Canadian Development Finance Modalities at a Time of Fiscal Constraints and Geopolitical Tensions[⊥]

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Executive Summary

This landscape paper examines Canadian development modalities, including Official Development Assistance (ODA), and their comparative value at a time when several donors, including Canada, have announced significant cuts to their aid budgets. The paper makes the case for why ODA still matters, especially as a resource that cannot be easily replaced for vulnerable economies, and in contexts where there is little opportunity for a return on private investment in dollar terms. Traditional ODA should be considered as an important tool of soft power to address global development challenges, without necessarily moving away from its core mandate of poverty reduction. However, the paper also recognizes that the development cooperation framework should be better aligned with current realities. It recommends that the Canadian government be more transparent about the implications of the recently announced aid cuts for programming and priorities, and provide a roadmap for ODA levels to ensure predictability for its development partners. Furthermore, both the government and civil society organisations (CSOs) should continue to make the case for the provision of ODA to address poverty and inequality for a peaceful, inclusive and prosperous world. Better communication on the value proposition of Canada's international assistance, as a strategic investment to advance Canada's national interests, would lend support to improved ODA budgetary allocations.

The paper then looks at development finance modalities – different sources of funding mechanisms including ODA but going beyond it – that are used for the promotion of economic development. We provide a typology of major development finance instruments that include: 1) traditional development finance or ODA (namely grants, concessional loans, technical assistance, debt relief and humanitarian assistance); 2) other official flows (OOF) and non-ODA public finance (by development finance institutions, impact investing, conditionally/unconditionally repayable contributions); 3) private and innovative development finance (namely equity investments, green/social development bonds, diaspora savings and remittances); 4) multilateral and thematic finance (which may include ODA). The typology includes a list of instruments used and examples in the Canadian context, the pros and cons of each instrument, and where and how they can be applied. The typology thus considers the strategic use and relevance of major development finance instruments, and Canada's policy approach and track record for each. We make the case that different development finance modalities have distinct strengths and drawbacks, and that they should be seen as complements to, not substitutes for, traditional ODA. Furthermore, the increasing use of blended finance requires more transparency and accountability, better analysis of additionality, who is involved in deals and who the beneficiaries are.

Moving beyond resources devoted to development assistance, and building on the Sevilla Compromise, we also consider how Canada can play a leadership role on international

development and financial architecture reforms through multilateral and international instances – such as the G20, the UN and the international financial institutions – on various issues related to debt, credit ratings and special drawing rights. Among some of our recommendations, we argue that Canada should support debt negotiations that are happening at the UN, given that the G20 Common Framework process for debt restructuring has been slow and insufficient. Canada could also support the newly created African Credit Rating Agency as part of its Canada-Africa strategy, ensure that Canadian corporations conduct themselves responsibly by adopting appropriate legislation, and leverage its position on the board of IFIs to push for inclusive governance, better representation of developing countries and expansion of multilateral lending, among other things.

Finally, we consider how Canadian civil society can best engage and position itself in different development finance modalities, including messaging and narratives for sector action. Most Canadian development NGOs and practitioners rely on traditional ODA to implement programs and projects in developing countries. Many of the smaller development NGOs do not have the capacity, nor the technical expertise, to engage in non-ODA development finance modalities on their own. However, CSOs can be engaged through advocacy, and in designing, implementing and evaluating projects by proposing ideas that are ripe for private investments. As aid becomes increasingly privatized, FinDev Canada and CSOs, with the support of the Canadian government, must engage in a conversation about potential areas of collaboration. This should include the use of expertise of Canadian CSOs, multi-stakeholder dialogues to identify areas of mutual interest, specific funding mechanisms co-designed with CSOs, and participation of Canadian development NGOs in future deals with the private sector that recognize each other's comparative advantage.

1. Introduction

This landscape paper examines Canada's engagement in development finance and how it can contribute to international economic and financial architecture reform. The paper is timely given the pressures on public finances – and thus official development assistance (ODA)[1] flows in donor countries such as Canada – that are likely to persist in the coming years. Several major donors have already announced major cuts to their aid budgets while also ramping up defence spending.

On November 4, 2025, the Canadian government announced in its budget that it will reduce aid spending by CAD $2.7 billion over 4 years, including reduced global health spending. The announcement was framed as "recalibrated international assistance, and leveraging innovative tools while focusing support for countries that need it the most" (Government of Canada, 2025, p. 209) to bring international development assistance to its pre-pandemic level. These cuts will be spread over the period 2026-27 to 2029-30 as follows: CAD $470.4 million in 2026-27, CAD $590.5 million in 2027-28, CAD $861.3 million in 2028-29 and CAD $861.8 million in 2029-30, and the latter reduction continuing thereafter (Government of Canada, 2025, p. 305). As analysis by Cooperation Canada has shown[2], given the lack of transparency around Canada's International Assistance Envelope (IAE), and which baseline to use, it is difficult to calculate the exact percentage cut. Suffice it to say that these cuts will significantly impact certain programs and development partners.

The current paper thus seeks to clarify different types of development finance, including ODA, and their comparative value in the Canadian context. With the adoption of the Sevilla Commitment (*Compromiso de Sevilla*)[3] at the Fourth Financing for Development Conference in July, we argue that Canada can also use its political capital to contribute to meaningful and inclusive reform in global development finance and cooperation. This landscape paper also provides the foundation from which Canadian civil society can identify how to best engage and position itself with respect to different development finance modalities that go beyond traditional ODA (that is, grants and concessional loans), and ultimately engage more strategically in this space.

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[1] The Development Assistance Committee (DAC) of the OECD, or OECD-DAC, which Canada is a founding member of, has been measuring resource flows to developing countries since 1961. The DAC first defined ODA in 1969. Although the definition has changed over time, it has retained three basic characteristics, namely 1) provided by the **official sector** (i.e. not private aid or from NGOs) 2) promotion of **economic development** 3) **concessional** in character [our emphasis].

[2] https://cooperation.ca/canadas-budget-2025-international-assistance-cuts-in-context/ (Accessed on December 1, 2025).

[3] As several observers have pointed out, "compromiso" in Spanish means "commitment" and not "compromise". However, the latter more aptly describes the discussions that took place in Sevilla. While the Outcome Document covers many issues, it contains very few firm commitments; the main objective, or consensus, was to protect multilateral cooperation despite the US withdrawal.

To achieve these objectives, the paper relied on desk-based research that included academic, policy and government documents, as well as recent aid trend reports, including those produced by Cooperation Canada. The author also drew on his years of experience working on development finance and consulted with various development practitioners involved with development finance in the Canadian context.

The rest of the paper is organized as follows. In the next section, we provide some of the contextual information around development assistance. We argue that ODA is still needed and necessary even if international development cooperation is going through profound changes. The third section considers other sources of development finance that Canada is currently using and assesses their comparative value. Section four examines Canadian contributions to reforms of the international development and financial architectures. Section five considers how Canadian civil society organizations (CSOs) can position themselves in a rapidly evolving development landscape that includes the use of different development finance modalities. The final section concludes with a few observations about ODA and other development finance mechanisms.

2. ODA: Needed and Necessary

ODA Matters

Consider the recently announced, and projected, cuts to Official Development Assistance (ODA) by several major donors. These will directly impact vulnerable populations, including children and women. By reducing access to healthcare, disease burdens and mortality rates will increase and erase the gains that were made over several years. These impacts will be most severe in low-income and fragile contexts where capacity is the weakest. Such a scenario is only one example among many of how ODA remains essential. We can extend this example to education, or to humanitarian assistance, and reach the same conclusion: **ODA is an important resource that cannot be easily replaced for vulnerable economies, or in contexts where there is little opportunity for a return on investment in dollar terms**. Humanitarian needs are growing every year – the result of more protracted crises and conflicts, and climate-driven disasters – and so is the humanitarian funding gap. Furthermore, discussions around a humanitarian-development-peace nexus in highly fragile contexts have not been matched with the corresponding funding, given the decline in development and peace assistance compared to humanitarian assistance over the period 2020 to 2023 (OECD, 2025a). Aid has also been poorly targeted in fragile states (Carment and Samy, 2019), and this problem may become more acute in a fiscally constrained environment.

