

**CCIC Pre-Budget Backgrounder
March 2006**

What CCIC is looking for in the 2006/07 Federal Budget

- A reaffirmation of the Canadian ODA performance target of 0.5% of Gross National Income (GNI) by 2010 (as a step to reaching 0.7% of GNI by 2015), endorsed in June 2005 by all parties in the Canadian Parliament as a step towards 0.7% by 2015;
- Overall increases to the International Assistance Envelope (IAE)¹ are targeted to ODA components of the Envelope;
- A five-year budgetary plan, minimally to realize by 2010 a Conservative ODA commitment to 0.42% of GNI, which is the current DAC average donor performance; and
- Increases to the 2006/07 IAE for aid of at least \$650 million in 2006/07 and \$705 million in 2007/08. These increases include the Liberal's 8% increase, the \$250 million in each year from the Liberal/NDP Bill C-48, and an equal amount (\$85 million) of the Conservative's \$425 million. Each amount should be added to the base for future calculations of aid increases.
- Introduce legislation for parliamentary accountability for Canadian ODA, which establishes poverty reduction as the exclusive goal.

(1) 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, and 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 and development research). Some of the new components of the IAE, such as peace and security, are not considered eligible for ODA (as determined by the Development Assistance Committee of the OECD). 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 – first year refugee costs, provincial governments' spending on aid, bilateral debt forgiveness, imputed costs for students studying in Canada etc.

BACKGROUND

The February 2005 Budget and ODA for 2005/06

The February 2005 Budget, the last Liberal Budget, locked in the 8% aid increases up to 2010, which had been committed by the Prime Minister in 2002. This Budget also re-organized the International Assistance Envelope (IAE) into five components – development, international financial institutions, peace and security, crisis response, and development research.

The IAE, as set out in the detailed Part III Plans and Priorities for 2005/06 is \$3,637 million, an increase of 12.4% from 2004/05. However, not all the resources in this Envelope can be counted as Canadian ODA. In effect, by increasing the Envelope by more than 12%, the Liberal Government protected the 8% increase **devoted to ODA**.

The Peace and Security component – \$290 million – accounts for most of the larger than expected Envelope in 2005/06. This component included a new allocation of \$100 million each year in the February Budget up to 2010. Not all of overall peace and security component of the IAE (\$290 million) counts towards Canadian ODA. CCIC estimates that the non-ODA component of the Peace and Security component in 2005/06 is about 65%. For the Envelope as a whole, non-ODA allocations were estimated to be about 5.2% in 2005/06, up from about 2% in previous years.

Last February's Budget also accelerated existing commitments to increase aid for Africa, by outlining a plan to double aid to Africa from 2003/04 (\$1,380 million) by 2008/09 (\$2,760 million). These amounts included allocations from the \$100 million Canada Investment Fund for Africa for private sector partnerships and meeting Canada's commitments to debt cancellation for African countries.

Estimated Canadian ODA Performance for 2005/06

CCIC estimates that Canadian ODA for 2005/06 is \$4.4 billion or 0.34% of Canada's Gross National Income (GNI), including non-budgetary items not contained in the IAE. These latter items include an expected \$675 million in debt cancellation (particularly for Iraq and Cameroon). Without this amount included, Canada's performance falls back to less than 0.30%.

The Liberal/NDP Budget and the November Fiscal Update

The November 2005 Fiscal Update indicated that \$57 million would be added to ODA in 2005/06 for Pakistan relief. However, Parliament was not able to pass any of the measures in the Update before the House adjourned for the December election. Therefore, the Update has no effect.

In April 2005, the NDP and the Liberals negotiated Bill-48, which allocated an additional \$250 million for aid in each of 2005/06 and 2006/07. However, the first \$250 million has not been allocated during the 2005/06 fiscal year. According to the Bill, the amounts will only be allocated if there is more than a \$2 billion surplus at the end of these fiscal years. Consequently, the first tranche of \$250 million would only be allocated after July 2006 at the earliest, once books for the 2005/06 fiscal year have been closed and a determination of the surplus is made. The November Update counted the addition of \$57 million for Pakistan as part of this first \$250 million. However, as noted above, the November budgetary measures were never implemented.

