

Submission to **Department of Finance Consultation on Official Development Assistance, 2020**

Prepared by

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Summary

This submission reframes and groups the questions posed by the consultation and addresses both:

- Canada's presence in multilateral institutions
- Improvements in transparency and reporting

Canada's presence in multilateral institutions

To get at legislative consistency of payments to multilaterals the scope of the consultations must be broadened to assess (likely in a committee format): whether Canada's presence across multilaterals represents the best value for money in terms of achieving development objectives, whether Canada's presence is rightsized, and if legislative frameworks need to be updated.

We demonstrate Canada is a relative multilateral 'free rider'. While Canada is a significant contributor to the multilateral development finance system, it is an even bigger user.

Canada's use of aid channels (multilateral vs. bilateral) is highly imbalanced. Nearly 60% of GAC assistance is channeled via multilaterals, or 3 times the amount channeled via civil society and 15 times the amount channeled directly via developing country governments and institutions.

Multilaterals offer risk mitigation, scale, and leverage which are important for a mid-sized donor like Canada, but competitive dynamics are often underappreciated. The AIIB emerged in response to these competitive dynamics as a challenger to the ADB and WBG in Asia.

IFIs compete aggressively for donor/shareholder attention and funding. Sponsored funds and sub-funds managed by multilateral IFIs have grown faster than donor aid budgets. Canada's assistance envelope (IAE) for the most part has not kept pace. It is in this context that Canada's approach to new multilaterals like AIIB, which is driven by an overarching preference for 'having a seat at the table', is misguided and questionable.

It is unreasonable to think Canada's 1% share at the AIIB (far smaller than at other multilaterals) gives it any realistic influence. It is unlikely AIIB is receptive to Canada "rights-based" and "feminist" approach (as implied by the ODAAA and FIAP). And yet, Canada's overall approx. US\$1 billion pledge to AIIB is not insignificant relative to its aid budget.

It is unclear what precisely Canada aims to achieve via the AIIB and whether the investment really represents the best value for money from a development perspective. Having a 'seat at the table' cannot be reason enough to continue support for AIIB especially at a time when relations with its largest and most important shareholder are at an historic low.

Improvements in transparency and reporting

The new consolidated Report to Parliament on International Assistance is a step in the right direction. However, the report has some of the same problems as other high quality official sources in terms of significant (over one year) lags. We demonstrate how these lags can be overcome. Specifically, linking project level open data and financials with IAE pool balances, would significantly enhance transparency.

Current reporting provides no useful forward guidance on the future path of the IAE, nor current (within fiscal cycle) balances (overall and at the pool level). This was not always the case. Canada's development

spending has been guided by a transparent fiscal anchor in the past (up to 2010). This should be revisited. We provide long-term IAE projections based on the best available information. We demonstrate that without substantial change to our baseline scenario of a large one-time infusion into the IAE in 2020-21 that is not maintained in the future, Canada's ODA/GNI ratio would fall to an historic low of 0.22 by 2030 the SDG target year.

GAC can and should do more to increase clarity around IAE "base" vs. "net new additions". At present IAE balances and base levels are unknowable publicly. Over and/or underspending can affect IAE levels. Knowing starting and end balances at the pool level and overall is important for transparency. In fiscal 2020-21 there were historic one-time addition to the IAE to support global COVID19 response including vaccine procurement for developing countries which is ODA-able. GAC has publicly admitted it may have difficulty allocating all \$1.1billion in COVID response by the end of the current fiscal cycle. Therefore, it is vital that GAC clarify in the event there are balances, how and where they accrue across pools, what the rules are regarding rollover of balances (surpluses, or net negatives) from one cycle to the next and across pools, and their impact on future IAE additions.

