

**BUDGET 2005:**  
**MIXED MESSAGES FOR CANADA'S COMMITMENT TO ENDING GLOBAL POVERTY**  
**A CCIC ANALYSIS AND COMMENTARY**

Federal Budget 2005 sends mixed messages for Canada's commitment to end global poverty:

❖ **Locks in the 8% increases to 2010**

The Budget locks in the government's commitment from the 2002 UN Conference on Financing for Development to increase Canada's aid budget by 8% per year up to 2010. By now locking in the 8% within a five year fiscal framework, in the context of other priorities and allocations announced in this Budget, the government will be very reticent to move to an alternative framework to achieve the 0.7%. The most likely scenario each year now will be one-off additions to this fiscal framework without adjusting the underlying commitment to 8% increases. As happened in the late 1990s and up to 2002, these initiatives do not allow for longer term strategic planning for Canada's aid contribution to poverty reduction.

❖ **Increases Canadian aid to an estimated 0.33% of Gross National Income by 2010**

The government's 8% plan provides growth for Canadian aid, but fails to come close to Canada's commitment to achieve the UN target of 0.7% of GNI. By 2010, Canadian aid will have doubled since 2001/02, but CCIC calculates that our performance will remain at 0.33% of GNI, well below 0.49%, achieved in the early 1990s.

❖ **Accelerates aid commitments for Africa**

The Budget makes more clear the government's commitment to Africa (first made at the Kananaskis G7 meeting) by doubling aid for Africa from \$1,380 million in 2003/04 to \$2,760 million in 2008/09. This seems to be an acceleration of Canadian aid increases to Africa over the Kananaskis commitment to allocate at least half of the 8% aid increases to Africa up to 2010. The acceleration is due to additional funds made available through debt relief, allocations from the new annual \$100 million allocation for peace and security initiatives, and the \$100 million Canada Investment Fund for Africa (CIFA). Not all of these initiatives are new. The CIFA was part of the \$500 million Action Plan for Africa in 2002, but to date has not been implemented. Bilateral debt cancellation is the result of Canada's previously agreed policies to cancel this debt once the country concerned reaches its HIPC completion point. This will result in about \$600 million in ODA for Africa in these years.

❖ **Creates new peace and security resources**

The Budget allocates \$100 million per year for peace and security initiatives that will include the current \$20 million Human Security Program, security assistance to failed and failing states and resources for post-conflict peace-building and reconstruction. The intention is to improve coordination in Canada's response to these areas of cooperation.

Not all of these allocations can be recorded as Canadian ODA under the current Development Assistance Committee (OECD) rules for ODA spending. For example, the \$20 million allocation to the Africa Union for logistical support for peace operations in Darfur cannot be recorded as an aid contribution because of its direct support for a military aspect of a peace operation. How much of this \$100 million counts as aid will depend on the types of allocations made – perhaps 60% to 70% will be included as aid over the five years. Canada has also been actively seeking a revision of the DAC rules on the criteria for aid so that aspects of peace operations can be included as an aid contribution, thus increasing Canada's aid performance. Broadening the criteria for aid, despite the importance of active engagement in peace operations, will further dilute aid spending for poverty eradication and increase its orientation to immediate donor foreign policy interests.

❖ **Allocates significant increases to 2004/05 aid spending, particularly for health**

As noted above, the government will likely revert to its practice of one-off additions to the aid budget at the end of each fiscal year, depending on the fiscal circumstances and the need for a demonstration of Canada's foreign policy commitment to a particular initiative. In this manner, the Budget makes available \$641 million in important new resources from the fiscal surplus for 2004/05 for aid disbursements to take place before March 31<sup>st</sup>, 2005. In doing so, the government substantially increased its commitment to the Global Fund for AIDS, Tuberculosis, and Malaria (\$70 million of new money and \$70 million of previously announced money), the Global Alliance for Vaccines and Immunization (\$160 million new money) and the Global Polio Eradication Initiative (\$42 million previously announced money). It also charged the \$245 million commitment for immediate Tsunami relief to the 2004/05 fiscal year.

❖ **Improves Canada's aid performance in 2004/05**

These one-off measures increase Canadian ODA for 2004/05 to an estimated \$4.2 billion, from \$3.4 billion prior to this Budget. The adjusted level of ODA for 2004/05 (\$4.2 billion) represents an increase of more than 30% over ODA for 2002/03.<sup>1</sup> The ODA performance for this year is now estimated at 0.33% of Gross National Income (GNI), up from an earlier CCIC estimate of 0.28%.

