

January 31, 2013

The Honourable James Flaherty
Minister of Finance
Department of Finance Canada
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister Flaherty:

Re: 2012-13 consultation with respect to the "Official Development Assistance Accountability Act"

Thank you for the opportunity to provide input on this third consultation required of Finance Canada under the "Official Development Assistance Accountability Act." Both the Canadian Council for International Co-operation (CCIC) and the Halifax Initiative appreciate the improvements Finance Canada has made to the process since the first consultation in 2008, including having a longer period of consultation and providing more background information on certain specific areas of Finance's multilateral support.

That said, it is regrettable that Finance Canada did no outreach to organizations as part of this consultation, in particular to the many organizations who previously made submissions in 2011 and 2008. We only learnt about the consultation by chance. It is also regrettable that none of the recommendations made in our previous two submissions have been taken up, making this process a welcome, but increasingly perfunctory exercise. We hope to see further improvements to subsequent consultations – in particular in terms of pro-active outreach and publicly indicating how the submissions received will be addressed by Finance – as well as in the Department's implementation of the Act.

This is the third occasion under which any Department has consulted with groups explicitly in relation to the Act. In this submission, we have made a number of proposals in the attached ANNEX 1 that suggest improved processes for responding to the procedural provisions of the Act as well as policies that better reflect the Act's substantive requirements. These suggestions build on the recommendations made in our initial submission to Finance in 2008 and make particular reference to the short and medium term priorities and actions laid out in the government's *2009 Report on Operations Under the Bretton Woods and Related Agreements Act*. The Annex is almost identical to our 2011 submission, having noted no substantive improvements to the process at Finance since our last submission and recommendations.

We hope that the outcomes of these consultations will be iterative, with Finance Canada committed

not only to strengthening the process of consultation over time, but also to considering and adopting Canadian policy and activities at the Bretton Woods Institutions consistent with the Act.

Yours sincerely,

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ANNEX I – Recommendations that improve the procedural provisions, and generate Canadian policies that better reflect the substantive requirements, of the Act

1. Improve transparency, with accessible and accountable due process, in relation to the implementation of the Act by Finance Canada.

Finance Canada should be commended for being the only government department to explicitly organize a consultation in relation to the ODA Accountability Act. That said, the Department has still not disclosed any goals or objectives for the consultation. It has not provided any guidelines in the consultation for how the Department has interpreted and implemented the ODA Act, nor indicated what the corresponding implications are for its priorities at the Bretton Woods Institutions (BWIs). Finally, Finance has not indicated whether it will put submissions and outcomes in relation to the consultation in the public realm – for example on Finance’s web site.

In the absence of such information, it is very difficult for individuals participating in the consultation to ascertain how the Department complies (or not) with the Act in its activities at the BWIs, and how these consultations will be used to inform Canada’s priorities at the BWIs. Without such information, the consultations – while appreciated – risk quickly becoming perfunctory.

Finance Canada should address this shortcoming through improved process both prior to and at the conclusion of the consultations. As noted in our previous submission, the consultation could be enriched by doing the following in future consultations:

- Hold the consultations a few months prior to allocating resources to the International Development Association, Finance’s largest ODA-able contribution to the World Bank, and in particular prior to making any final commitments to the replenishment of IDA;
- Precede this consultation with a written statement and a meeting with the Minister to clarify how Finance is addressing the Section 4 [1] tests of the Act and how the Department relates these tests to upcoming priorities and actions at the BWIs;
- Clearly indicate on the web site the goals, objectives and process for the consultation;
- Connect the background information provided for the consultation, with the Department’s short and medium term priorities at the Bank and the Fund (as indicated in the Department’s Annual Report) and the three tests of the Act;
- Post to the web site all submissions made in the consultation, with an option for organizations who do not want their submissions posted to “opt out”;
- Indicate Finance Canada’s policy for setting the timing for the next consultation.

2. Create a more coherent link between Finance’s consultation on its implementation of the Act and the annual *Report on Operations Under the Bretton Woods and Related Agreements Act (the “Annual Report”)*.

There is a significant disconnect between the consultations on the ODA Accountability Act and Canada’s priorities and action items at the BWIs, as set out in Finance’s Annual Report. This is an important missed opportunity, since Finance has made huge strides in the past five years in terms of improving the format, content, transparency and accountability of its Annual Report. Integrating a rationale for meeting the three tests of the Act, and including the outcomes of the consultations, more readily into the Annual Report – rather than simply as passing reference relegated to an Annex, as the 2009 Annual Report does – would significantly enhance the quality of the Report and the Department’s accounting for its priorities and activities at the institutions within the context of the Act.