Canada's presence in multilateral institutions

1. Broaden the scope of consultations as relates multilaterals

- 1.1. As regards multilateral payments the remit of this consultation¹ which is limited to consistency with the Official Development Assistance Accountability Act (ODAAA), is **too narrow and misses important points**
- 1.2. In guiding international assistance, **ODAAA is neither strong nor an effective piece of legislation**
- 1.3. Its 3 criteria² are too vague to be useful prescriptively or to hold spending/policy to account
- 1.4. On multilaterals the right question is not whether the ODAAA's vague criteria are met in payments to World Bank's (WB) International Development Association (IDA), the Multilateral Debt Relief Initiative (MDRI), and the Asian Infrastructure Investment Bank (AIIB)
 - But rather:
 - 1.4.1. Whether multilateral contributions represent the **best possible value for money in achieving development objectives**, especially given the significant proportion of Canada's assistance that is now channeled via this channel (see below)
 - 1.4.2. Whether Canada's presence across multilateral IFIs is **rightsized and consistent with its Feminist International Assistance Policy framework (FIAP)**
- 1.5. On this, broader framing, more fundamental challenges can be raised that are worthy of further study (e.g., via a parliamentary committee). The foreign affairs (FAAE) and or finance (FINA) committee should study:
 - 1.5.1. Whether the **legislative framework** guiding Canada's presence across multilaterals is sufficient
 - 1.5.2. Does it need to be **updated**?
 - 1.5.3. Are the Bretton Woods Act, EBRD Act and ODAA Act **internally consistent** with each other and with the policy prescriptions of the FIAP?

¹ <https://www.canada.ca/en/department-finance/programs/consultations/2020/department-finance-consultation-official-development-assistance-2020.html>

² Poverty reduction, perspectives of the poor and international human rights.

2. Canada is a relative multilateral ‘free-rider’

- 2.1. Taking this broader perspective, few key points are raised in this section, to contextualize the points raised regarding Canada’s presence in the AIIB specifically
- 2.2. Our analysis shows donors position differently with reference to the multilateral development finance system, with mid-sized donors like Canada increasingly channeling earmarked ‘bilateral’ spending via multilaterals
- 2.3. While Canada is a **significant contributor to the system, it is an even bigger user** of the multilateral development finance system
- 2.4. In 2018 Canada’s share of *core contributions* to the multilateral development finance system was approx. 3.5% (\$1.5bn), however its share of *additional earmarked aid channeled through multilaterals* was 6.5% (additional \$1.2bn)³
- 2.5. In this sense **Canada is a relative multilateral ‘free rider’**. This is important to highlight because it impacts how Canada approaches new multilaterals (like AIIB)

3. Canada’s use of aid channels is highly imbalanced

- 3.1. Upwards of 50% of Canadian assistance, and **nearly 60% (in 2018-19) of GAC assistance is channeled to or through multilaterals; 3 times the amount channeled via Canadian civil society (CSOs), or 15 times the amount channeled directly via developing country governments and institutions**⁴
- 3.2. In certain sectors, for e.g., climate finance, the balance is far more lopsided in favor of multilaterals (over **90% of Canada’s international climate finance** in 2017 was channeled via multilaterals)⁵
- 3.3. Multilaterals offer **risk mitigation, scale, and leverage**, which are important for a mid-sized donor like Canada
- 3.4. However, as discussed below, in the context of an overall limited resource envelope, coupled with the growth in the number of multilaterals and their increasing demands on shareholders, **the competitive dynamics at play are underappreciated**

4. Not enough attention is paid to the competitive landscape of multilateral IFIs

- 4.1. Finance Canada is either uninterested in or does not adequately understand the dynamics of multilateral competition
- 4.2. **IFIs compete aggressively with one another for shareholder/donor attention** and ultimately funding
- 4.3. Multilaterals and their **sponsored funds and managed sub-funds have grown far faster than donor budgets**⁶

³ ODA in response to crises: Portfolio risks and fragmentation <http://cidpnsi.ca/oda-in-response-to-crises-portfolio-risks-and-fragmentation/>

⁴ Canadian International Development Platform, Project Level Development Data Dashboard <http://cidpnsi.ca/civil-society-and-development-projects/>

⁵ Canada’s Approach to International Climate Finance Needs a Hard Reset <http://cidpnsi.ca/reset-canadas-approach-to-international-climate-finance/>

⁶ Just a few years ago the Green Climate Fund (GCF) did not exist, it is now one of the largest in the climate finance space. The Global Fund, GAVI, Global Financing Facility and countless others which Canada is a key member of, did not exist a decade and a half ago, and now they make up the largest recipients of Canadian assistance.