A recent report from the OECD (2025b) projects that after a decline in net ODA of 9% in 2024, another decline of 9-17% is expected for 2025, as a result of cuts from major aid providers. The same report predicts a decline in bilateral ODA to least developed countries and sub-Saharan Africa of 13-25% and 16-28% respectively, and also a significant drop in health funding of up to

60% compared to 2022. Cuts to ODA are already severely impacting multilateral organizations such as the World Health Organization and World Food Programme (OECD 2025b).[4] In the short- to medium-term, it is difficult for low-income and fragile countries to find alternative sources of financing, whether in the form of private capital flows or mobilizing sufficient resources domestically. These countries are unable to increase their fiscal space in part because of unsustainable debt burdens and the problem of illicit financial flows. Low-income countries typically depend heavily on a few major aid donors that have already announced significant cuts to their aid budgets; their tax base tends to be quite narrow, partly due to large informal sectors. Furthermore, there is little incentive for private capital to go to social sectors such as health and education in low income contexts. Private finance is more likely to go to middle-income countries and sectors where profits can be made than to the poorest countries where the risks (and hence the cost of capital) are the highest.[5]

It is interesting to note that the rationale for these cuts to ODA by the major donors (also members of the NATO alliance) has been presented as necessary given the need to ramp up defense spending. The same is true of Canada, which announced earlier this year that it would meet NATO's 2% defense spending target by March of next year, and 5% by 2035, in accordance with a pledge by NATO allies[6]. However, as far as we are aware, there has not been any debate about the potential implications of such a serious diversion of development spending towards defense, whether in Canada or elsewhere. What remains of ODA, has and continues to be used towards objectives that go beyond traditional development. This raises concerns about increasing securitization of ODA, especially in cases such as Ukraine, which has received a big share of global ODA in recent years. Recognizing that the world is becoming increasingly unstable and unpredictable, and that more spending on defense is needed, **traditional ODA should also be considered as an important tool of soft power to address global development challenges that transcend national borders and affect us all, without necessarily moving away from its core mandate of reducing poverty and inequalities**.

A Different International Development Cooperation Model

The beginning of the second Trump presidency in early 2025 has no doubt felt like a major inflection point that is different from previous crises that have affected the development sector. Whether it was the debt crisis of the late 1990s/early 2000s, the global financial crisis of 2008-09 or the more recent Covid-19 pandemic, the international development cooperation framework that emerged after the end of the Second World War had in the past adapted to exogenous

[4] Data from the WHO shows that Canada was the 5th largest Member State donor for 2020-21 and 8th largest overall. See https://www.who.int/about/funding/contributors/can (Accessed on October 17, 2025). Canada was also the 8th largest Member State donor to the WFP in 2024. See https://www.wfp.org/funding/2024 (Accessed on October 17, 2025). The US and Germany are major contributing Member States to both.

[5] See, for example: https://financing.desa.un.org/sites/default/files/2024-10/OECD_2.%20Factsheet_Private_clean.pdf (Accessed on December 3, 2025).

[6] Of the 5%, 3.5% is expected to be on core defence expenditure, that is, military equipment, while the remaining 1.5% will be on critical defence and security-related expenditure such as infrastructure and telecommunication.

shocks. For example, various meetings around aid effectiveness and financing for development, with the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) as the blueprints to be followed, yielded significant economic, social and political gains across the developing world. Donor countries and civil society were able to mobilize and rally around development causes in times of need, whether it was debt relief for the poorest countries, aid effectiveness, or the SDGs.

To be sure, the development community had been dealing with a series of challenges in the years leading to the second Trump presidency. The global pandemic had severely impacted progress on poverty and achievements in health and education, while climate change continues to disrupt the lives of the poorest and most vulnerable, even if these populations do not reside in places that have contributed the most to the problem. Climate change will continue to displace more people each year and contribute to humanitarian crises; so will the increase in conflicts and violence that we have seen in the last few years. **At the same time, the billions to trillions (World Bank, 2015) to fill financing gaps and finance the SDGs have not materialized**, raising doubts about the international community's ability to deliver on its promises.

Several factors have thus contributed to a rethinking of the model of international development cooperation both in donor and recipient countries. In the former, they include: fiscal pressures in donor countries; lack of access to social services such as health and education, placing asylum seekers and refugees in competition with domestic populations; and the backlash against globalization by those who feel left behind compared to other emerging countries, led by China, itself a major provider of finance for developing countries. In recipient countries, there is a sense that the system is unfair (for example, vaccine distribution during the Covid-19 pandemic) and that promises are not being met (for example, the significant financing gaps for sustainable development).

Some are now already talking about a post-aid world[7], questioning the existence of Northern donors and the need for a new narrative. **We do not subscribe to the view that international development cooperation will end**. Development assistance, as a tool of soft power, is beneficial for both donor and recipient countries. Global challenges such as climate change and pandemic preparedness, and rules around international trade just to name a few, require global cooperation. And despite a more challenging economic situation in donor countries, the public has consistently been supportive of campaigns to eradicate extreme poverty or to assist when there are humanitarian disasters.

On the other hand, there is no question that the aid system is not perfect and that more could be done to improve coordination, fragmentation, delivery and impact. In fact, aid has long been the subject of criticism from both the right and the left. Those who are on the right see aid as perpetuating dependencies, crowding out investments, discouraging domestic resource

[7] See, for example, https://odi.org/en/about/our-work/donors-in-a-post-aid-world/ (Accessed on September 30, 2025).

mobilization, encouraging corruption, and ultimately failing to generate expected development results. Those on the left see aid as a neo-colonial enterprise that restricts the agency and independence of aid recipients instead of encouraging locally generated solutions.

Either view, right or left, is extreme and needs to be countered with evidence that aid is a necessary and helpful tool of soft power, that it saves lives, and can create the conditions for long-term development. And this would not be inconsistent with the view that the development cooperation framework can also be improved to be better aligned with current realities. This includes moving from donor-recipient models to equitable partnerships, improving coordination among various actors, and tailoring development finance modalities to different contexts (see section 3).

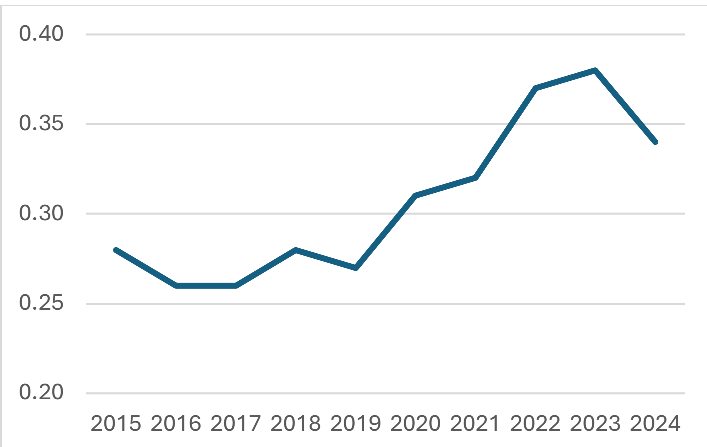
Canada as a Reliable Development Partner

Much of the contemporary debate – by academics, the NGO sector and the research/policy community – about Canada's role as a reliable development partner has tended to focus on traditional government aid or ODA. For example, discussions often examine how far Canada is from the 0.7% target recommended by the 1969 Pearson Commission, led by Canadian Prime Minister Lester B. Pearson, and adopted by the UN one year later. On that score, Canada never met the target and in recent years was anywhere between 37 to 54 percent of reaching it (see Figure 1). In fact, the increase in Canadian ODA flows since 2021 was largely driven by in-donor refugee costs as well as significant loans to Ukraine. If we use a measure of real ODA, which excludes in-donor refugee costs, imputed student costs, debt cancellation and interest paid on previous loans, those numbers would be even lower and closer to 0.25 to 0.30 percent of our GNI. **In absolute terms, Canada spent over $10 billion in ODA for fiscal years 2022-23 and 2023-24, which is about 2% of the annual federal budget**.

