

**Submission to the Department of Finance**  
**Consultation on Official Development Assistance, 2010**  
**The McLeod Group, Ottawa, February 18, 2011**

**Summary of recommendations**

- The Department of Finance should contribute to the preparation of an overall strategic framework for Canada's development assistance, based on poverty reduction, the perspectives of the poorest and international human rights standards, including specifying the roles of individual Canadian government departments and agencies.
- The Department should support initiatives to reduce policy incoherence within the Canadian government and should encourage the Bretton Woods institutions to build international partnerships to improve policy coherence for development.
- There should be a clear commitment by Canada to increase aid volumes over the next five years to facilitate planning for effective aid and to achieve the development cooperation goals the country has set for itself.
- The Department of Finance should work with CIDA to develop a plan for the implementation of CIDA's gender equality policy in the Bretton Woods institutions.
- The Department must make special efforts to hold the World Bank accountable for demonstrating progress toward its own gender objectives.
- The Bretton Woods institutions must be required to develop strategies for their engagement with fragile states which give priority to poverty reduction, take account of the perspectives of the poor and are consistent with human rights standards.
- For all three new initiatives identified by the Department, links should be demonstrated to poverty reduction and human rights standards and greater clarity and transparency are required in the purpose of the IFC new initiative for small and medium sized enterprises.
- The Department of Finance should set out its objectives with respect to improving the effectiveness of the development assistance it is responsible for, linking these objectives to the provisions of the 2005 Paris Declaration on Aid Effectiveness.

The McLeod Group welcomes the opportunity to provide comments on the Department of Finance's contribution to Canada's Official Development Assistance programs. We believe that Canada has an important role to play as part of global efforts to achieve the Millennium Development Goals, both through commitment of financial resources and

through leadership on issues including approaches to poverty reduction, global and bilateral partnerships, and the establishment of stable and secure conditions for people in developing countries to improve their living conditions and livelihoods.

While these consultations are a requirement of the Official Development Assistance (ODA) Accountability Act, they provide an opportunity for dialogue with Canadian civil society and other stakeholders to help identify improvements to Canada's performance against the three tests of the Act and to suggest new policy priorities for Canadian international aid.

### **Aid Strategy**

Commenting on Canada's official development assistance, and the role of the Department of Finance in the national effort, is challenging in the absence of an overall strategic framework set out by the government, within which goals and objectives and sectoral and thematic priorities are spelled out. This framework should also specify individual departmental roles, including that of the Department of Finance. In its 2007 Review of Canada's development cooperation policies and programs the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) observed that "Canada needs a development cooperation policy that puts poverty reduction at the heart of its international development assistance. A development cooperation policy with a clear focus on poverty would also give direction to Canada's federal departments and other partners working in areas such as security and trade." Since the 2007 Review there have been many announcements of specific initiatives and commitments of resources but a national over-arching framework for Canada's aid program is still missing. The McLeod Group believes that such a framework is key to informing Canadians and Canada's international partners of this country's intentions, priorities and objectives.

The Department of Finance, with its responsibilities to represent Canada at the Bretton Woods institutions, and in particular with respect to the World Bank Group of organisations, has an important role to play in formulating a Canadian development assistance strategy consistent with the ODA Accountability Act of 2008. The Act provides a valuable basis from which to articulate a clear, high-level statement of the purpose of Canada's development cooperation that will have wide application and relevance over an extended period of time. A policy framework would assist in the management of competing national interests that could threaten long-term effective development cooperation programs. It could help also to achieve greater policy coherence for development in fields such as trade, investment, migration and environment, to name but a few. This framework should clearly set out an approach for Canada to multilateral assistance, and in the case of the international financial institutions the Department of Finance should strive for a coherent and coordinated policy with CIDA embracing the World Bank and the regional development banks.

It is useful to note that the World Bank's stated mission is "...to fight poverty and to help people help themselves....." complemented by the commitment that "At the World Bank we have made the world's challenge – to reduce global poverty – our challenge." A Canadian aid policy statement should spell out how Canada as a member of the World Bank Group will work with its partners to reduce poverty. The Department of Finance should be able to report annually to Parliament, as required by the ODA Accountability Act, on its initiatives with the Bretton Woods institutions to ensure that the institutions contributed to global poverty reduction, took into account the perspectives of the poor in their programming decisions and that their actions were consistent with international human rights standards. At the present time, the Department's reports to Parliament to comply with the ODA Accountability Act contain only the most perfunctory information, essentially little more than brief lists of activities with which Canada has been associated, without providing information on specific action or leadership related to the three legislated criteria for Canadian aid. This reporting should contain the substance of Canada's interventions in key policy dialogues taking place at the Board of the World Bank regarding that organisation's activities to support poverty reduction.