◆ **No timetable for achieving 0.7%**

The Budget falls far short of what is needed to realize Canada's fair share of resources to meet international goals to end poverty. While as noted the Budget locks in the 8% increase to 2010, there is no mention of a timetable that would realize the widely recognized UN target of 0.7% by 2015. The Budget asserts that Canada supports the UN Millennium Development Goals. But projected aid increases fall dramatically short of the CCIC estimate of 15% annual increases to 2015 required to reach this target and contribute our fair share of the additional aid resources needed to meet these Goals.

- ◆ CCIC has noted that larger increases are entirely feasible. In fact, in each year since 2001/02, CCIC calculates that the aid budget has grown by more than 12%, due to one-off supplementary additions during the fiscal year. As noted above, Budget 2005 made by far the largest one-off increase (\$641 million) to a current fiscal year (2004/05).

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<sup>1</sup> The effect of an estimated \$400 million loan repayment from India in 2002/03 is not included in this calculation. Including this loan repayment would make the increase about 48%.

- ◆ **Debt forgiveness in 2005/06 masks an underlying weak performance to 2010**

In 2005/06, CCIC estimates Canadian aid performance to be 0.34% of GNI. However, much of this increased performance will be due to extra-ordinary non-budgetary provisions for bilateral debt forgiveness for Iraq and Cameroon. If these non-budgetary provisions are removed, Canada's performance would drop back to about 0.29%. It is expected that Canadian aid in 2007/08 will not exceed 0.30% of GNI.

- ◆ **Canada's "Beyond HIPC" fails to get beyond relief**

The Budget confirms Canada's recent "Beyond HIPC" debt relief proposal to pay our share (4%) of debt service costs for debt owed by selected indebted poor countries to the World Bank and the Africa Development Bank up to 2015. The estimated cost of \$172 million will come out of the existing International Assistance Envelope for the next five years. While this initiative will clearly free significant resources for these countries (if all donors participate) to invest in health, education and other poverty reducing programs during the next ten years, these countries also face deep-rooted poverty that will be equally challenging in 2015 and beyond. Approximately 60% to 70% of their debt will remain in 2015, and full servicing will again be assumed by the governments concerned. CCIC and other Canadian civil society organizations, through the Halifax Initiative, were looking for Canadian leadership to propose measures that would permanently cancel 100% of the current debt owned by the poorest countries. Going beyond a similar UK proposal, with no artificial cut-off date of 2015, on current outstanding debt for the poorest countries, would be a 100% debt cancellation plan to free the poorest countries from the debt servicing albatross.

- ❖ **Restructures the International Assistance Envelope**

The International Assistance Envelope has been divided into five components. This measure is designed to improve transparency in the allocation of new resources and to assure better coordination of Canadian international assistance. The five new components are:

- ◆ **Development**

This component is largely financial resources under CIDA management. In 2005/06 it will be approximately \$2.6 billion.

- ◆ **International Financial Institutions**

Resources for IFIs are under CIDA and Department of Finance management. Expected for 2005/06 is \$480 million in this window, including Canada's increased commitment to IDA 14, which rises by 40% over IDA 13.<sup>2</sup>

- ◆ **Peace and Security, including post-conflict peace-building, reconstruction, and counter-terrorism capacity building**

Foreign Affairs Canada will lead with CIDA and other relevant departments. \$290 million is expected for this component in 2005/06, not all of which will be eligible to report as Canadian ODA. Included will be about \$15 million for international cooperation in counter-terrorism.

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<sup>2</sup> IDA is the International Development Association. It is the concessional window at the World Bank for loans to the poorest countries. Because it is highly concessional donors replenish it every four years. Canada's contribution to IDA 14 will be \$318 million a year, up from \$230 million for IDA 13.

◆ **Crisis**

This is a new financial window to enable quick responds to immediate and unforeseen crisis situations, beyond current International Humanitarian Assistance (IHA) CIDA resources. It will be managed jointly by Foreign Affairs Canada and CIDA. \$75 million is expected in 2005/06, most of which will be reported as ODA.

◆ **Development Research**

This is the budget for the International Development Research Centre (IDRC) and in 2005/06 will amount to \$122.5 million.

These components provide a structure for understanding the allocations contained in the Budget. The detailed Part III Estimates, published at the end of March, will provide further details for analysis. The management and resource implications for current CIDA programming in peace and security and other areas remain unclear.

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