

# Holding the Government to its Commitments: A CCIC Budget Briefing 2003 October 2002

## Summary

- ▶ CCIC will be looking for an International Assistance Envelope for the 2003/04 federal budget of \$2,625 million, respecting the Prime Minister's pledge to increase Canadian aid by 8%.
- ▶ CCIC will be looking for a defined timetable of financial targets for Canadian aid, covering at least the next five years.
- ▶ CCIC expects that the government to calculate the 8% increase on a base figure that reflects the actual level of Canadian aid in 2001/02 (\$2,431 million), which is the figure given by the Prime Minister in his elaboration of the government's intentions in Monterrey, Mexico. The urgency to re-establish our international reputation as a generous aid donor is reflected by Canada's rank of 14<sup>th</sup> (tied with four other donors) out of 22 donors in 2001, according to the OECD, down from 6<sup>th</sup> in 1995.
- ▶ With these assumptions Canadian aid in 2003/04 will be an estimated 0.29% of our Gross National Income, up from an estimated 0.25% in 2002/03. With 8% increases to 2009/10, this ratio will be approximately 0.35% at the end of the decade. At this rate of increase it will be 2020 before we reach the UN target of 0.7%.
- ▶ The UN calculates that an immediate US\$50 billion increase in aid is required to meet the Millennium Development Goals, to which Canada is committed. Based on our GNI as a proportion to total donor GNI (3%), our share of the US\$50 billion increase in 2003/04 should be Cdn\$2.4 billion. Meeting our share would require ODA to be Cdn\$5.2 billion in 2003, an aid level Canada will not reach until 2011, four years short of the 2015 target year for meeting the Goals.
- ▶ Many Canadians believe that we spend more than 10¢ out of each program dollar on international aid. Their support for aid increased substantially when informed about the actual amount. In 2002 the IAE was 1.7¢ of each program dollar. The expected increase for 2003 will increase this proportion to 1.9¢. Meeting our share of the increase needed for the Millennium Development Goals would increase this proportion to 3.7¢ out of each program dollar available in 2003.

## What should we be looking for in the 2003/04 Budget for Canadian international cooperation?

At the UN Conference on Financing Development in Monterrey, Mexico, in March 2002 and again at the Johannesburg World Summit on Social Development, Prime Minister Chrétien committed to raising Canada's aid budget by 8% per year and doubling our aid program by 2010. In a news conference in Monterrey, following his announcement, he referred to Canadian ODA in 2001/02 at \$2,431 million as the starting point for these increases.<sup>1</sup> At the G8 meeting in Kananaskis, the Prime Minister committed one half of these increases to supporting Africa Union's New Partnership for African Development (NEPAD).

For 2003/04, the first year in which aid is expected to grow by 8%, the key to determining the amount of increase is the base figure to which 8% is applied. Up to the December 2001 federal budget, all increases to aid have been "one-off" based on a prior base. In that budget, the base for 2003/02 was the 2001/02 International Assistance Envelope (IAE)<sup>2</sup> and this base was to remain unchanged for future commitments made in that budget. In calculating the 8%, the Department of Finance could continue to use the 2001/02 IAE for the base year. However, as noted above, the Prime Minister at Monterrey suggested that the increases start from the actual IAE for 2001/02, which includes additions to the IAE made during the year. The budgeted International Assistance Envelope for 2001/02: \$2,260 million.

In determining the base on which to calculate the 8% increase, the Department of Finance has several options:

- ❑ The budgeted International Assistance Envelope for 2001/02: \$2,260 million.
- ❑ The Prime Minister's stated actual International Assistance Envelope for 2001/02: \$2,431 million
- ❑ The December 2001 budgeted International Assistance Envelope for 2002/03: \$2,313 million. Additions may be made during the course of this year that will increase this IAE, as has happened in previous years.

The choice for the base can make a significant difference in Canadian aid levels over the decade. Recognizing Canada's dramatic decline in aid resources since 1995 and our current dismal performance relative to other donors, CCIC has been seeking an urgent increase in the levels of our aid spending. In the spirit of the Prime Minister's sense of urgency to overcome poverty and growing global inequalities, with his special focus on Africa, a maximum base for calculating our 8% commitment is essential.