### **Policy Coherence**

There is consensus at the OECD that to reduce global poverty and build a global partnership for development, donor country governments must ensure that their policies on issues beyond development assistance are supportive of, or at the least do not undermine their development policies and programs. All countries have a common interest in developing countries achieving sustainable and broad-based development, but progress requires a better understanding and management of the political economy of globalisation. Examples of policies that undermine development can be found in agricultural subsidies, arms exports, climate change, fisheries over-exploitation, the migration of health care workers and trade restrictions. The McLeod Group encourages the Department of Finance to support, nationally and internationally, initiatives to reduce policy incoherence through identifying instances of incoherence and proposing mitigation measures. Useful models exist in other donor countries, notably Sweden (Policy for Global Development) and the Netherlands (Mutual Interests, Mutual Responsibilities), where policy decisions by cabinet have made coherence for development a central policy plank across the whole of government.

The Department of Finance should encourage the Bretton Woods institutions to build international partnerships with bilateral and other multilateral donors, partner developing countries and policy institutions to support action to improve policy coherence for development beyond aid issues and for greater development effectiveness.

### **Aid Volume**

Policy is important, but so is aid volume. The McLeod Group is concerned that Canada's performance as an aid donor has been slipping steadily for a number of years. According to the DAC ranking by percentage of Gross National Income we are

18th of 22 member countries of the Committee. Money talks. It is difficult to understand how Canada can expect to exert leadership in global fora when, with the strongest fiscal situation of the G8 countries we have frozen our aid budgets for the next five years. How will Canada meet its commitments for reconstruction in Haiti after the January 2010 earthquake, its commitment to the global Maternal and Child Health Initiative, made at the G8 and G20 summits in 2010, and renew its support for IDA at the next replenishment, not to mention the new engagements set out in the Department of Finance's consultation paper for food security, small and medium-sized enterprises and financing for climate change initiatives. Will these commitments be met at the cost of existing, ongoing programs already planned with partner countries and international organisations? Is this effective use of resources for long-term sustainable outcomes?

To show that Canada is a serious, credible actor in development cooperation, there should be a clear commitment to increase aid volumes over the next five years, to facilitate planning for effective program delivery and management for development results. This undertaking would be consistent with the Paris Declaration on Aid Effectiveness and deliver on Canada's promise at the 2008 Accra High-Level Forum on Aid Effectiveness to make its aid more predictable.

### **Gender Equality and Women's Rights**

The McLeod Group notes with concern the steady erosion in Canada's performance in the promotion of gender equality and women's rights over the last decade. Gender is the most significant predictor of poverty and gender inequality remains the most pervasive and fundamental obstacle to the eradication of poverty and the guarantee of human rights for all. It is a crucial dimension in addressing the three criteria of the Official Development Assistance Accountability Act.

Canada needs to ensure strengthened and explicit accountability for gender equality results in funds provided to multilateral agencies and international financial institutions. The Department of Finance should work with CIDA to develop a plan for the implementation of CIDA's gender equality policy in the Bretton Woods institutions context. This applies particularly to the new initiatives proposed by the Department of Finance in the areas of agriculture and food security, and small and medium-sized enterprise development where the Department needs an action plan to monitor and evaluate the performance of the multilateral financial institutions.

The World Bank, in its World Development Report (WDR) for 2008, commented on the major but largely unacknowledged roles women play in agriculture and that failure to recognize their roles results in foregone output, higher levels of poverty and food and nutrition insecurity. The equal involvement of women as decision-makers as well as beneficiaries is crucial to the success of poverty-reducing activities. The World Bank has recognized that gender equality is smart economics and gender quality is one of the four special themes for IDA 16. Enabling women to move beyond subsistence into

higher-value, market-oriented production is an important element of successful agriculture strategies. Women, more than men, spend their income on food, thus improving household food and nutrition security and particularly the development of children. Attention to greater effectiveness of the World Bank Group's work in this area will also support the Canadian government's Mother and Child Health Initiative, hence the Department of Finance must make special efforts to hold the Bank accountable for demonstrating progress toward its own strategic gender objectives.