The IAE, Canada's main source of funding for ODA, has consistently increased since 2015/16, and significantly so from 2021-22 to 2022-23, before declining by more than 20 percent in 2023-24. Estimates tabled by the Government of Canada in May of this year did not provide specific numbers for the IAE but indicated that there will be a decline in funding for global development initiatives. These have now been confirmed by the cuts announced in the budget and break a promise made by Prime Minister Carney during the election campaign to not reduce aid. Given significant cuts by other donors, and the increasing need for both development and humanitarian assistance, maintaining current levels of Canadian ODA would have been ideal.

In 2024, data from the OECD-DAC, or DAC for short, showed that Canada was ranked 7^{th} among its DAC peers but 15^{th} relative to the size of its economy. This means that ODA per capita is below the average of the top-tier donors; given the announced cuts, it will be interesting to see where Canada ranks relative to its peers in the next few years. In terms of what ODA is spent on, Canada's Feminist International Assistance Policy (FIAP)[8] means that gender equality and women's empowerment are important focus areas, and so is climate finance. In the most recent peer review of its development assistance (OECD 2025b), Canada was praised for its leadership on gender equality as part of the FIAP. One could of course delve much deeper into the numbers to examine trends of where spending has gone, which countries or regions are targeted, and so on, but that is beyond the scope of the current study.

Figure 1: Canada's ODA/GNI ratio, 2015-2024



Source: constructed using data from OECD-DAC

It should also be noted that while the definition of ODA has been debated over the years, whether in terms of concessionality levels (reporting ODA on a grant equivalent basis), what should be included or not (for example, in-donor refugee costs) and what recipients have control over (that is, country programmable aid), the core mandate of ODA has remained about addressing poverty and inequalities. Recently, there has also been a push to account for broader measures of resource flows that are directly linked to SDGs, such as Total Official Support for Sustainable Development (TOSSD), which includes non-ODA flows and private finance that is mobilized through official interventions. When taken into account, the TOSSD amounts for the last 5 fiscal years ranged anywhere from an additional one to five billion dollars above Canadian ODA levels (based on Statistical Reports on International Assistance, Government of Canada, 2018-19 to 2023-24).

Canada's long-standing history of providing international assistance and projecting soft power in international fora, its focus on poverty reduction, its focus on gender equality as part of the FIAP, the use of innovative finance mechanisms (discussed in the next section) and multilateral investments that include funding related to climate change, have helped build its reputation as a reliable development partner. But as Canada's most recent peer review of its development

[8] Recent announcements by the current Canadian government seem to indicate that the FIAP will no longer be a focal point.

cooperation policies and programmes highlights, there are various areas for improvement (OECD 2025b). **It is in Canada's interest to maintain its reputation as a reliable development partner because it is a strategic investment in its national interests, creates economic opportunities, and gives the country a stronger voice internationally to advance Canadian values.**

Where to focus ODA?

Conceptually, ODA is now being deployed for geopolitical reasons (see earlier reference to Ukraine), to address climate-related challenges and global public goods (GPGs)[9], and as a tool to leverage private finance. The fact that ODA is being stretched to accommodate several agendas and stakeholders at a time when resources are scarcer implies that a rethinking, or **ring-fencing, of what ODA is expected to accomplish is needed**. Focusing ODA on the most vulnerable populations in low income and fragile contexts – many of which are in sub-Saharan Africa – seems to make the most sense from a poverty reduction, inequality and humanitarian perspective. It is well known that absolute poverty will become increasingly concentrated in fragile and conflict-affected situations. This is also where domestic resource mobilization is limited, and where there is limited or no access to capital markets.

As concessional funding is going to be scarcer, we need to ensure that its impact is maximized. In some cases, concessional loans, instead of outright grants, make sense because they allow funds (e.g. climate finance) to become more sustainable through loan reflows or further borrowing on capital markets. Outright grants could be deployed based on a country's income level and its debt profile. Such a focus would allow ODA to be aligned with its core mandate of poverty reduction and addressing inequalities. Under this scenario, GPGs – which by all accounts require far more investments than current ODA budgets – would be financed by: concessional loans and more private capital mobilization through blended finance[10]; closing tax loopholes and reforming international tax systems; tackling illicit financial flows; and helping countries with their domestic resource mobilization strategies (an area where donors do not invest enough resources).

While ODA can be used to leverage private capital, there should be an even clearer separation between the core mandate of ODA[11] and other sources of financing, at a time when resources are scarcer. The financing of GPGs, including climate action and other issues such as pandemic preparedness, through both public and private finance instead of only ODA, should be clearly

[9] Global public goods are public goods that benefit everyone around the world, for example. Environmental protection or public health. Like "domestic" public goods, they are nonrival (can be enjoyed by anyone without reducing the benefits to others) and nonexcludable (available to everyone).
[10] Blended finance is an approach to structuring transactions, namely the use of concessional capital to de-risk private capital. It helps to catalyse private investments as part of the larger ecosystem of innovative finance to fund development (see Figure 2 in Section 3).
[11] In Canada, we also have the Official Development Assistance Accountability Act that defines what ODA should be used for, namely poverty reduction.

delineated thus ensuring that the funding is new and additional, while ODA should focus on its core mission of long-term development in the low-income countries.[12]

Recommendations

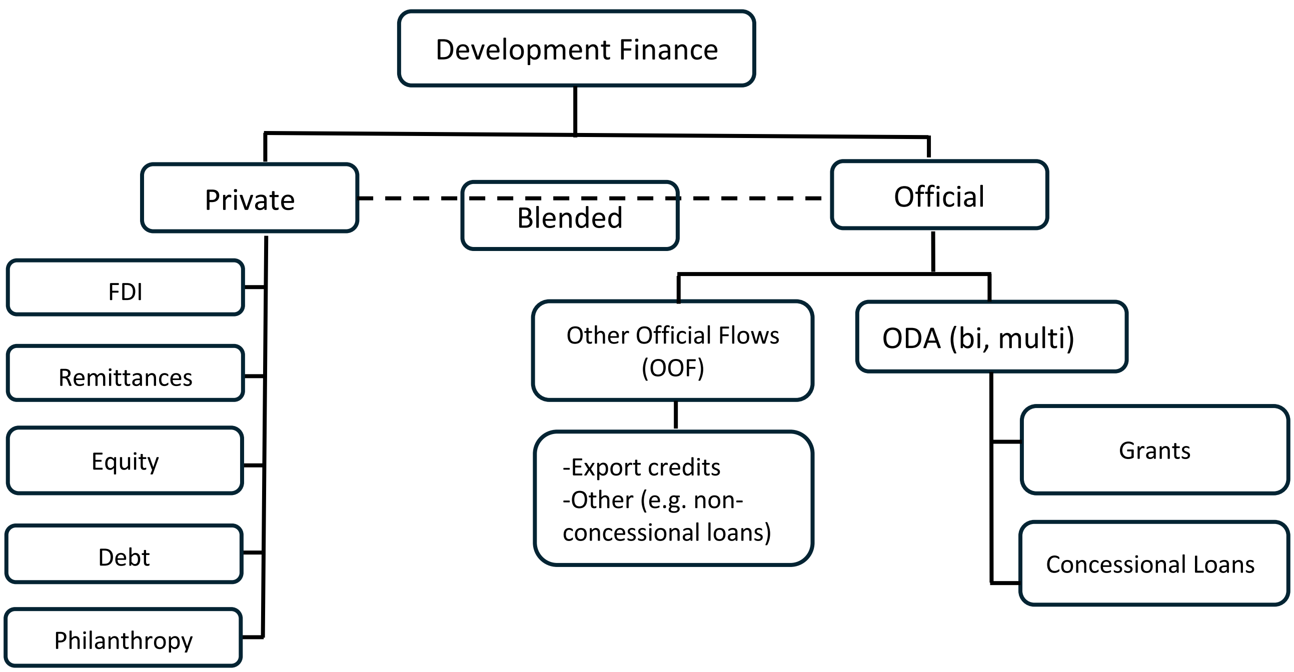
- Despite the announced cut to foreign aid, the Canadian government should be more transparent about the implications for its annual ODA budget and actual programming and priorities. This should include a roadmap that includes baseline estimates for ODA levels to ensure predictability for its development partners.
- Canada – the government and CSOs in particular – should continue to make the case for the provision of ODA to address poverty and inequality for a peaceful, inclusive and prosperous world, thus aligning with Agenda 2030. Better, and investment in, communication on the value proposition of Canada's international assistance would support improved ODA budgetary allocations.
- Canada must clearly delineate the core mandate of ODA from the financing of other initiatives, especially those related to GPGs and ensure that funding for GPGs is additional as opposed to diverting funds from ODA's core mandate. A corollary is to ensure that at least 60% of bilateral development assistance is focused on poverty reduction in low- and lower-middle income countries given that aid resources will be more limited. This would also build, and improve on, the current objective of allocating 50% of bilateral development assistance to sub-Saharan Africa.
- Canada should deploy concessional financing strategically, and both bilaterally and multilaterally, as opposed to outright grants, where reflows are necessary for fund sustainability, and based on countries' income and debt levels.
- The deployment of development assistance must, as much as possible, leverage the ecosystem of Canadian CSOs and related expertise.

