

## Federal Budget 2011 - Pre-Budget Backgrounder

The 2011/12 Federal Budget will be the first year of an expected four-year freeze on the International Assistance Envelope at \$5 billion. The Government adopted previous (Liberal) commitments to raise aid prior to 2010. The 2010 Budget demonstrated the Government has not had any commitment to increase aid increases beyond 2010. This 2011 budget provides an excellent opportunity to announce a long-term plan for the future growth of Canadian aid to achieve the UN target of 0.7%.

### ❑ What is CCIC looking for in the 2011 Budget?

- A ten-year timetable to increase Canadian Official Development Assistance (ODA) to reach the UN aid target of 0.7% of Canada Gross National Income (GNI), a goal endorsed in June 2005 by all parties in the Canadian Parliament.
- The plan should increase Canadian ODA by at least an average of 13% a year for the next ten years, to achieve 0.47% by 2015/16; and the UN target of 0.7% by 2020/21.
- Increases to line items in the International Assistance Envelope (IAE) that are targeted to the ODA components of the Envelope.

### ❑ Aid freezes Canadian aid performance to decline up to 2014

With the freeze for Canadian aid in effect, it is expected that ODA for 2011/12 will be approximately \$5,440 million or 0.32% of Canadian GNI, down from 0.33% in 2010/11. By 2014 the performance ratio is expected to be 0.28% among the lowest of 22 official donors.

### ❑ CCIC has a plan to reach the UN 0.7% of GNI. What will it cost?

CCIC's proposed ten-year plan would require increases to the line items of the IAE devoted to aid by at least \$650 million in 2011/12, \$735 million in 2012/13 and \$830 million in 2013/14. Each of these amounts should be added to the base for future calculations of aid increases. These additional expenditures represent only 0.3% of expected program costs for these years, or less than one third of a cent for every dollar of program expenditures.

### ❑ Has the Government maintained aid spending for Africa?

While the Government still takes credit for doubling aid to Africa by 2008, recent reports to Parliament indicate that Canadian bilateral aid to Sub-Saharan Africa is already falling away, declining from \$776 million in 2008/09 to \$683 million in 2009/10.

### ❑ Reallocate F-35 jet spending to increasing Canadian ODA to the 0.7% UN target.

The costs of 65 F-35s, including expected large cost over-runs, would cover at least two-thirds of the cumulative finance needed to reach CCIC's plan for the UN target of 0.7%.

### ❑ A plan to meet Canada's fair share for climate financing.

The Government should announce an investment of \$400 million or more in new and additional funding for 2011 and 2012 fiscal years for global climate financing, which gives priority to climate impacts on poor and vulnerable populations and makes these allocations additional to reaching the 0.7% target for ODA. It should also outline plans for increasing contributions after 2012.