4.4. The **consensus is that AIIB was established 5 years ago precisely as a function of multilateral competition**, i.e., the China-dominated AIIB was established as a challenger to the Japan-US dominated Asian Development Bank (ADB) of which Canada is a key member

5. 'Seat at the table' is not a good enough reason for Canada to support AIIB

- 5.1. The approach taken by Canada is that it is **better to have a seat at the table** than not
- 5.2. Given the current size of the International Assistance Envelope (IAE)/Official Development Assistance (ODA) budget, staff capacity and expertise, Canada is spreading itself thin across multilateral fora in the name of having a seat at the table
- 5.3. While clearly established as **challenger to ADB and WBG**, according to recent analysis AIIB is failing to live up to expectations in terms of scaling
- 5.4. **ADB and WBG are respectively 8 times and 20 times larger than AIIB** by assets
- 5.5. Despite a surge in lending to \$6.65bn, AIIB made up only 5% of IFI lending in 2020 (and a smaller share of approved projects)⁷
- 5.6. Moreover, **Canada's share in AIIB is small at less than 1% and much smaller than across other multilateral IFIs**⁸
- 5.7. And yet, **Canada's US\$995 million overall pledge**, relative to its IAE/ODA budget from which it is drawn, is not unsubstantial⁹
- 5.8. It is **unreasonable to think Canada has any significant direct or indirect influence on China** via its presence in AIIB, or on the AIIB itself, especially at a time when relations with China are at an historic low point
- 5.9. It is equally **unreasonable to expect Canada can push its "rights based" approach** (as per ODA) or feminist approach (as per FIAP) at the AIIB (which has no women in senior management)¹⁰
- 5.10. The sector level priorities of AIIB given its emphasis on hard infrastructure (which Canada has moved aid funding away from in favor of areas such as health, education, and nutrition), with the exception of climate change, are inconsistent with Canadian priorities
- 5.11. More important than whether AIIB is doing good work or the quality of its management and portfolio, are the more fundamental issues raised above:
 - 5.11.1. Whether Canada's presence in the AIIB is rightsized?
 - 5.11.2. Whether **Canada's pledge is the best possible use of scarce development dollars?**
- 5.12. From this perspective and based on limited evidence of tangible development results attributable to Canada's investment in AIIB it is hard to conclude that Canada's 'seat at the table' makes much sense
- 5.13. **Having a seat on so many tables when we do not know what exactly we aim to achieve in each makes little sense** and deprives other areas where resources could be

⁷ Wall Street Journal, Five Years On, China's World Bank Challenger Has Fallen Short of Lofty Predictions

<https://www.wsj.com/articles/five-years-on-chinas-world-bank-challenger-has-fallen-short-of-lofty-predictions-11608285438>

⁸ In all other regional development banks Canada is among the largest non-regional shareholders, its share in AfDB is 3.8%, in ADB is 4.47%, in Caribbean Development Bank it is 9.3%, in EBRD it is 3.4%, in IDB it is 4%.

⁹ The capital share purchase payment of \$53.4mn in 2018-19, one of five overall, was among Canada's largest IFI payments in the year, larger than payments to ADB and IDB.