[12] As part of FIAP, Canada committed to allocate 50% of its bilateral aid to sub-Saharan Africa, home to most low-income countries. This is a goal that has not been achieved, partly because of increasing amounts to Ukraine recently.

3. Development Finance Modalities: What Does Canada Use and Why?

The term development finance and its associated modalities tend to be used loosely in the literature. Some, for example, refer to development finance only when speaking about Development Finance Institutions (DFIs). Statistically, the DAC collects data on ODA (which are mostly grants but can also include cheap or "concessional" loans) and Other Official Flows (OOF) – see Figure 2 below for an overview of development finance modalities. The DAC defines what ODA is and provides the most comprehensive information about ODA across countries and over time. OOF refers to "transactions by the official sector with countries on the DAC list of ODA recipients which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development, or because they have an insufficient grant element."[13] Examples of OOF include export credits and loans from bilateral DFIs that are non-concessional.

Figure 2: Development Finance Modalities



Source: Brautigam (2010); author's input

For the purposes of this paper, *we define development finance modalities as different sources of funding mechanisms, including ODA but going beyond it, that are used for the promotion of economic development*. Our focus in the current paper is on mechanisms that 1) directly or indirectly involve the official sector 2) transfer resources to developing countries and to the

[13] https://www.oecd.org/en/topics/sub-issues/oda-standards/glossary-of-statistical-terms-and-concepts-of-development-finance.html#O (Accessed on October 17, 2025).

extent possible 3) mobilize additional finance. As such we do not examine foreign direct investment (FDI) or remittances.

Table 1 summarizes the various development finance modalities that are currently being deployed and/or are part of Canada's development finance toolkit. The table is by no means exhaustive since there are other modalities that exist but are not used in the Canadian context, or at least not in a significant way. For example, Canada does not have an air ticket levy or solidarity tax that contributes to global development. Besides traditional development finance modalities that are outright grants, there is overlap across other modalities. For instance, only the grant equivalent of Canada's Sovereign Loans Program (2019-2024) should be counted as ODA. Grand Challenges Canada - a nonprofit organization that focuses on innovative health solutions in developing countries and largely funded by the Canadian government – blends different types of capital (grants, debt and equity; more on Grand Challenges Canada and on blended finance further below) and its financial toolkit also includes results-based financing and other innovations such as Simple Agreement for Future Equity (SAFE) notes.

Under climate finance, in addition to what is mentioned in the table, there are other Canadian initiatives hosted by multilateral development banks, namely Canada's Climate Fund for the Private Sector of the Americas with IDB Invest and the Canadian Climate Fund for Private Sector in Asia with the Asian Development Bank.

As discussed in section 2, ODA serves a specific purpose and should be deployed with a more specific intent, especially during times of constrained resources. Traditionally, a significant part of Canada's ODA budget has been delivered as outright grants, hence free of interest and repayment.[14] ODA in the form of grants is an effective way of delivering both bilateral and multilateral programs through indirect or direct channels since it does not add to the debt burden of recipients and shows a donor's generosity and intent in achieving development objectives. Specifically, in the case of grants provided to governments, it relieves them from the burden of debt accumulation and debt overhang, which can have deleterious impacts on growth (International Monetary Fund, 2022). Grants are particularly helpful in areas where private investments are low or where the costs of private capital would be too high. Thus, they speak to the 'public' nature of interventions, for example in sectors such as education and health, or for humanitarian reasons, where there is no profit motive for private investors.

Concessional loans that are cheap enough also qualify as ODA (see Figure 2)[15]. However, when loans are not concessional enough, they add to existing debt burdens. There is an argument that recipients may also view loans differently and may be incentivized to use them more efficiently

[14] As of September 30, 2025, outstanding loans to national governments, excluding Ukraine (CAD $12.2 billion) was about CAD $1.6 billion, of which CAD $598 million is for international development (from Global Affairs Canada). See https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/lending-national-governments.html (Accessed on October 31, 2025).

[15] In DAC parlance, concessionality is based on the grant element, which is in turn calculated from different discount for countries based on their income categorizations.

whereas grants could simply substitute for domestic revenues, discouraging resource mobilization through other means. On the other hand, when loans are frequently forgiven, over time they will tend to be seen as essentially equivalent to grants, thus negating the moral hazard problem. Ultimately, whether grants or loans should be favored depends on the context and intended targets/objectives. One recent example of the use of concessional loans is **Canada's Sovereign Loans Program (SLP)**, which is a five-year pilot program (2019-2024) that was announced in budget 2018 for a value exceeding $657 million. The SLP provided low-interest sovereign loans mostly to middle-income countries, for investments in poverty reduction that would help achieve the SDGs and that are aligned with at least one of the six action areas of Canada's FIAP. Targeting middle-income countries made sense since their capacity to repay would arguably be much better than low-income countries that should instead be offered grant funding or highly concessional funding. Global Affairs Canada was responsible for delivering the SLP and had to ensure that lending did not contribute to unsustainable debt levels; beneficiary countries were Ecuador, Guyana, Jordan, Moldova and South Africa. Global Affairs Canada's 2024-25 spending plan mentions that planned spending under the International Assistance Innovation Program (IAIP – discussed below) and the SLP will be scaled back. This is unfortunate because if properly targeted, these programs can mobilize financing at relatively low risk while ensuring that they do not contribute significantly to higher debt levels.

Canada is also using loans or repayable contributions through its **International Assistance Innovation Program (IAIP)**, which is a blended finance program that funds private initiatives that contribute to growth and development objectives in countries that are eligible for ODA.[16] The initiatives must mobilize additional public or private funding, integrate elements of gender equality and climate in the investments and be targeted towards multiple countries. The IAIP works mostly with private sector organizations, though it could also consider non-profits, development organizations and local financial institutions. Thus far, the IAIP has supported investments in Asia, sub-Saharan Africa, and the Latin America and Caribbean region in sectors such as climate-smart agriculture and infrastructure, SME financing and gender-lens investing. Since the IAIP is a blended finance program whose objective is to mobilize additional private capital, the government's contribution is less concessional so as not to completely crowd out private investment. On the other hand, the SLP is more concessional, despite a maximum loan term of ten years, and an interest rate equal to the Government of Canada's cost of borrowing.

Another five-year pilot program was launched in 2021-22 – **the Conditionally Repayable Contributions (CRC) Pilot** – to mobilize additional private sector investments towards Canada's FIAP and the SDGs. This program's goal is to use public funds to leverage additional investments in ODA-eligible countries that would be deemed too risky for private (domestic and international) investors on their own and focuses on projects with **loan portfolios** and/or **loan portfolio guarantee funds**. Applicants must provide a financial contribution for the CRC component, and there is thus a blending of concessional and commercial resources to catalyze investments.

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[16] The pilot ran from 2018-19 to 2023-24 and has been renewed for five years (2024-25 to 2028-29).