## THE FUTURE FOR CANADIAN ODA PERFORMANCE: SOME FACTS AND FIGURES

1. **Canadian aid performance will decline in 2011 and up to 2014 as the Government freezes the International Assistance Envelope (IAE) at \$5 billion.** The March 2010 Budget froze the IAE at \$5 billion for the next four years (see a description of the IAE in Annex One). CCIC estimates that ODA will remain at approximately \$5,440 million until 2014. This includes non-budgetary additions to the IAE and assumes no additional special one-off allocations during these years. While ODA remains constant, Canada's aid performance as measured against Canada's Gross National Income (GNI) will decline from an estimated 0.33% in 2010 to 0.32% in 2011, to 0.28% in 2014.
2. **CCIC's Ten-Year plan to reach 0.7% by 2020 is affordable.** CCIC and its members have been proposing to increase ODA to 0.7% of GNI through a fiscally responsible ten-year plan. This plan will permit time for needed reforms in Canadian aid practices to conform to the purposes for Canadian ODA set out in the ODA Accountability Act. Annual increases of about 13% for the aid-portion of the IAE to reach the 0.7% target in 2020 would bring significant new resources for Canadian ODA, but would increase overall federal program spending each year by less than 0.3%.
3. **ODA for 2010/11 is estimated at \$5.5 billion, which is only 0.33% of Canadian GNI.** In the March 2010 Budget, the Government increased the IAE by 8% to \$5 billion. When items in the Envelope that are not ODA are excluded and additional non-budgetary items are included, CCIC estimates that ODA for 2010/11 will be approximately \$5,498 million. This includes a one-off supplementary addition to the March budget of \$58 million, primarily for Haiti. Canadian aid performance in 2009/10 is estimated at 0.34% of GNI.
4. **Government falls short in the commitment to doubling aid from 2001 levels.** The Chrétien government committed to double Canadian aid between 2001 and 2010 (see Annex Two for details on this commitment). In 2001, ODA was \$2.9 billion. If the projections for 2010 are accurate at \$5.5 billion, the current Government, which adopted the doubling of aid commitment as their own, is short approximately \$400 million in reaching this target. In fact, with the freeze in aid spending, the actual *value* in 2010 dollars of Canadian ODA in 2014 will only be 40% more than its value in 2001 (in 2010 dollars).
5. **Bilateral aid to Sub-Saharan Africa declines in 2009 from its 2008 level.** In 2008 the Government proclaimed to the international community that it had met its commitment to double aid to Africa two years early. But based on the latest report to Parliament for the ODA Accountability Act, by 2009 bilateral aid to Sub-Saharan Africa had fallen already by close to \$100 million from its peak in 2008. Overall 2009 aid levels for Africa may remain level with 2008 if multilateral aid to Africa remains high, but clearly recent decisions to de-emphasize Africa by the Government is having an effect on bilateral aid allocations, over which the Government has control.
6. **Canada's aid performance remains near the bottom among all donors.** Despite modest increases up to 2010, Canada has sunk to 18<sup>th</sup> spot among 23 donors who report to the OECD Development Assistance Committee. This is despite much harder economic conditions in many donor countries, some of whom, such as the UK, continue to honour much more ambitious

commitments for increases. In the Department of Finance's October 2010 Fiscal Update, the Government boasts that by 2015 it will have "the best fiscal position in the G-7", with "our debt levels ...historically and internationally ... projected to remain low over the coming years" (page 30).

**7. The aid freeze provides only marginal improvements for the Government's fiscal position.**

The March Budget calculated that freezing the International Assistance Envelope at \$5 billion would save a cumulative \$2.2 billion to 2014 (assuming that it would have continued the 8% increases, to which it never committed). However, referencing the October Fiscal Update, this \$2.2 billion will amount to less than 2% of the planned savings and increased revenue, which will bring the budget into balance by 2015!<sup>1</sup> The Government is therefore making marginal improvements in its fiscal position on the backs of poor and marginalized populations around the world.

**8. While the aid budget pays to reduce the deficit, the Government supports billions in new military expenditures for an unneeded F-35 Joint Strike Fighter aircraft.** Despite

expected savings of up to \$1.5 billion in incremental costs for winding down the Afghan mission, defense spending will not be any lower in 2012, compared to 2010. Meanwhile, the Government is pushing ahead with its plans to purchase 65 F-35 Fighter aircrafts. While the current official estimate of the total purchase and life-cycle costs are \$16 billion, Project Ploughshares suggests this grossly under-estimates the probable total costs, which they put at closer to \$30 billion.<sup>2</sup> This more likely cost estimate amount to two-thirds of the incremental resources needed to bring Canadian ODA to the UN target of 0.7% by 2020.

**9. Meeting Canada's international commitments for climate change must balance mitigation and adaptation and be additional to a rising contribution to ODA.** There is growing

evidence that the Government intends not only to freeze the aid budget, over the next four years, but also to raid existing poverty reduction programming to provide some of the \$400 million in promised annual climate change financing for 2011 and 2012. A plan to meet Canada's fair share of climate financing, both in the 2010-2012 "fast start" period and beyond, must not only meet financial targets, but must also balance mitigation and adaptation financing towards mechanisms that give priority to addressing impacts on poor and vulnerable populations. For 2010, more than 70% of the \$400 million went as loans through the World Bank's International Finance Corporation's climate window for private sector investments in developing countries. More than \$100 million came out of the 2010 IAE, which otherwise would have been allocated to existing aid priorities. While dedicated funds to address climate change is essential for the world's poor, these must be new funds and not be clawed from the limited "frozen" aid resources Canada has allocated to developing countries to fight poverty.