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<sup>1</sup> See Graham Fraser, "PM to boost foreign aid commitment", The Toronto Star, March 22, 2002.

<sup>2</sup> The International Assistance Envelope (IAE) contains the budgetary allocations by the federal government to international assistance and is published each year in CIDA's Part III Estimates. The IAE includes allocations to CIDA, DFAIT, and the Department of Finance. A small portion of the IAE is not included in ODA because it is allocated to countries in Eastern Europe and the former Soviet Union that are not considered eligible for ODA. Official Development Assistance (ODA) includes all of the IAE eligible for ODA as well as other amounts allocated by Canadian governments that the Development Assistance Committee of the OECD allow to be included in ODA – first year refugee costs, provincial governments' spending on aid, bilateral debt forgiveness, imputed costs for students studying in Canada etc. These later amounts must be estimated by CCIC to predict ODA for a given year until CIDA publishes its official ODA statistics for that year. The last year that these official statistics are available is 2000/01. In comparisons with other donors, the OECD compares ODA to Gross National Income (GNI). In previous years, the comparison has been with Gross National Product (GNP). For Canada there is no significant differences in these measures of national wealth.

Using the actual IAE for 2001/02 as the base, we will expect to see the IAE for 2003/04 at \$2,625 million in the next federal budget, with at least a five-year timetable up to 2007/08. With this increase in the IAE, CCIC's estimate for total ODA in 2003/04 is \$3,325 million (including \$300 million disbursements from the Canada Fund for Africa).

With ODA at \$3,325 million, the ODA to Gross National Income (GNI) ratio is estimated to be 0.29% for 2003/04, up from 0.25% in 2002/03. At this rate of increase (8% per year), Canada will be giving approximately 0.35% of its national income in aid by 2009/10. Projecting this rate of increase to future years, Canada will not achieve its commitment to the UN target of 0.7% until 2020!

<b>CCIC Estimated Growth in Canadian Aid, 2002/03 to 2009/10</b>					
(Assuming 8% growth per year of the International Assistance Envelope [IAE])					
	IAE*	ODA*	Half Increase for Africa*	GNP**	ODA/GNP Ratio
2001/02	\$2,431	\$2,791		\$1,097	0.25%
2002/03	\$2,280	\$2,780		\$1,130	0.25%
2003/04	\$2,625	\$3,325	\$97	\$1,158	0.29%
2004/05	\$2,836	\$3,336	\$105	\$1,190	0.28%
2005/06	\$3,062	\$3,462	\$113	\$1,220	0.28%
2006/07	\$3,307	\$3,707	\$122	\$1,250	0.30%
2007/08	\$3,572	\$3,972	\$132	\$1,280	0.31%
2008/09	\$3,858	\$4,258	\$143	\$1,310	0.33%
2009/10	\$4,166	\$4,566	\$154	\$1,340	0.34%

\* Millions of Canadian dollars  
 \*\* Billions of Canadian dollars

**Note:** (1) The actual IAE for 2001/02 is the base for calculating the first 8% increase in 2003/04. The IAE increases are calculated independent of the annual disbursements of the one-off \$500 million Canada Fund for Africa.  
 (2) These figures are all CCIC estimates. ODA is calculated by adding \$400 million for non-budgetary additions to the IAE, except in 2002/03 to 2004/05 when the Canada Fund for Africa is included in addition to this amount.  
 (3) GNP growth is assumed to be a conservative 2.5% per year.  
 (4) ODA to GNP ratios are CCIC estimates.

The UN calculates that an immediate US\$50 billion increase in aid is required to meet the Millennium Development Goals, to which Canada is committed. Based on our GNI as a proportion to total donor GNI (3%), our share of the US\$50 billion increase in 2003/04 should be Cdn\$2.4 billion. Meeting our share would require ODA to be Cdn\$5.2 billion in 2003, an aid level Canada will not reach until 2011, four years short of the 2015 target year for meeting the Goals.