Table 1: Canadian Development Finance Modalities

Modality	Description	Examples / Notes
1. Traditional Development Finance Modalities (ODA) *Pros: no repayment, no debt implications; cheaper; for specific sectors/issues; co-financing* *Cons: conditionality/influence; limited budgets and scale; dependency; short- vs. long-term impacts* *Most applicable context: humanitarian assistance; basic social services; technical assistance; low- and lower-middle income (and fragile) countries that cannot take on more debt; sectors with low ROI* *Recommendation: see end of section 2*		
Grants	Non-repayable transfers for development objectives	Health, education, governance support; poverty reduction in LICs
Concessional Loans	Loans at below-market rates with long maturities; qualifies as ODA if sufficiently concessional	Canada's Sovereign Loans Program; World Bank (IDA) loans; where reflows needed
Technical Assistance & Capacity Building	Funding or expertise to strengthen policies, institutions or systems	Training
Debt Relief or Cancellation	Restructuring or forgiving developing country debt	HIPC, Multilateral Debt Relief Initiative; G20 and Paris Club DSSI
Humanitarian Assistance	Quickly disbursed grants or in-kind assistance during crises	Emergency food or disaster relief programs
2. Other Official Flows (OOF) and Non-ODA Public Finance *Pros: derisking; mobilization of private capital; scalability possible* *Cons: may not go where needed; complex and difficult to assess; unnecessarily subsidizing private capital (additionality not guaranteed); potential for debt accumulation* *Most applicable context: countries not under debt distress; middle income countries; more commercially oriented activities* *Recommendation: see end of this section; FinDev Canada should benchmark some of its funding for higher risk projects in lower income contexts; need more transparency and accountability; better coordination with other development actors; think of systemic change instead of isolated deals*		
OOF	Official transactions not qualifying as ODA; more commercially oriented	Export credits, bilateral loans, IAIP
Development Finance Institutions	Loans, equity, guarantees, blended finance	FinDev Canada
Results-Based / Impact Investing	Payments linked to verified development results or impact	Grand Challenges Canada
Conditionally / Unconditionally Repayable Contributions	Public funds provided with the expectation of partial or full repayment	Canada's CRC (loan portfolio & loan portfolio guarantee funds) and URC program
3. Private and Innovative Development Finance *Pros: scalability and catalytic; potential for high impact; private sector development* *Cons: focus on middle-income countries; insufficient mobilization; lack of transparency; potential for debt accumulation* *Most applicable context: countries not under debt distress; middle-income countries; more commercially oriented activities* *Recommendation: see end of this section and recommendations under 2 in this table; need more transparency and accountability*		
Equity investments	Capital investments in businesses or funds	FinDev Canada
Green/social/development bonds	Bonds with a sustainability objective or social impact	Green-, blue- and SDG-linked bonds
Diaspora & Remittances	Mobilizing diaspora savings; flow of money by immigrants to home countries.	Diaspora bonds; legislation to reduce cost of remittance transfers
4. Multilateral and Thematic Finance (ODA) *Pros: easier to manage; pooled expertise and resources (scalability); new capital* *Cons: reduces bilateral share to Canadian development "ecosystem"; less "visible" footprint; potential for debt accumulation* *Most applicable context: low- and lower-middle income (and fragile) countries that cannot take on more debt; vulnerable countries (e.g. SIDS and landlocked countries) in the case of climate finance* *Recommendation: contribute to core funding of multilaterals; optimize bilateral-multilateral mix to ensure complementarity and reduce fragmentation*		
Multilateral contributions	Core or earmarked funding	UN, World Bank (IDA), IMF, Regional Development Banks
Climate Finance	Funding climate adaptation and mitigation in developing countries	Green Climate Fund; Canada's $5.3 billion (40% grant; 60% URC) climate finance commitment (2021-26)

Global or Thematic Funds	Issue-specific pooled-funding mechanisms	Global Fund, GAVI
Special Drawing Rights (SDRs)	IMF reserve assets	Canada's SDR reallocations to Poverty Reduction and Growth Trust (PRGT) and to Resilience and Sustainability Trust (RST)

Source: author's construction

Unconditionally Repayable Contributions (URCs) are provided under the IAIP discussed above, and also the international climate finance program, which is a $5.3 billion commitment for 2021-26, and consisting of 40% grants and 60% URCs. URCs are similar to concessional loans and their goal is to encourage private sector investments in low-carbon activities, mostly middle-income and lower-middle-income countries. The international climate finance program includes both bilateral (with developing country governments and NGOs) and multilateral components such as the Green Climate Fund and multilateral development banks. The difference between URCs and CRCs is that URCs (higher certainty of repayment; low risk) must be repaid without qualification whereas CRCs (higher risk) become fully or partially repayable after some conditions come into effect.

Canada's Development Finance Institution, FinDev Canada, is a Crown Corporation and subsidiary of Export Development Canada (EDC). It was launched in 2018 to support the private sector in developing countries by offering loans (**debt**), **blended finance loans**, **equity investments** and technical assistance. Specifically, FinDev Canada currently manages a Gender Smart Covid-19 Recovery Facility "2X Canada" launched in 2021, funded through Global Affairs Canada, and that focuses on the financial sector and SMEs; another concessional finance facility was announced at the 2024 G7 Summit, focused on agribusiness and forestry, the financial sector, and sustainable infrastructure. It also leads a blended finance platform, GAIA, for climate adaptation and mitigation projects. FinDev supports growth in developing countries through private sector investments; its services are provided at commercial rates and its goal is to remain financially sustainable. Its ability to take greater commercial risk than private investors means that it can invest where financial support is most needed and that are deemed too risky for private investors. FinDev has received additional capital from the Government of Canada to expand operations and meet increased demand, which is not unusual for DFIs.

In the case of **equity**, at its most basic it is the share of a corporation or business owed by an investor after debt owed by the company is paid off. It allows private companies in developing countries to obtain capital and funders are able to pursue riskier but potentially more rewarding strategies; investors have more influence in company decisions. As discussed in Habbel et al. (2021), different blended finance instruments and mechanisms are used in development finance. In addition to equity, **private debt instruments** are the most commonly used development finance instrument; these include loans, lines of credit and **bonds**. Some bonds such as green bonds are specifically designed with environmental, social and governance (ESG) objectives. Other types of bonds, namely development impact bonds, are tied to outcomes; public sector agencies or donors pay the investors their principal and return if they deliver results. These specifically-designed bonds help mobilise capital and enable a focus on outcomes or results. The same is true of performance-based grants that are paid when pre-achieved outcomes are agreed. Finally, there are instruments that pool resources together such as syndicated loans that allow risk-sharing. The main difference between debt and equity is that despite lower returns, the risk with debt instruments is also lower and they can thus be a means to lower risk in a portfolio that includes equity and other products.

Guarantees are yet another instrument that are used in development finance; as the name implies, they are deployed in the event of non-payment or loss of value and can thus be attractive to risk-averse investors. As discussed in Mirabile et al. (2013), guarantees have traditionally been more frequently used by multilateral financial institutions than bilateral DFIs. Specifically, the concern was that bilateral institutions have obligations to offer ODA-eligible products and guarantees are not counted as ODA because they do not include a financial flow. However, at the multilateral level, including initiatives that Canada has contributed to, guarantees are increasingly being used even if more could be done.

More recently, the DAC has changed its rules so that donors are now able to count the capitalization of **Private Sector Instruments (PSIs)** and the grant equivalency of equity, loan and investment guarantees. This would imply, concretely in the Canadian context that the recent recapitalization of FinDev Canada counts as ODA. **CSOs have raised concerns that this expansion of guarantees and how PSIs are counted as part of ODA would raise its levels without necessarily any increase in donor effort and that it could incentivize donors to move further away from grants and concessional loans**. It is unclear how additionality towards the goal of poverty reduction – the core mandate of ODA – is being considered with respect to PSIs.

Some of the other major actors in the blended finance space in Canada include Grand Challenges Canada, which uses blended finance by deploying catalytic capital to crowd in private investment, invests in global health investment funds, and engages in gender lens investing. Global Affairs Canada was also the founding funder of the global network for blended finance, Convergence, as a platform to connect, educate and help public and private investors carry out blended finance transactions for increased private investments in emerging markets. Mennonite Economic Development Associates (MEDA) has also been in the impact investment space for decades. In 2013, it partnered with the Government of Canada and used concessional finance to leverage private capital. MEDA uses impact investment funds that combine grant funding with concessional loans or equity; it also offers technical assistance and risk mitigation instruments such as guarantees. The MEDA Risk Capital Fund (MRCF) uses both donor and private sector funds and addressed financing gaps by investing in SMEs in developing markets.