### **Fragile States**

Addressing fragile states is now one of the most pressing global issues. It will be impossible to meet international development targets, such as the Millennium Development Goals, and improve national and global economic conditions and reduce poverty without bringing fragile states into the community of nations. The McLeod Group believes that Canada should commit intellectual and financial resources to strengthen multilateral approaches to engagement with fragile states. Through its involvement in the governance of the Bretton Woods institutions, the Department of Finance, on behalf of Canada, should require those organisations to develop strategies for fragile states which give priority to poverty reduction, incorporate the perspectives of the poor and are consistent with human rights standards. Valuable guidance which can help shape donor interventions for effective action already exists, such as the OECD/DAC Principles for Good International Engagement in Fragile States. The World Bank in particular has an important role to play in committing financial resource to fragile states, in facilitating and coordinating joint donor actions and in ensuring that no country is left out of the international response.

Canada and other donor countries neglect fragile states at our peril. A poverty reduction-based approach to fragile states, guided by human rights principles and consistent with the ODA Accountability Act will be in Canada's national interest and will support peace and security, a global public good.

### **New Initiatives**

The McLeod Group notes that the Department of Finance plans to channel Canadian ODA to several new initiatives to be managed by the International Finance Corporation (IFC) of the World Bank. While the issues to be addressed – climate change, agriculture and food security, and enterprise development – are vital to progress and poverty reduction in developing countries, questions arise regarding dispersion of effort across multilateral organisations. On what evidence has the Department of Finance decided that private sector approaches in these three areas of activity will be effective and generate poverty reduction while taking account of the perspectives of the poor and respecting international human rights standards?

The McLeod Group notes with concern, for example, that support to small and medium sized enterprise has been contracted out to an organisation that appears to be financing

a competition for access to funding. Many of the entities that have been funded, however, are already recipients of major donor support, while others appear to have little connection with small and medium sized enterprise. Greater clarity is required regarding the purpose of this important initiative, and much greater transparency in the process and monitoring. What is the IFC's track record with respect to these issues and what assurance does Canada have that the organisation will direct its efforts to the poorest, most vulnerable countries. This latter issue is especially important with regard to international climate change. As well, if agriculture is to be an effective sector for development, women need to fully participate, as the World Bank wrote in the 2008 WDR and as noted above under Gender Equality and Women's Rights. If this requires action across the range of policy and institutional contexts as is indicated by evidence-based good practice, the Department will have to stipulate that the IFC also work to ensure that the required supportive enabling environment exists in national and local governance. Canadian support for food security measures in developing countries is even more important in the current and forecast continuing period of food price volatility.

In order that the Department of Finance will be able to report in the future, as required by the three tests of the ODA Accountability Act, what criteria will be used to guide the selection of specific activities or programs to be financed through these initiatives? How will these new vehicles to assist developing countries be reconciled with the Paris Declaration undertakings to avoid parallel implementation structures, encourage shared analysis and use common arrangements, and strengthen partner country capacity through coordinated support?

### **Monitoring and Reporting**

The Canadian contributions to the Bretton Woods institutions, managed by the Department of Finance, represented approximately 10% of Canada's ODA in fiscal year 2009-2010, according to the Government of Canada's report to Parliament. To facilitate and enhance reporting in future years, the Department of Finance should set out its objectives in terms of improving aid effectiveness, linking these objectives to the commitments made by Canada in the Paris Declaration on Aid Effectiveness, 2005. The Department should also press the international financial institutions to strive for greater harmonisation of delivery channels, fewer parallel implementation structures and greater use of common procedures and arrangements. An integral part of the reporting requirements of the Bretton Woods institutions in this respect should be specific information on the reductions in transaction costs for partner countries which they have contributed to.

In all instances the Department should aim for greater transparency and avoid taking a narrow, made-in-Canada view of effectiveness and accountability. Canada's results expectations should recognise the importance of partnership in successful development cooperation and avoid a short-term orientation which will lead to unrealistic expectations.

Development is a high risk undertaking and all partners should commit to regular, joint lessons learning exercises with the outcomes made public through reports to Parliament and through departmental publications.