## How does the Prime Minister's initiative relate to Canada's performance as an aid donor?

### What proportion of the federal program dollar is spent on aid?

- ◆ In opinion polls many Canadians on average believe that the government spends 10.5¢ per federal dollar on aid. When told that the actual amount is less than 2¢, support for increased aid goes up substantially.
  - In the latest poll, 44% of Canadians think that aid should increase (when told the actual amount) and a further 44% think this is the right amount. A majority (57%) would pay 1% more in taxes to improve the lives of the world's poor, *if* it could be guaranteed that the money will actually reach the beneficiaries, which most Canadians (86%) don't believe will happen (as it is skimmed off by corruption and bureaucratic waste).
  - The 2002/03 International Assistance Envelope (\$2.28 billion), when compared to total program expenditures for this year by the federal government (\$136.6 billion), amounts to 1.7¢ out of the federal program dollar. Increasing the IAE to \$2.61 billion in 2003/04 would move this proportion to 1.9¢. Meeting our share of the increase needed for the Millennium Development Goals would increase this proportion to 3.7¢ out of each program dollar available in 2003.

### What happened to Canadian aid in the 1990s?

- ◆ Canadian aid spending was hit very hard and disproportionately by the cuts to balance the budget in the mid-1990s. Between 1990 and 2000, Canadian aid has declined more than 30% in real 1999 dollars (removing the impact of inflation on the value of the Canadian dollar). During this same period, Defence spending declined by 13% and overall program spending by the government fell by only 9%.
- ◆ During this decade, cumulatively \$1.6 billion has been lost to Sub-Saharan Africa due to the aid cuts. While the one-off \$500 million Canada Fund for Africa nowhere nearly recovers these resources, devoting half of the expected increases in aid spending to Africa, will add cumulatively an estimated \$6.4 billion for African development initiatives between 2003/04 and 2009/10.
- ◆ In comparison to other OECD donors, Canada continues to rank among the least generous. In 2001, the OECD put us at 0.25% of GNI and 14<sup>th</sup> spot (tied with Australia, Austria, New Zealand and Portugal) out of 22 donors. Prior to the cuts in the mid-1990s, Canada has ranked 6<sup>th</sup> or 7<sup>th</sup>. Canada ranks in 4<sup>th</sup> position among its G7 colleagues, whose overall average is 0.18%! The non-G7 donor average is 0.46%, a performance that was common to Canada up to the early 1990s.
- ◆ Other donors are increasing their aid programs more rapidly than Canada.
  - The UK for example just announced a financial plan whereby its aid will increase by Cdn\$3.3 billion between 2003 and 2006, moving their ratio of aid to national income from 0.32% to 0.40%. British aid will have increased by 97% in real terms since 1997. Canadian aid will have increased by only 66% in this same period, which has been a period of budget surpluses in Canada.
  - While starting at an exceedingly low base relative to its wealth (0.11% of GNI), the United States promised at the UN Summit in Monterrey that it will be increasing its ODA from US\$10 billion to US\$15 billion by 2006. At Monterrey, the EU collectively promised to increase their aid by US\$7 billion to reach 0.39% of GNI by 2006. American aid increases will be targeted and highly conditional to countries that meet US economic and political

policy criteria. This will mean approximately \$12 billion in new aid resources by 2006, compared to the UN estimate of \$50 billion needed to meet the Millennium Development Goals.

- Several European countries consistently exceed the UN target of 0.7% of GNI – Denmark (1.01%), Norway (0.83%), Netherlands (0.82%), Luxembourg (0.80%), and Sweden (0.76%).
- ◆ All donors are falling short of what is needed. The Experts Panel for the Monterrey UN Summit on Financing for Development in March estimated that annual additional amounts of \$50 billion was required from donors to meet the Millennium Development Goals (e.g. to halve the proportion of people living in absolute poverty by 2015). What was promised at Monterrey was \$13 billion, which will not be available until 2006.