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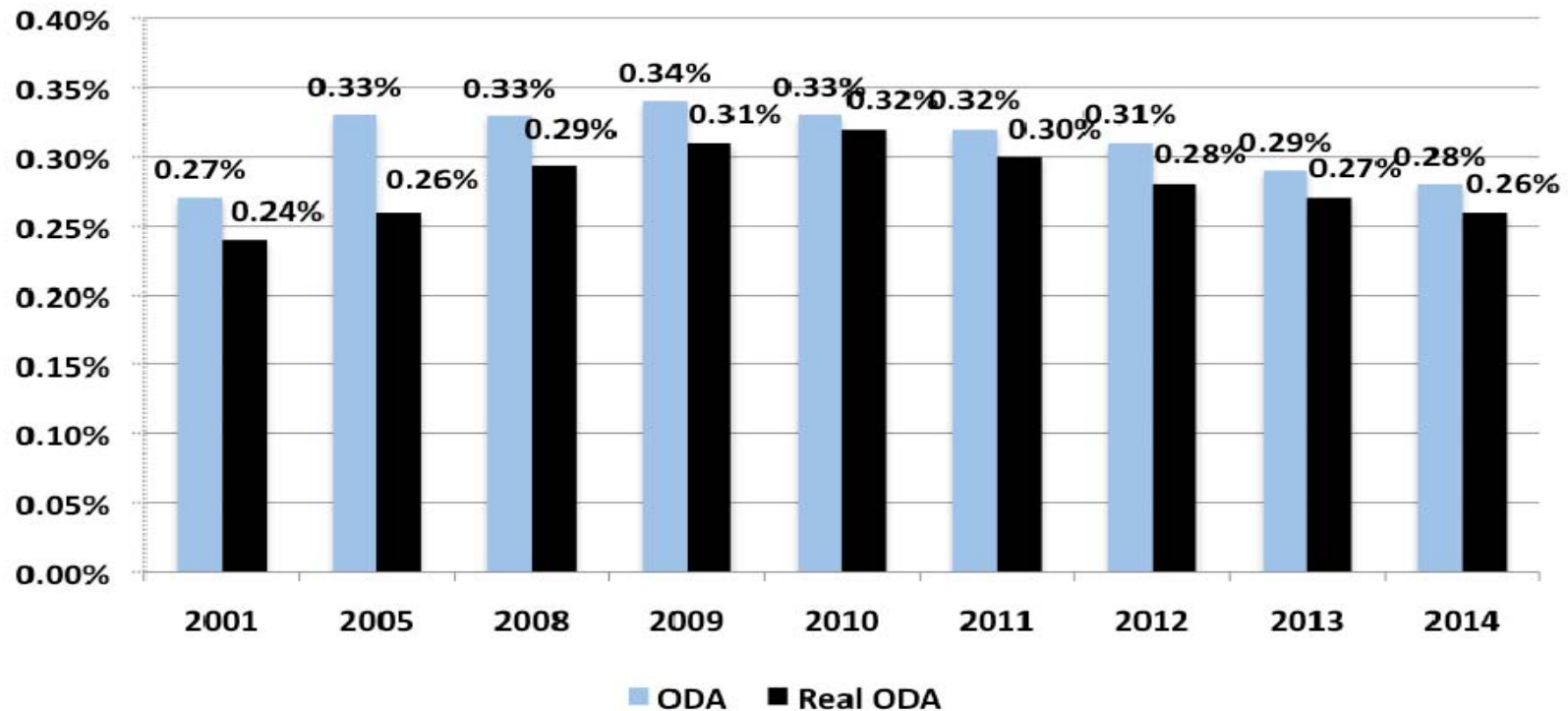
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<sup>1</sup> The Fiscal Update puts the deficit in 2010 at \$45.6 billion. A combination of expenditure savings and increased revenue cumulatively total \$117 billion between 2010 and 2014, realizing a balanced budget in 2015.