¹⁰ Canada will hurt itself if it pulls out of AIIB <https://www.theglobeandmail.com/business/article-canada-will-hurt-itself-if-it-pulls-out-of-asian-infrastructure-bank/>

allocated more effectively, with tighter controls, and a better understanding of what we are getting for our contribution

Improvements in Transparency and Reporting

The **new Report to Parliament on Government of Canada's International Assistance is a welcome step in the right direction**. In 2019 at the National Finance committee, we provided a contrasting view to Canadian CSOs who were critical of this change and supported the reporting change¹¹. In this section we highlight 3 areas where improvements can be made and make specific recommendations:

6. Significant lags in reporting can and should be addressed

- 6.1. High quality development data are well known for significant lags in reporting. This is also the case with the new consolidated Report to Parliament
- 6.2. The 2018-19 report released in Fall 2020 represents a **lag in reporting of over a year** (which is also the case with other official reports like the Statistical Report to Parliament)
- 6.3. Yet, the recent COVID19 experience very clearly shows the importance of timely and accurate data so development partners can plan responses effectively
- 6.4. Open data and **higher-frequency reporting have made significant progress** in recent years
 - 6.4.1. At the project browser data updates are much closer to 'real-time' (monthly) as is international reporting to the IATI standard (quarterly)
 - 6.4.2. Departments are also required to report proactively on certain agreements (e.g., grants and contributions over CAD\$25k); these are available monthly via open data
- 6.5. Near real-time financial and project level data, certainly available internally within GAC, are also now more accessible via open data feeds (which we leverage routinely)¹²
- 6.6. However, the **missing link is that between project level data and specific IAE pools**
- 6.7. This is easily **solvable**. Given the IAE pools are set ex-ante, **tag all expenditures, when they happen, to the pools they are resourced out of**
- 6.8. If this link is made and data are **made available via open data feeds**, outside analysts would be able to know **real-time IAE balances, including at the pool level** (which is important for reasons discussed below)
- 6.9. Such tracking is possible in other donor markets (e.g., Germany, EU). It would provide much greater clarity within a fiscal cycle which is far more relevant from a planning, management, and accountability perspective
- 6.10. The need for this is again highlighted by the COVID19 experience (as discussed below)

7. The lack of a budget anchor limits transparency

- 7.1. At present there is **no useful forward guidance** on the future path of the IAE
- 7.2. The **lack of a transparent anchor** to guide future spending limits transparency

¹¹ Budget Implementation Act, Bill C-86 (Part 4, Division 17) – Official Development Assistance. NFFN Briefing Submission and Oral Testimony <https://sencanada.ca/en/Committees/nffn/TranscriptsMinutes/42-1> | <https://cidpnsi.ca/budget-implementation-act/>

¹² Quantifying COVID19 Slowdown <http://cidpnsi.ca/quantifying-covid-19s-slowdown-in-development-spending/>

- 7.3. This again is solvable. Since net new additions to the IAE are planned and announced in advance (e.g., in Budget 2018 and 2019), **GAC could easily publish an indicative 5 to 10 year path for the IAE**
- 7.4. Canada's development spending was not always anchorless. **Canada had anchors in the past for e.g., when it committed to doubling the IAE with 8% annual increases**¹³
- 7.5. In other donor markets there are formal or informal spending targets (e.g., the UK is legislated to spend 0.7% of GNI on ODA; such targets are also useful as reference points when spending is cut, as with the UK's recent decision to cut aid spending to 0.5% of GNI)
- 7.6. Absent this information analysts are left to piece together the picture from disparate, often inconsistent, official sources
- 7.7. Our recent analysis does precisely this with the best available info¹⁴. We provide **3 projections for Canada's IAE and ODA**. We estimate the cost of doubling the IAE in 5 years (\$950mn/annual) and 10 years (\$521mn/annual)
- 7.8. Our **baseline scenario is of a 'COVID19 bump**, then no substantial addition to the IAE'. Absent further additions to the IAE, we demonstrate that **Canada's ODA/GNI ratio would fall to an historic low of 0.22 by 2030** which is also the UN SDG target year (see annex)
- 7.9. Revisiting a **transparent fiscal anchor** to guide IAE levels would not only **enhance transparency** but also **depoliticize** aid spending