Blended finance in Canada – and thus increasing use of funds beyond ODA to finance development – really picked up around the Third International Conference on Financing for Development back in 2015 when the UN member states were examining how to finance the post-2015 development agenda. At the time, Canada's Department of Foreign Affairs, Trade and Development led the charge on blended finance and increased engagement with the private sector, after years of stagnant ODA in absolute amounts and declining ODA as a share of national income. The launch of Convergence was announced in 2015 during Financing for Development negotiations, while FinDev was launched three years later in 2018. An increasing share of ODA has been directed towards blended finance since then, with various announcements that include the IAIP, CRC and URC described above. Yet another specific example is the establishment of the Equality Fund in 2018/19, when the Government of Canada, through Global Affairs Canada, made a commitment of $300 million to mobilize further financial contributions from governments, individuals, foundations, the private sector and other donors. Additional resources were expected to be generated through gender lens investing (and impact investing) to support the FIAP. As of March 2024, over 150 women's rights organizations and women's funds had received grants, which helped reach nearly 1000 other women's rights organizations.[17]

A decade later, it is evident that more ODA has been channeled towards blended finance, going beyond traditional aid that includes projects, programs and budget support to governments of developing countries. **Since we still hear about pilots being launched and implemented, it would appear that many of the programs are not firmly established and that there is no clear overarching framework to differentiate traditional ODA from ODA being used to leverage private capital**. It is also difficult to find comprehensive, easily accessible, data on the actual breakdown between traditional vs. non-traditional ODA (and forward spending plans), the cost of these programs and the actual impacts that they are having. As we have already pointed out, and drawing on evidence globally, what we know is that the leveraging that was promised has not happened, and that whatever has been leveraged has not gone to where it is needed the most.

Specifically, blended finance tends to target countries in the middle-income category because they have a better risk profile. In that sense, private finance is riskier and this is why government support is necessary. It is also more difficult to know exactly what the leverage ratios are, and unlike ODA, the accounting and monitoring is more difficult since private investments tend to involve multiple layers and actors that do not have to meet the same standards of transparency as public funding. Finally, the targeting of traditional ODA towards sectors such health and education, that require needed public investments, tends to be missed by blended finance initiatives given their focus on other sectors such as financial services and energy.[18] While this may be a good thing given the comparative value of each type of funding, it becomes problematic when ODA for traditional sectors is diverted to fund blended finance initiatives.

[17] https://www.oecd.org/en/publications/2021/03/development-co-operation-tips-tools-insights-practices_d307b396/bridging-the-funding-gap-for-women-s-rights-organisations-canada-s-support-through-the-equality-fund_048ded61.html (Accessed on October 1, 2025).
[18] See https://www.convergence.finance/blended-finance#sectors (Accessed on December 3, 2025).

Recommendations

- Different development finance modalities have distinct strengths and drawbacks, and should be seen as complements to, not substitutes for, traditional ODA.
- The so-called privatisation of aid, or use of various development finance modalities other than grants and concessional loans, should be first and foremost based on what our development objectives are, not merely as a reaction to fiscal pressures.
- The increasing use of blended finance requires more transparency and accountability, better analysis of additionality, which actors are involved in deals, and who the beneficiaries are. This would apply to FinDev Canada, which has been recapitalized recently.
- The Government of Canada should require that FinDev Canada focus some of its attention on low-income countries through a dedicated concessional financing facility so as not to compromise its financial sustainability.
- With a declining ODA budget, it is imperative that we know what percentage of aid dollars is being used to mobilize private capital. At the same time, the use of non-ODA public finance should be transparent, complement ODA financing, and not crowd out private capital.
- Compared to its peers, Canada has developed a comparative advantage in certain areas such as gender equality (and its FIAP) and climate finance, whether through FinDev Canada or Canadian climate funds through IDB Invest. Such approaches, which include gender incentives for climate finance, work and should be scaled up.

4. Canadian Contributions to Reforms of International Development and Financial Architectures

Despite calls for reforms of the international development and financial architectures, developed countries continue to dominate decision-making in key international financial institutions. The governance of the Bretton Woods Institutions does not sufficiently represent the interests of developing countries, which in turn do not have enough power to influence the policies that directly affect them. Too many developing countries are today spending more on debt servicing than on key sectors such as education, healthcare and infrastructure to ensure sustainable growth. Existing financing mechanisms for private capital and ODA have not been sufficient to fill the SDGs financing gap, and the billions to trillions that were promised, in part from innovative finance through the private sector, have not materialized. Climate finance is not reaching the most vulnerable populations even if climate change disproportionately impacts the poorest countries where they are found. And the current financial architecture tends to react slowly to global shocks and their consequences; rigid rules around debt relief, for example, can make matters worse instead of solving them. All these observations indicate that there is clearly a need for reforms of the international development and financial architectures.

As a middle power, Canada has been a big proponent of multilateralism, contributing resources and ideas to multilateral institutions and forums (such as the UN, G7, G20, OECD DAC and the Bretton Woods Institutions). In the past, international summits delivered concrete outcomes under Canada's leadership. For example, when the G20 was held in Toronto back in 2010, as countries were still recovering from the 2008 global financial crisis, there were specific targets that were adopted related to voting power of developing and transition countries at the World Bank, IMF quota reforms, and several measures related to financial sector reform. At the G7 Charlevoix summit in 2018, there was a commitment on innovative financing for development.

Today, an increasingly isolationist United States, Russian imperialism, and the rise of other powers such as China and India, is creating a new world order that makes it more challenging to work within a system that was built in the aftermath of the Second World War. **On the other hand, there are many other countries – both traditional and non-traditional allies – that collectively represent a significant bloc and with whom Canada could form alliances on issues related to reforms of the development and financial architectures**.

There are other issues where Canada can exercise leadership and set the right example. For example, at the height of the Covid-19 pandemic, Canada provided a $1 billion loan to the IMF's Poverty Reduction and Growth Trust (PRGT), which is the concessional facility for low-income countries. It also contributed to the G20 Debt Service Suspension Initiative (DSSI), which was created in May 2020 and ended in December 2021. Canada also pledged to direct 20% of its new Special Drawing Rights allocation to low-income and vulnerable middle-income countries as part of its G7/G20 commitments. In 2023, more Canadian SDRs were allocated to the PRGT for climate adaptation and poverty reduction in low-income countries making Canada the shareholder that had allocated the highest share of its SDRs to the Global South[19].

Canada has a long history of participating in debt relief initiatives, being a founding member of the Paris Club, and having contributed to the Heavily Indebted Poor Country Initiative and Multilateral Debt Relief Initiative (see Table 1). However, the nature of debt owed today by developing countries, including some of the most vulnerable ones, has changed. More debt is owed to China and to commercial lenders than was the case in the past; borrowing costs are higher and countries spend a significant share of their revenues servicing debt instead of investing in key areas such as education, health and climate action.

[19] https://www.one.org/ca/press/one-campaign-applauds-canadas-1-3-billion-contribution-of-special-drawing-rights-to-accelerate-climate-finance-and-poverty-reduction/ (Accessed on October 1, 2025).

Canada is not a big creditor country, so whatever it decides to suspend in debt payments, or redirect in terms of SDRs, can only move the needle so much. However, it can use its leadership in multilateral venues by supporting calls from the World Bank and the UN for commercial lenders to participate in debt relief – under the G20 Common Framework or other emerging frameworks – instead of free riding on efforts by others, mostly bilateral donors. It would appear that the G20 Common Framework has reached its limits. While it was meant to provide a fast and effective way of restructuring debt for low-income countries, implementation has been too slow, insufficient, and with little participation from private creditors. **Canada could support countries in the Global South that have been pushing for a UN framework Convention on Sovereign Debt, which would be a global and legally binding sovereign debt resolution mechanism**.

