

THE UNITED NATIONS AND CANADA

WHAT CANADA COULD AND SHOULD DO AT THE UNITED NATIONS 2018: A QUESTION OF LEADERSHIP

Development Assistance: Is 0.7% Possible?

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0.7 in historical and current policy context

The 0.7% target, whereby Development Assistance Committee members of the OECD (OECD DAC), including Canada, would spend 0.7% of their gross national income (GNI) on official development assistance (ODA), has been a long-standing target since it was first proposed by the Pearson Commission in 1969. Though repeatedly re-endorsed over time, and despite being accepted as a long-term target by many DAC members, few of them meet it today. In 2017, only 5 (the United Kingdom (henceforth UK), Denmark, Norway, Luxembourg and Sweden) of 29 OECD DAC members met the 0.7% target. A few other donors such as France and Korea have recently committed to scale up their aid spending. The unweighted average ODA/GNI across all DAC members is 0.31% while the average country effort is around 0.41%.

The case of the UK is interesting because it made a long-term commitment to development spending and achieved the target in 2013 despite domestic fiscal pressures and a global economic crisis. Following a pledge made at the G8 Summit in Gleneagles, Scotland, in 2005, UK aid spending almost doubled from 2005 to 2016. Cross-party support made both the achievement of this goal and support for higher aid spending possible. The target became law in the 2015 International Development Act with cross-party support under a coalition government. This example shows that it is indeed possible to meet targets and support global development if there is a political will to do so.

By contrast, Canada's ODA/GNI ratio currently stands at only 0.26% and about 2% of the country's budget. The ODA/GNI ratio has been on a declining trend since 2010 when it was 0.34%. Under the Conservative government of Stephen Harper, aid was cut to balance the budget and the Liberals under Justin Trudeau have not done much to reverse the trend since being elected in 2015. Canada's best recorded performance was 0.54% way back in 1975. Its poor ranking among OECD DAC donors is a fact that has been lamented by many aid activists and development non-governmental organizations (NGOs) over the years. At present, there is no political will to even establish a timetable that would clearly identify how to achieve the 0.7 ODA/GNI target.

Three scenarios for Canada

Is it possible for Canada to meet the 0.7% target? Given Canada's current ODA/GNI ratio, it is relatively easy to make a case that aid spending can and should be increased. Canada's Feminist International Assistance Policy (FIAP) and the need for traditional development assistance in the so-called Fragile and Conflict-Affected States (FCAS) are two examples of where more ODA could go a long way towards supporting the poorest in the most difficult environments.

There are a few options that could be considered to either meet, or bridge the gap with, the 0.7% target.

First, Canadian civil society groups have called for a 10-year timetable to reach an ODA/GNI ratio of 0.7%. This is an ambitious goal that would necessitate a compounded annual growth rate of more than 15%. A second option would be to follow what the UK did. Canada is roughly where the UK was in the late 1990s and if it were to follow the UK trajectory, it would require a little bit longer than the first option, and hence a slightly smaller compounded annual growth rate. A third option would be less ambitious and simply double Canada's international assistance envelope (IAE), which is something that was pledged by Canada in 2002 (under a Liberal government) and achieved in 2010 (under a Conservative government). And therefore, there is precedent to achieve such a doubling with cross-party support (this would require a compound annual growth rate of about 8% for the IAE). In this case, i.e. with a compounded annual growth rate under 10%, Canada would not achieve the 0.7% until around the mid-2040s. It goes without saying that the fiscal cost of the first option would be higher than the second one, which in turn would be higher than the third.¹

Given the current fiscal environment, which saw modest increases in Canada's international assistance in this year's federal budget, and an absence of political will (which was present in the case of the UK), the most realistic option seems to be the third one.

Even if possible, is 0.7 relevant?

However, perhaps a more pertinent question to ask is whether the 0.7% target is still relevant today? The financing gap model on which the 0.7% target is based no longer

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For details please see: Bhushan A. and Reilly-King F. 2016. *Getting to 0.7: Three Scenarios for Canada*. Available at: <https://cidpnsi.ca/getting-to-0-7-three-scenarios-for-canada/>. This analysis is slightly dated and was conducted based on past known IAE figures, which have been updated in Budget 2018, which, it should be noted, added \$600 million to the IAE. Nevertheless, the general forecast and assumptions hold. And even with this increase, which though the 'largest in about a decade' according to the Minister of Finance, we have calculated that IAE and ODA as a share of Canadian fiscal expenditure (i.e. federal program spending) could well decline, not rise (for details see: <https://www.opencanada.org/features/did-budget-2018-deliver-funds-canada-needs-lead-nice-try-no/>).

makes sense today because of much higher levels of private capital that now reach the developing world. As a result, the financing gaps may not be as significant for certain countries to attain a targeted growth rate given the characteristics of their economies. It also never made any sense to allocate aid spending based on the levels of income in donor countries when the focus should be on the development needs of recipient countries.

It is also clear from recent trends in development finance globally, including in Canada, that there is now an increasing appetite for leveraging private capital through official financing, instead of relying on traditional development assistance that will be insufficient to meet the ambitious Sustainable Development Goals (SDGs). Consider for example that the latest Canadian budget proposed an International Assistance Innovation Program and a Sovereign Loans Program for a total of about \$1.5 billion to leverage private finance by reallocating resources from the existing (unallocated) IAE base. Canada's new development finance institution, FinDev Canada, is also now operational, with a base of \$300 million over 5 years. Funds which though aimed squarely at developmental purposes, may not however count as "ODA" (or fully as ODA) and therefore do not help reach the 0.7 level.

In this context, it is questionable that even if possible i.e. with the requisite fiscal room and political will, whether the 0.7 target is seen as relevant at least in the context of Canada's official contribution to global development. After all, contrary to the recommendations of various parliamentary standing committees (which reviewed the topic both in 2005 and 2016²) Canada's FIAP which became operational in 2017 and is the first update to Canada's foreign aid policy framework in over a decade, makes no mention of 0.7 or any other ODA spending target.