8. Increase clarity around IAE 'base' vs. 'net additions' and rollover rules

- 8.1. At present, precise **IAE balances, within or at the end of a fiscal cycle, are publicly unknowable**
- 8.2. Again, this was not always the case, up to 2010 such information was available to analysts outside government
- 8.3. The key issue is the ability to **clearly distinguish between IAE "base" levels and "net new additions"** to the same
- 8.4. This matters especially when increases are announced publicly (as was the case in Budgets 2017 and 2018, and several high-profile moments such as during the G7 and at Women Deliver)
- 8.5. There is **no clear definition of regarding 'new and additional' spending**, and yet, for development advocates and CSOs this is most relevant, because in the absence of overall growth in the IAE too often announcements amount to little more than robbing Peter to pay Paul (this has been demonstrated repeatedly by our analyses)
- 8.6. Announced additions are specific to fiscal cycles. Thereafter, if held, they become part of the **IAE base** such that any further increases raise the overall new base level further
- 8.7. To ensure increases are genuinely net increases observers need to have information on balances at the pool level and overall, within and at the end of a fiscal cycle. Since there can be both **over and underspending** it is important to **know opening and end balances at the pool level**. Furthermore, rollover rules from one fiscal to another (which can differ across pools)¹⁵ and rules regarding shifting balances across pools, need to be clarified.

¹³ 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. Transparency was increased with clear forward data on the IAE which were publicly available up until 2010
<https://www.ourcommons.ca/Content/Committee/421/FINA/Brief/BR8398150/external/CanadianInternationalDevelopmentPlatform-e.pdf>

¹⁴ 2020 FES and IAE Scenarios for Canada <http://cidpnsi.ca/2020-fall-economic-statement-and-iae-scenarios-for-canada/>

¹⁵ For e.g., it is well known that unused crisis pool room can roll over to a new fiscal cycle.

- 8.8. This is relevant because **the government has funded large new signature programs without any net addition to the IAE by drawing on 'unspent' IAE balances**
- 8.9. The most egregious recent example is the \$1.5bn International Assistance Innovation Program (2018), the uptake of which has been reported to be dismal¹⁶
- 8.10. COVID19 experience provides a further illustration. The government has announced support totalling approx. \$1.1bn towards global COVID19 response including vaccine procurement for developing countries via COVAX that is both ODA-eligible and from the IAE
- 8.11. However, it is **distinguishing between (a) net new additional resources, (b) repurposed resources from ongoing or planned program allocations, and (c) reallocations from available unallocated base resources, is far from straightforward**
- 8.12. Our best estimate in advance of the 2020 FES was that approx. CAD\$740mn in new and additional funding was added to the IAE in fiscal 2020-21 (largely confirmed by the 2020 FES)¹⁷
- 8.13. This is an historic one-time addition which GAC (self admittedly) may have difficulty programming by March 31, 2021
- 8.14. So, it becomes a real question, **in the event there are balances, how and where they accrue across various pools, and what the rules are regarding rollover** of balances (surpluses, or net negatives) and their impact on future IAE additions

¹⁶ Ibid. <http://cidpnsi.ca/reset-canadas-approach-to-international-climate-finance/>

¹⁷ Throne Speech Analysis <http://cidpnsi.ca/throne-speech-opportunity-to-stimulate-canadas-support-for-development/>

Annex

Multilateral Lending in 2020 during COVID

Disbursed lending by international financial institutions in 2020	
African Development Bank (AfDB)	\$3.54bn
Asian Infrastructure Development Bank (AIIB)	\$6.65bn
Asian Development Bank (ADB)	\$11.32bn
European Investment Bank (EIB)	\$25.36bn
World Bank (WB)	\$26.65bn
International Monetary Fund (IMF)	\$41.66bn

Source: CSIS, WSJ¹⁸

IAE Allocation vs. Disbursement: Report to Parliament on International Assistance 2018-19

Pools	IAE allocation Budget 2018	Disbursement 2018-19
Core development	3104	3235
New funds	200	
Strategic	136	
Int Financial Inst (IFI)	777	1062
Peace Sec	401	438
Crisis pool	200	
Int Humanitarian (IHA)	738	867
Total (all figs CAD\$ millions)	5556	5602

Source: Report to Parliament on International Assistance¹⁹

¹⁸ <https://www.wsj.com/articles/five-years-on-chinas-world-bank-challenger-has-fallen-short-of-lofty-predictions-11608285438>