It can also support efforts to provide legal protections for debtors that are facing lawsuits to repay their debt. The lessons of debt relief from past initiatives are that they do not guarantee that countries will not fall back into debt distress again. In fact, more than twenty years after the HIPC and Multilateral Debt Relief Initiatives, debt is now again a major issue for many developing countries that are under pressure to find resources to finance the SDGs and climate adaptation while managing their macroeconomic environments, which require budgetary adjustments. African countries in particular face a higher cost of capital when compared with others that have similar fundamentals, the result of a higher risk premium when assessed by international credit rating agencies. **Canada, as part of its Canada-Africa strategy, could support the newly established African Credit Rating Agency**, whose goal is to be more transparent and counter the bias of international credit rating agencies. This would contribute to a fairer and increased access to capital.

We know that very little aid goes towards capacity building for domestic resource mobilization, such as improved tax administration, and that there is also a limit in terms of how much can be mobilized domestically, especially in countries with a low tax base and relatively significant informal sectors. More efforts and leadership are required to support debt sustainability – not only cancellation of debt payments, but cancellation of debt itself – for developing countries. Ultimately, both an international development architecture that includes fair credit rating evaluations for all countries, and grant funding for low-income countries so that they do not fall back into a debt spiral, are needed.

Another area where Canada can exercise its leadership is on **international taxation discussions**. Canada has engaged constructively with the OECD-led process of base erosion and profit shifting (BEPS). BEPS refers to the tax planning strategies that multinational enterprises use to artificially shift their profits to low- or no-tax jurisdictions by exploiting tax loopholes. However, Canada was one of eight countries that voted against the terms of reference – led by the Africa Group and the G77 – for the process that sought to move tax discussions from the OECD to the UN, ultimately creating a **UN Tax Convention**. The rationale that this move would undermine what the OECD is already doing on BEPS and create a fragmented system is not very strong given that most countries of the Global South see a UN process as more inclusive and democratic. Tax avoidance and illicit financial flows disproportionately affect developing countries that see a UN-led process as being more effective than one that could potentially protect the interests of rich countries. In November 2025, Canada abstained from voting on a UN tax resolution for an inclusive and effective international tax cooperation, which was tabled by the Africa Group.

Canada's stance on climate action that would benefit developing countries is also mixed at best. On the one hand, it has made important financial commitments such as the international climate finance program that targets clean energy transition, nature-based solutions and biodiversity loss, climate-smart agriculture and food systems, and climate governance. On the other hand, at home, Canada continues to expand fossil fuel production and exports; Canada has failed to meet both domestic and international emissions targets historically. The newly elected government has also abandoned the carbon tax, which is a measure that many economists support to reduce carbon emissions because of its efficiency and transparency. International climate finance is also largely delivered as repayable loans instead of grants, which as we have already pointed out, will add to the debt burden of developing countries. Unfortunately, developing countries that have contributed the least go greenhouse gas emissions and climate change must face a disproportionate impact of climate change. Multilaterally, the amounts spent on climate finance by the World Bank, for example, has come under scrutiny since they are difficult to track (Oxfam, 2024). This is again an area where Canada could exercise more leadership and advocate for more transparency from the World Bank and other multilateral organisations.

The fourth Financing for Development Conference, held in Sevilla from June 30 to July 3, 2025, adopted the Compromiso de Sevilla (United Nations, 2025). The word architecture (financial and debt) is mentioned several times: continued reform of the international financial architecture to close the financing gap, including strengthening the role of the UN and IFIs; unlocking additional and innovative financial resources; include voice and representation of developing countries in international tax architecture; reform the development cooperation architecture so that it is more effective, inclusive and coherent; reform sovereign debt architecture so that debt restructurings happen faster, to improve debt transparency and debt sustainability analysis. Shrinking aid budgets meant that domestic resource mobilization was once again a priority, including domestic tax reform and support for the UN Framework Convention on International Tax Cooperation. But the outcome document also clearly shows that multilateral action in other areas – debt relief and grant financing to name just two – will remain relevant, and perhaps more than ever. As usual, it will be interesting to see how/whether commitments made are translated into concrete action.

Ultimately, whether it is about international tax negotiations or climate change action, Canada needs to be **more coherent from a policy perspective**. Domestically, there needs to be more coherence among various federal departments and agencies – for example Global Affairs Canada and Natural Resources Canada – that pursue conflicting objectives, and a recognition that domestic priorities such as resource extraction can conflict with international development objectives such as efforts towards climate action. As more countries, including Canada, try to assert national strategic interests while cutting ODA budgets, it is important that whatever remains is not also impacted by policy incoherence. Ultimately, it is about ensuring that what we preach internationally aligns with our domestic actions and values.

Recommendations

With limited fiscal resources, Canada must lead by example and strategically and boldly use its political capital. Specifically:

- Canada should work with like-minded countries to address issues such as debt relief and climate change. Forums such as the G7, G20 and UN meetings are opportunities to advocate for these issues, adopt resolutions with specific objectives, and exercise leadership. Canada should support debt negotiations that are happening at the UN, and also support as part of its Canada-Africa strategy, the newly created African Credit Rating Agency.
- Canada should leverage its position on the board of IFIs to push for inclusive governance, better representation of developing countries, expansion of multilateral lending and more emphasis on climate-smart investments.
- In addition to debt relief, corruption and illicit financial flows (IFFs) represent significant losses of revenues for developing countries, especially those on the African continent. By ensuring that Canadian businesses conduct themselves responsibly, especially in critical minerals and mining more generally, the Canadian government can contribute to domestic resource mobilisation and the reduction of IFFs. Instead of voluntary compliance, Canada should adopt legislation that compels Canadian corporations to act responsibly abroad as they do at home This would also show that we can lead by example.
- Canada should reallocate even more of its SDRs to IMF trusts that focus on vulnerable countries and thus be an example for other high-income countries to do the same.
- Canada’s development programming must focus on where its comparative advantages are, for example, on gender equality or climate finance. By collaborating with other countries and international institutions, Canada could contribute to a “less fragmented” aid system.
- Cooperation Canada could also collaborate with advocacy organizations such as Results Canada to make the case to the Canadian government for reforms of the international and development architectures that go beyond additional financial resources. Part of the advocacy should include the need for policy coherence for sustainable development.

5. What Role for Civil Society

Cuts to ODA budgets by Canada and other major donors are accelerating a shift in the development finance landscape towards a greater reliance on blended finance and private sector investment even if existing evidence has shown the limits of such an approach. For reasons already discussed, ODA will not disappear entirely. In the Canadian context, most development NGOs and practitioners rely on traditional ODA to implement programs and projects in developing countries. This development ecosystem has built significant expertise over the years and contributes to the advancement of sustainable development globally. It became clear in my conversation with a few actors involved in the development finance space that many of the smaller development NGOs do not have the capacity, nor the technical expertise, to engage with development finance modalities beyond ODA in so far as they relate to the structuring of the deals themselves. **However, it is our view that there are various ways in which CSOs can engage with development finance beyond ODA**.

First, advocacy from CSOs still matters, both for ODA and non-ODA flows, to ensure that these flows remain transparent and align with the Government of Canada's policy objectives as they relate to sustainable development. The "development finance beyond ODA" project in Canada remains a work in progress despite a decade or more of presenting Canada as a leader in innovative (and blended) finance. **Canada arrived late at the party, and it has yet to develop a coherent strategy on non-traditional ODA, even if it has been engaged on multiple fronts**. Some of the programs are now being evaluated (e.g. FinDev Canada's) but there is no comprehensive and systematic information of how much private capital is being leveraged and where it is going. Anecdotal evidence shows promising results but, for example, we do not have basic information about leverage ratios or counterfactuals that can speak to additionality.

Once we think beyond ODA, there is no evidence that Canada has done better than others in terms of reaching those that need development finance the most. For example, one development finance specialist that we spoke with mentioned that other DFIs were currently offering better deals to them than FinDev Canada. There is thus room to demand more transparency and accountability, and to ensure that Canada's development finance is aligned with sustainable development and is not solely profit-driven, which is expected from private actors. We agree with those that we spoke with that the technical capacity or awareness from CSOs is often lacking. This means that educating development practitioners and the Canadian public, on the various development finance mechanisms that Canada is deploying – their implications, including possible risks – is essential.[20] For NGOs, it would enable them to understand how to engage with and collaborate with the private sector towards sustainable development. Partnering with those already involved with "beyond-ODA" mechanisms and investing in training and education to understand different finance mechanisms would help build capacity and expertise of CSOs.

