance. Japan's ODA loan volumes have increased in recent years. New ODA modernization rules are expected to have the effect of increasing Japanese ODA (potentially significantly).[20]
- Japan's "Free and Open Indo-Pacific Strategy" (2016), a key new foreign policy objective, sees an increasingly important role for ODA in enhancing connectivity, strengthening capacity and infrastructure building between Africa and Asia.[21] As such, the commercial and private sector focus in Japan's ODA is expected to increase.
- In August 2018 France published a key report on ODA modernization with 12 recommendations.[22] Key among these are: fixing longer-term development budgets, priorities, and overall strategy, monitored by a new independent development commission and better mobilizing French civil society (with increased assistance going to French NGOs).
- France has committed to increasing ODA levels to 0.55% of GNI by 2020. Two thirds of ODA increase will happen via increases to the grant budget (implying a significant role for loans in the increase).
- France provides grants to 19 countries (almost all in SS Africa), while relying on ODA loans in emerging economies with a focus on the Sahel region.
- France is a pioneer in using innovative financing mechanisms to fund development programs.[23]

Main findings for Canada to be aware of: The need for a strategic Canadian perspective on ODA modernization

- Most large donors see ODA as a strategic foreign policy instrument.
- Each has specific interests and incentives to influence change in ODA rules and measurement.
- Larger size gives others greater influence. But, even among mid-sized donors Canada's influence lags.[24]
- New rules generally purport in the direction of expansion (e.g. in the case of leveraging private finance), but also more accurate attribution (as in the case of ODA loans).

[19] See: https://www.odi.org/comment/10538-should-definition-aid-be-changed-again

[20] Capital repayments will no longer be subtracted from headline ODA as they were under the old cashflow system. This means that, for some countries, the reported levels of ODA will differ significantly under the new rules compared to the old rules. Japan's reported 2013 ODA appears much higher when the new rules are applied. This is because Japan has a large stock of old ODA loans that are currently being repaid. Under existing rules, capital repayments on these loans are subtracted, reducing Japan's headline ODA figure. Under the new rules this subtraction will not apply. Indeed, data from the DAC indicates that Japan's ODA would have been 36% higher in 2015 under the new rules. See: http://devinit.org/wp-content/uploads/2017/09/Backgound-paper_ODA-modernisation.pdf

[21] See: https://www.mofa.go.jp/files/000259285.pdf

[22] See: https://donortracker.org/node/7098

[23] Currently allocates half of the revenues from its national financial transaction tax to development and climate programs. France also uses proceeds from airline ticket tax to allocate to development and climate change. France is the second largest contributor to the International Finance Facility for Immunisation. See: https://donortracker.org/country/france

[24] For more see: http://cidpnsi.ca/canada-on-the-global-stage/

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- The ODA landscape is competitive, and Canada (GAC) needs to be more aware of competing interests and incentives and craft a strategic Canadian perspective on ODA modernization.

About the Canadian International Development Platform (the Platform)

The Platform, housed at the Norman Paterson School of International Affairs, provides independent, non-partisan policy research and data analytics in 3 main areas: foreign assistance; trade and investment; migration and remittances. The key goal of the Platform is to provide a more comprehensive picture of Canada's engagement with developing countries and on global development issues. We do so by taking a decidedly data-driven approach covering our 3 main policy and data verticals (foreign assistance; bilateral trade and investment; and migration and remittances). To this end the Platform maintains the most comprehensive, accurate and up-to-date compendium of high-quality public domain statistics on these topics, and showcases policy analyses based on the same, all of which are freely available at: www.cidpnsi.ca

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