In terms of enhancing the content of the Report¹, Finance could do the following:

- Include within the main body of the Report a section on the ODA Act, indicating the legal requirements of the Act, the due diligence Finance is taking to implement the Act, a summary of the outcomes of any recent consultations and how the issues raised are shaping Canada’s short and medium term priorities at the BWIs;
- In outlining Canada’s priorities and action items at the Bank and IMF, explain, where applicable, how these decisions meet the provisions of the Act and in particular how these actions promote BWI initiatives that are consistent with international human right standards. Such reporting should address cases where Canadian priorities have been guided by efforts to a) exercise due diligence to ensure choices strengthen and not undermine the rights of citizens in recipient countries, b) give priority to the most marginalized, c) address the constraints that people face to claiming their rights, d) end policies that discriminate against individuals, and e) be accountable and participatory.

3. Apply and report on the Act and Finance’s activities with the BWIs in such a manner that the Government builds a coherent approach to development finance, by applying the Section 4[1] tests of the Act for Canadian ODA-able finance and by identifying the goal of poverty reduction for non ODA-able finance for the BWIs.

As a whole, Finance Canada and the Canadian International Development Agency (CIDA) provide substantial resources to the BWIs, to Multi-Donor Trust Funds (MDTFs) and Global

¹ Some of this reiterates points made in our 2008. See also Point 4 below.

Initiatives managed by the BWIs, and to bilateral and multilateral debt relief initiatives. In 2011, contributions for the International Development Association (IDA), the International Bank for Reconstruction and Development capital increase, debt relief, and AgResults amounted to just over \$500 million.

Not all of Finance Canada's contributions to the BWIs are ODA-able, nor should they be considered as such. Hence these non-ODA-able contributions are not technically required to meet the three tests of the Act. That said, the stated mandate of the World Bank is to fight poverty and of the IMF to reduce poverty. The Bank has also recognized that human rights are an integral element of international development. In that non-ODA-able resources are provided to the World Bank and IMF to fight poverty, the government should consider how these resources are allocated within a framework of poverty reduction and human rights. For example, not all the money to the Canadian Climate Change Fund may not meet the criteria for being considered ODA, but their allocation would benefit from living up to the spirit of the Act and applying the Bank and Fund's mandate of fighting poverty.

4. Undertake activities that more explicitly focus on the ODA Accountability Act's provisions in Canada's priorities at the BWIs.

As noted above, Finance Canada should make the Section 4 [1] tests of the ODA Accountability Act more explicit in Canada's priorities and actions at the Bank and IMF. In our 2011 submission, we used the 2009 Annual Report on *Canada at the World Bank and IMF* as the basis for identifying some examples of where Finance is already beginning to do this and made a few suggestions on where it could better align its current priorities with the Act's provisions.

Given Finance identified many of the same themes in its 2011 Annual Report as in the 2009 Annual Report, we have not made any amendments to our comments below – in particular given the continued perfunctory nature of this consultation. Despite these comments, the 2011 Report continues to make only one single reference to the ODA Accountability Act.

Following the themes of Finance's 2011 Annual Report:

A) Governance and Accountability

- *Governance reforms* – Canadian government support is for the most part focused on enhancing the voice of major emerging market economies, and ensuring that these countries begin to bear the financial responsibility of their enhanced role. An approach guided by rights and that responds to the voices of the poor would suggest that the government go beyond its current proposals and give more priority to the following:

support initiatives for double majority decision-making at the IMF; promote true equity of voting at the World Bank Group (50:50 between developing and developed countries, or borrowers and lenders, as many countries are proposing); encourage a reduced board size with greater representation for Africa, Asia and Latin America, and less for Europe; and a rotate the position of Executive Director within the Canadian constituency. Beyond these proposals, we support the government's focus on developing an accountability framework for monitoring and evaluating Bank progress on institutional reforms.

- *Transparency* – We encourage the government to continue its work to enhance the transparency and accessibility of both BWIs on the basis of a presumption in favour of disclosure, with a limited list of exclusions, as is the case now with the Bank's disclosure policy. While the new IMF disclosure policy moves towards a presumption in favour of disclosure, we are disappointed that the IMF's disclosure review will not disclose draft documents prior to Board discussion and has still left considerable power in the hands of countries to block the disclosure of country documents.

B) Institutional effectiveness

- *A human rights review of the World Bank and the IMF* – In order to fully understand the implications of the ODA Accountability Act for Canada's policies at the BWIs, Finance should conduct a review that identifies how human rights are integrated into the policies of the BWIs and should orient its policy at the Institutions to fill in the missing gaps.
- *IMF surveillance and crisis prevention* – In theory, the IMF was already playing this role prior to the current global financial crisis. However, the Canadian government – to be true to the ODA Accountability Act – should promote IMF and Bank practices that respect national, democratic decision-making and ownership of development policies, which remove imposed policy conditionality that undermines democracy, and which promote policies that are arrived at in open, transparent and inclusive country-led consultation processes.
- *Aid effectiveness* – Ensuring the best development outcomes for Canada's international assistance does not just mean improving the cost effectiveness of our programs, their focus and the achievement of short term results. It means ensuring that Canadian aid works to reduce poverty and achieve human rights standards consistent with the Act. Canadian aid dollars should strengthen and not undermine the rights of citizens within recipient countries, should be channelled in ways that benefit the most marginalized and vulnerable in society, should enhance government capacity, and should not constrain a government's spending on social programs or restrict a country's menu of appropriate policy choices to reduce poverty. Efforts to enhance the Bank's aid effectiveness are fine – decentralizing Bank authority and personnel, strengthening bank tools for analyzing the impact of its programs and monitoring and tracking the results of these programs – but experience has shown that results sought are