[20] We hope that the current paper accomplishes some of that.

ODA is often criticized for its lack of results, or inability to demonstrate impact. Beyond-ODA resources are not immune from that criticism either, including heavy reliance on private finance for development, whose main objective is profit-driven. **The blending of public resources with private finance requires full disclosure of the kinds of investments that are being carried out and the development outcomes that are being achieved, and this is something that civil society should be advocating for. The same recommendation for accountability applies to multilateral development institutions, including multilateral development banks where Canadian funds are channeled**.

CSOs have a unique expertise that is needed, even in cases when projects involve both public and private finance. This includes ties with local communities, or the ability to work with them, specific skills such as those related to gender equality and local capacity building through their established networks, women's empowerment and environmental issues, and a focus on ethical and ESG principles that are aligned with the SDGs. CSOs understand issues such as localization better than private companies, they have contacts with local organizations and can support them. Their social and environmental expertise can complement the financial skills that are necessary for structuring deals, and they can thus be reliable partners. It is not clear that the amount of capital that is required for certain transactions is something that small Canadian NGOs can afford; **however, they can be involved in designing, implementing and evaluating projects by offering ideas that are ripe for private investments**.

NGOs should also diversify their sources of funding, especially if they are heavily dependent on public funds by creating social enterprise models or partnering with businesses that share their values. CSOs should be advocating for more representation in organizations such as FinDev Canada and others involved in the development finance ecosystem that goes beyond ODA, and also partnering with them to advocate for international issues such as climate change, women's empowerment, and a comprehensive development finance strategy that align with Canada's development assistance policy and the SDGs. To close financing gaps and continue to make progress towards the SDGs, various actors – public, private, foundations and NGOs – must come together. **The bottomline is that NGOs have specific skills that can be helpful for private investors, and the Canadian government could be a champion in advocating for this with the private sector**.

Canadian CSOs have much to gain by partnering with international organizations and networks that are advocating for issues such as financial architecture reforms, international tax transparency and debt relief. Ultimately, civil society can go beyond serving as a watchdog in the use of blended finance and become part of the ecosystem, together with DFIs and private partners. Although donors such as Canada sometimes involve CSOs as intermediaries for blended finance projects, they could be more deliberate about it. This would ensure that development objectives are met, and that local expertise, capacity building, monitoring and evaluation etc., and where CSOs have a comparative advantage, are included.

There are very few examples of closer partnerships between CSOs and development finance institutions that can serve as examples for Canada. For instance, the World Bank launched the Civil Society and Social Innovation Alliance (CIVIC) recently, and its objective is to integrate civil society knowledge and solutions with the World Bank's programs, in order to achieve impact at scale. CIVIC is expected to work with the World Bank Group, including the International Finance Corporation, as well as social innovators, businesses and governments. Whether it is Proparco or British International Investment – the French and British DFIs respectively – their engagement with CSOs tend to be structured around their own mandates as opposed to the traditional ways of allocating grants. As a result, engagement with CSOs is quite limited and issue-specific. Our research did not find that any donor stood out in this regard but there are certainly case studies where blended finance has been able to leverage the contributions of CSOs as partners in transactions (OECD, 2025d)[21]. What seems to be different is that the bilateral DFIs are subsidiaries of bilateral aid agencies, making coordination, including with NGOs, more likely. In the Canadian case, the fact that FinDev Canada is a subsidiary of EDC, not GAC, makes this trickier to navigate. However, as seen in our recommendations below, this could be an opportunity for Canada to do something unique and press for more collaboration between FinDev Canada and Canadian CSOs at a time when more ODA is being diverted to blended and private sector initiatives.

Recommendations

- Cooperation Canada should collaborate with advocacy organisations and continue to press the Canadian government for more transparency around ODA funding, and how much of the latter is being, and will be, used to leverage private capital.
- With the support of the Canadian government, FinDev Canada and CSOs need to engage in a conversation about potential areas of collaboration. This should include a better representation of civil society on the Board of FinDev, and participation of Canadian development NGOs in future deals with the private sector that recognize each other's comparative advantages.
- The Government of Canada should require FinDev Canada to use the expertise of Canadian CSOs where appropriate. This would include multi-stakeholder dialogues to identify areas of mutual interest, specific funding mechanisms co-designed with CSOs, and more technical assistance to support capacity building (where CSOs have the necessary expertise).
- As aid becomes increasingly privatized, there is an opportunity to build technical capacity and expertise and share best practices, with both governmental and non-governmental organisations, for better engagement with development finance modalities.

[21] For a list and discussion of case studies where CSOs have engaged with blended finance, see OECD (2025d).

6. Conclusion

As traditional ODA resources become more limited, and thus the conventional ways of project or program implementation more difficult, there is an opportunity to adapt to this changing environment in several ways. **First, the case for ODA remains relevant and this is a point that needs to be reinforced by different actors in the development space, even if many donors, including Canada, have made the decision to reduce their aid budgets**. There are many development challenges where there are no profits to be made – for example in health and education – and thus are not attractive to private investors who are in search of profits. Moving forward, the share of people living in absolute poverty will be increasingly concentrated in fragile and conflict-affected states, and in lower income environments, where other resources are insufficient to compensate for reductions in ODA. These are the places where ODA should be focused on. **Better communication on the value proposition of Canada's international assistance** would go a long way towards supporting improved budget allocations for ODA. Right now, the Government does not invest enough in communicating to Canadians why ODA matters and how it contributes to our collective security and prosperity.

Second is the opportunity to **ring-fence ODA**, which is being reduced, from other demands that fall under GPGs, and to focus instead on poverty reduction efforts. By definition, GPGs are non-excludable and could thus benefit countries that do not need ODA. The funding gap for financing GPGs is too big, making ODA insufficient anyway. Hence, ODA should focus on its core objectives as much as possible while funding for GPGs should as much as possible be additional to core ODA funding. Furthermore, grant funding or concessional loans for GPGs should be considered for countries that are already facing high debt levels. And since ODA remains relevant, more effort needs to be made to show the impact that it has where it is deployed and why it is an excellent use of Canadian taxpayer dollars (for example, helping countries mobilise resources domestically and be thus less dependent on future aid flows, as a tool of soft power, building future opportunities for Canadian trade and investment etc.).

Third is the need for Canada to provide more information about **what will be prioritized as ODA spending is reduced**; for example, will the FIAP continue to guide Canada's development assistance and how will it operate in a fiscally constrained environment? Similarly, the government should develop a comprehensive framework for how it intends to use public funds to leverage private capital, and what share of ODA will be devoted to that effect. We argue that ring-fencing ODA for its core objectives, and what proportion should be devoted to blended/private sector initiatives, would provide more transparency and predictability for various development actors. It would also be helpful if more information and data are provided by the Government of Canada about the different ways in which ODA is being spent and what is/is not ODA, and even more importantly, what has been accomplished. It is very difficult to know if blended finance is truly additional, how much is being leveraged, which countries are being targeted and impacted, and so on. Fourth, in an environment where financial resources are more limited, **Canadian knowledge and expertise, as well as political capital, can be deployed**

at relatively lower cost, including in international organizations and multilateral institutions that are in search of new ideas and to address global issues.

Finally, and in addition to what has already been mentioned in earlier sections of this paper, there needs to be better alignment across government agencies responsible for international development, and those that are not, to ensure policy coherence on development objectives. There also needs to be a better understanding of how innovative finance fits with the overall objective of Canada's development assistance and the Government of Canada should require greater collaboration between FinDev Canada and Canadian CSOs.

As the recent OECD Development Cooperation peer review for Canada indicates, "GAC can be more intentional in co-ordinating trade, development and foreign policies." (OECD 2025b, p.10). With respect to innovative finance, the peer review mentions the need for "clarification of the complementarity and co-ordination mechanisms between GAC and FinDev Canada" and "GAC should focus its use of innovative finance in the more challenging contexts, such as underserved markets…building on lessons learnt from its pilot instruments." (OECD 2025b, p.10 & 12). We could not agree more.

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