#### How will increases in Canadian aid levels be allocated?

- ◆ Guided by CIDA's September 2002 policy statement, *Canada Making a Difference in the World: A Policy Statement on Strengthening Aid Effectiveness*, new aid resources for CIDA will be devoted disproportionately to countries "selected for enhanced partnerships". Criteria for selecting these countries include a high level of poverty, a commitment to "development effectiveness, as demonstrated through efforts to improve governance, ensure local ownership of poverty reduction strategies, end corruption and make effective use of aid monies" (pp. 11-12). With half of the new resources devoted to Africa, selected countries in that region will benefit from an enhanced partnership relationship with Canada.
- ◆ CIDA programming priorities in enhanced partnership countries will be guided by the country's Poverty Reduction Strategy Paper. CIDA will shift from a project-based approach towards programmatic support for Sector-Wide Approaches (SWAPs) and increased coordination with other donors.

#### How does Canadian aid levels compare with Defence spending?

- ◆ The ratio of Defence spending to ODA has varied from 5.33 to 1 in 1991 to 4.31 to 1 in 1999 to an estimated 4.42 to 1 in 2002. Increasing National Defence spending over the next three years to \$18 billion, as suggested recently by the Standing Committee on National Defence, would increase this ratio to an estimated 5.20 to 1 in 2005/06.
- ◆ Overall spending on National Defence, in real 1999 dollars, peaked at \$13.9 billion in 1990, compared to \$11.8 billion in 2002.
- ◆ Project Ploughshares, an ecumenical church coalition on peace and justice issues, along with CCIC, has been proposing a fundamental review of defence policy that would focus Canada's defence resources on peacekeeping, border patrol and national emergency response. In the late 1990s Project Ploughshares estimated a reconfigured defence force for Canada would cost approximately \$8 billion. In September 2002, the Department of National Defence completed a "defence update" which did not permit any challenge to the basic assumptions of mandate or configuration of Canadian defence forces.
- ◆ In addressing the Speech from the Throne, the Prime Minister said that "before the end of our mandate, the government will be setting out a long-term direction on international and defence policy, to reflect our values and interests and to ensure that our military is able to meet the demands that we place upon it". (House of Commons, October 1, 2002)

## What are our politicians saying?

- ◆ “We see unrest in many parts of the world. We still see far too much poverty...[Canada] will continue to speak out in every forum for the values of pluralism, freedom and democracy, and contribute to reducing the growing global divide between rich and poor.”

Speech from the Throne, September 30, 2002

- ◆ “We must also work collectively and aggressively to close the gap between rich and poor nations. I am proud of Canada’s leadership in helping build a consensus to support the New Partnership for African Development. To help Africans lift themselves out of poverty and into a brighter future. This is a long road and our partnership must be enduring. That is why we are committed to double our international assistance by 2010 and allocate half of it to Africa.”

Prime Minister Chrétien,  
House of Commons, October 1, 2002

- ◆ “We have to close the gap between rich and poor countries. The social, economic and environmental well-being of all nations is inextricably intertwined. So working on reducing poverty to contribute to a safer, fairer, more prosperous world isn’t just the right thing to do. It is our duty....The Millennium Development Goals were born out of the international consensus on the need to make poverty reduction the primary objective of development assistance....[CIDA’s new strategy for strengthening aid effectiveness] will ensure that CIDA programming conforms to the locally-owned poverty reduction strategies of developing countries. We will revise our tied aid policies to strengthen the effectiveness of our aid.”

International Cooperation Minister,  
Susan Whelan, Canada Making a Difference  
in the World, September 24, 2002

- ◆ “For developed countries, accountability means they must remain engaged with developing country partners over the longer term, through ups and downs. They must truly listen to the needs of developing countries to ensure that the supply-driven mistakes of the past are not repeated.....Progress in untying aid is a measure of our joint commitment to increasing the efficiency of aid utilization, the promotion of local ownership and capacity building.”

Finance Minister, John Manley  
Statement for the Development Committee of  
the World Bank and IMF, September 28, 2002

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