<sup>2</sup> Ken Epps, "Why Joint Strike Fighter Aircraft? Program Costs Rise and Benefits Carry Risks", Ploughshares Briefing, August 2010.

### Canadian ODA Performance, ODA to GNI Ratios, 2001 - 2014

Years after 2008 are CCIC estimates



Real ODA reduces Official Development Assistance by removing allocations to ODA for support to refugees for their first year in Canada, an imputed value of support for students from developing countries studying in Canada, and Canadian bilateral debt cancellation. Real ODA provides a more accurate overview of aid resources available for aid programs in developing countries.

## **Annex One: What is the International Assistance Envelope**

The International Assistance Envelope (IAE) contains the budgetary allocations by the federal government to programs for international cooperation. The IAE includes allocations to CIDA, Foreign Affairs Canada, the Department of Finance and other departments. As of the 2005 Federal Budget, the Envelope has been divided into five components (development, international financial institutions, peace and security, crisis fund and development research). Not all of the allocations in the Envelope are eligible to be counted as Canadian aid or Official Development Assistance (ODA) and the Envelope does not include all items that can be included when calculating Canadian ODA.

Some of the line items of the IAE, such as some disbursements for peace and security (decommissioning of nuclear warheads in the former USSR, security programs in non-ODA eligible countries), are not eligible for ODA (as determined by all donors meeting in the OECD Development Assistance Committee (DAC) and by the Canadian ODA Accountability Act).

Canadian Official Development Assistance (ODA) includes all of the IAE eligible for ODA as well as other amounts allocated by Canadian governments that the DAC allow to be included in ODA – costs for the first year of supporting refugees from developing countries in Canada, provincial governments' spending on aid, bilateral debt forgiveness, costs for developing country students studying in Canada etc. These items are not included in the IAE as they are allocated through other government expenditures (refugee costs), are non-budgetary (debt forgiveness) or are imputed values (students studying in Canada).

Total Canadian Official Development Assistance is therefore made up of  
ODA-eligible line items in the International Assistance Envelope  
Less IAE items not eligible for Canadian ODA  
Plus non-budgetary items that can be included as ODA.

While the Budget and the Government still refer to the International Assistance Envelope, since 2007/08 there has been no publicly accessible breakdown of the component line items of the IAE available either in the Budget or in the detailed Expenditure Estimates. CCIC's estimation for the IAE is based on the current budget allocations for the component line items that made up the Envelope in 2007.

## Annex Two: Doubling Canadian Aid

Prime Minister Chrétien announced the commitment “to double Canadian aid” by 2010 at a press conference during the 2002 UN Conference on Financing for Development in Monterrey. Since then, both the Liberal and Conservative governments have interpreted this commitment as the doubling of the International Assistance Envelope, which as Annex One points out, is different from Canadian Official Development Assistance, the internationally accepted measure of “aid”.

The commitment to double Canadian ODA was confirmed in one of Canada’s first reports on progress in meeting its goal of doubling aid in the June 2003 “Implementation Report by Africa Personal Representatives to Leaders on the G8 Africa Action Plan” for the Evian G8 meeting. It states that

“the first installment of the eight percent annual increase to International Assistance committed by Canada, **which is intended to double Canadian ODA by 2010**, was included in Canada’s February 2003 budget [emphasis added].”

In 2001 all but \$66 million of the Envelope could be included in ODA, but since 2002, governments have increased allocations for Canadian international assistance for security purposes that do not count as ODA. In 2010 more than \$200 million of the Envelope does not count as ODA, including \$108 million allocated to the Global Partnerships Program as Canada’s contribution to the decommissioning of weapons in the former Soviet Union. Using the International Assistance Envelope, CCIC’s estimate of its ODA components in 2010 is approximately \$4.9 billion compared to \$2.5 billion in 2001, \$100 million short of doubling the ODA components of the IAE.

The claim by the Government in 2010 that it has met the commitment “to double international assistance” is disingenuous in that it gives the impression that *aid* has doubled. Actual ODA in 2001/02 was \$2.9 billion, compared to an estimated \$5.3 billion in 2010, more than \$400 million short of doubling 2001 ODA to \$5.8 billion.