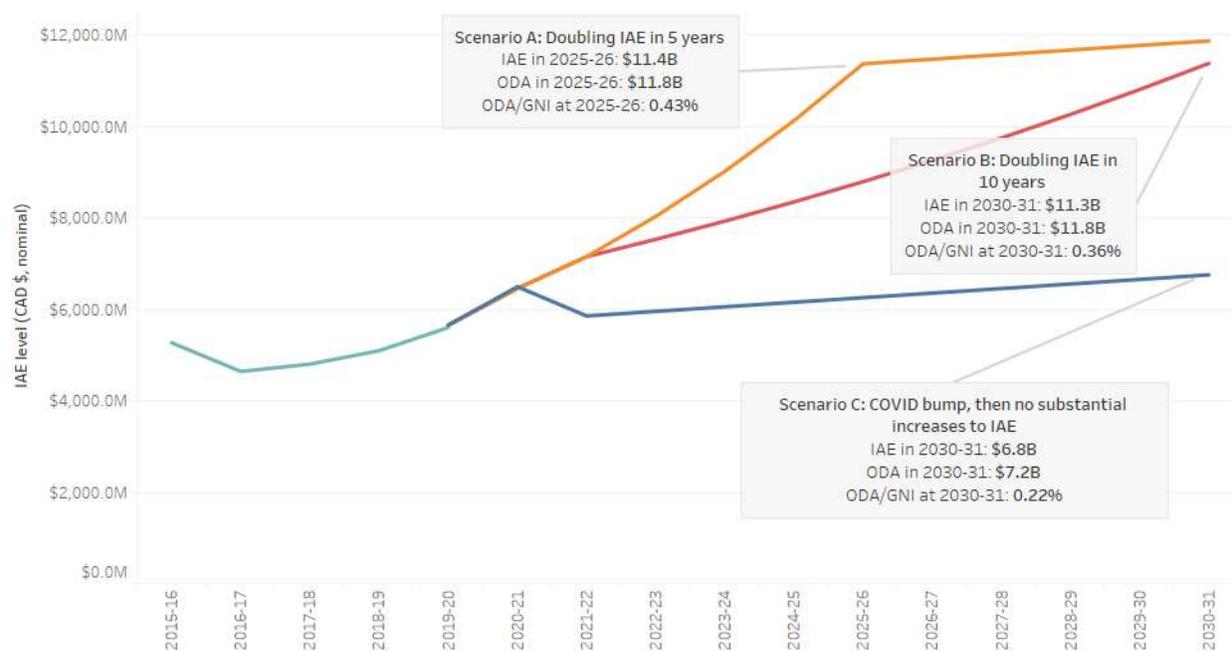
¹⁹ <https://www.international.gc.ca/gac-amc/publications/odaaa-lrmado/report-rapport-18-19.aspx?lang=eng>

Scenario Comparison Summary²⁰

	Scenario A: Doubling IAE in 5 years	Scenario B: Doubling IAE in 10 years	Scenario C: COVID bump, then no substantial increases to IAE
Year IAE doubles	2025-26	2030-31	–
Average Annual Dollar Growth in IAE (mn) (baseline = 2019-2020)	\$953	\$521	\$100
IAE in 2025-26	\$11,378	\$8,796	\$6,256
ODA/GNI Ratio in 2025-26	0.43%	0.34%	0.25%
IAE in 2030-31	\$11,878	\$11,387	\$6,756
ODA/GNI Ratio in 2030-31	0.37%	0.36%	0.22%

Source: CIDP analysis

Projected paths for Canada's IAE in three scenarios²¹



Source: CIDP analysis

²⁰ 2020 Fall Economic Statement and IAE Scenarios for Canada <http://cidpsi.ca/2020-fall-economic-statement-and-iae-scenarios-for-canada/>

²¹ 2020 Fall Economic Statement and IAE Scenarios for Canada <http://cidpsi.ca/2020-fall-economic-statement-and-iae-scenarios-for-canada/>