often more policy reforms than poverty reduction outcomes. Furthermore, helping countries to reduce poverty doesn't come from enhancing Bank mechanisms, but through strengthening domestic capacity and building robust country systems that can analyze and respond to domestic needs and develop domestic solutions to reduce poverty. In this vein, Finance's focus on strengthening country health systems is on the right track.

- *Innovative tools to tackle global public goods* – The Canadian initiative to promote the Caribbean Catastrophic Risk Insurance Facility (CRIF) is an innovative approach. In the same vein, in an era of frozen aid budgets, Canada should support and promote the financial transaction tax (FTT) – with 50 percent of the proceeds going towards helping countries achieve the Millennium Development Goals (MDGs) and climate financing. A small tax of 0.05 percent could help generate hundreds of billions of dollars for fighting poverty and climate change, and help redistribute the gains of globalization.
- *Resources and lending facilities* – Canadian aid channelled through the BWIs should continue to prioritize lending facilities that target the most marginalized and vulnerable – highly concessional lending or grants to low-income countries and fragile states – and protect social programs targeting these groups.

We are pleased with the government's continued priority on IDA as a funding window – our African CSO colleagues have been supportive of more funding to IDA. On the other hand, allocating funds to the IFC – for climate, agriculture and trade – is counter-intuitive to the provisions of the Act and efforts to reduce poverty. The IFC does not prioritize development effectiveness when selecting projects in which to invest.

In terms of climate change, the Canadian Coalition on Climate Change and Development has noted that the focus of the IFC is on mitigation, whereas *adaptation* is the overwhelming immediate priority and is critical for poverty reduction. For agriculture, the Canadian Food Security Policy Group, a CSO working group with whom CCIC collaborates, has noted that the Private Sector Window of the Global Agricultural and Food Security Program includes working with smallholder farmers, but the IFC has not demonstrated any aptitude for understanding or responding to their needs. On trade, the majority of investments are geared towards large transnational corporations from rich countries, with significantly less flowing towards small and medium-sized enterprises, in particular in poor countries. Finally, the IFC is increasingly using Financial Intermediaries (FI) to allocate funds for its projects. Both Canadian climate and food security groups have noted the absence of social and environmental standards applied to FI-funded projects, the lack of transparent accounting and reporting on FI-funded initiatives, and the tendency of FIs to neglect low income

countries.² Channelling funds to the IFC does not seem to be an appropriate means for Canada to invest in poverty reduction or take account of the perspectives of the poor. We are pleased to note that the Canadian government is promoting new IMF lending facilities that do not shift the burden of structural adjustment to the poorest within the domestic population. To achieve this, the government should also promote lending that phases out all policy conditions and is genuinely aligned to country priorities, that allows for a greater degree of allocation of resources to budget support, and that helps build country systems, including statistical capacity within country governments for tracking and monitoring development impacts.

C) Sustainable Poverty Reduction and Growth

- *Debt Sustainability* –The global financial crisis and new lending to address additional financing shortfalls have seriously undermined existing debt cancellation initiatives. The Canadian government needs to move beyond current approaches to debt sustainability in favour of renewed discussions for a fair, independent and transparent mechanism for the arbitration of sovereign debt and developing a new framework to guide responsible lending.
- *Fragile states* – Fragile states face very specific challenges and are likely to be prone to high and concentrated degrees of poverty and marginalized and vulnerable populations. The government’s approach to increasing the length and volume of allocations for fragile states through IDA would seem to be in-keeping with the provisions of the Act.
- *Mainstreaming gender equality* – The government’s focus on gender is welcome, as is its recognition of the shortcomings of the current Bank approach to mainstreaming gender at the institution. Looking forward, the Canadian government should, as the group GenderAction has argued in its analysis of the Bank’s gender policy, do the following: encourage the Bank to develop a human rights framework to guide its work on gender equality and women’s rights, including on reproductive health; promote the development of more robust, transparent gender-disaggregated data; and, work with Bank officials to develop a plan to build gender mainstreaming capacity in Bank country offices. Canada should support the inclusion of all of the above elements in the monitoring framework on gender mainstreaming that the Bank is developing.
- *Environment* – As noted earlier, it is questionable whether allocating the vast majority of Canada’s fast track financing for climate change through the IFC is the most appropriate way to invest in poverty reduction. CCIC and the Halifax Initiative support the submission made by colleagues from the Canadian Coalition on Climate Change and Development.

² The Canadian Food Security Policy Group provided input into this submission.