The Conservative Government Promises

In February 2005, then Opposition Leader, Stephen Harper, joined the leaders of the NDP and the Bloc Québécois to call on the Prime Minister "to establish a clear and mandated approach to steady and predictable increases to Canada's Official Development Assistance". In June, the Conservative Party joined others in the House to unanimously vote in favour of a non-binding motion, calling for "a plan, to increase Canada's aid budget by 12% to 15% annually to achieve an aid level of 0.5% of Canada's Gross National Product by 2010 and 0.7% of Canada's GNP by 2015".

During the election, the Conservatives committed to maintain and improve upon the previous government's plan to increase aid, including the Liberal/NDP addition of \$500 million. The Conservatives improved upon this existing plan by promising an additional \$425 million up to 2010 and increases that "move towards the OECD average level". The current OECD average performance of all donors is 0.42% of GNI.

Under this Conservative Plan, CCIC estimates ODA for 2006/07 at \$4,740 million (0.34% of GNI and for 2007/08 at \$4,780 million (0.33% of GNI). Comparative CCIC estimates for different scenarios for Canadian ODA to 2010 can be found in Appendix One.

Assessing the Conservative Promise

- **ODA performance in 2010 is no different than what would have happened under the Liberals**

The Conservative government has committed to add \$425 million to exiting Liberal commitments up to 2010. Assuming this amount is divided equally among the five years, this will lead to a very modest increase each year in ODA (\$85 million). Thus, Canada's performance remains virtually the same as it would have been under the Liberal Plan. By 2010, CCIC estimates that under the Conservative Plan Canadian ODA will be at only 0.33% of Canadian GNI. This is well below the 0.5% goal endorsed by the Canadian Parliament and significantly below the current OECD average of 0.42%.

- **Achieving 0.42%, the Current OECD Average**

To achieve the Conservative goal of 0.42%, which is the current OECD average, the Government will have to make real investments in Canadian aid beyond its current promise of \$85 million annually. While other scenarios are possible, CCIC projects the Government can reach the 0.42% goal if it rolls the Liberal/NDP additions of \$250 million into the IAE base in the next two fiscal years, and then uses this enhanced base to calculate the 8% increases for future years. In addition, the Conservatives would have to augment their \$85 million per year increase to \$135 million and then also add this increase to the IAE base for future years.

Without this increase from \$85 million to \$135 million, rolling-in the two-year Liberal/NDP \$250 million and the \$85 million each year would only achieve 0.40% of GNI by 2010. Similarly front-loading the \$425 million in the first year and the \$250 million in the first two years into the base for calculating 8% increases, also produces a performance of 0.40% in 2010.

International donors have committed to substantially increase their own aid by 2010. These aid increases by other donors will no doubt increase the OECD average beyond 0.42% by 2010.

To achieve the 0.42% target, the Conservative government will have to add an average of \$190 million in each of the next five years to the IAE, rather than \$85 million, in addition to the rolling-in the Liberal government commitments.

Achieving the Canadian Parliament's Goal of 0.5% by 2010

The target of 0.5% set out in the June Parliamentary motion is very affordable. In the Appendix, CCIC outlines a scenario to achieve this goal through 15% increases to the IAE devoted to aid in each year up to 2010. The scenario also requires rolling-into the IAE base the \$250 million additions to aid in 2006/07 and 2008/09. No further increases (i.e. the Conservative's \$85 million) are required beyond adjusting the 8% annual increase to 15%.

The average addition to the IAE in each of the five years to achieve the 0.5% goal, beyond the existing Liberal commitments, is \$455 million, rather than \$85 million.

WHAT TO WATCH FOR IN THE CONSERVATIVE BUDGET

- Will the Conservative Budget acknowledge the international target for ODA of 0.7% of GNI and situate any Canadian aid increase outlined in the Budget as part of a commitment to realize this target by 2015?
- Does the Budget acknowledge the cross-party support for the June 2005 parliamentary motion calling for Canada to achieve 0.5% of GNI by 2010?
- Does the Conservative Budget present a plan to reach the Conservative's currently stated goal of the OECD average donor performance of 0.42% by 2010?
- Will the Conservative Budget focus the 8% increase on the components of the IAE devoted to ODA (which will require a larger overall increase to the Envelope to cover non-ODA items)?
- Is the Conservative Government retaining the Liberal focus on increasing aid resources for Sub-Saharan Africa (doubling aid up to 2008/09)?
- Will the Conservative Budget implement the aid commitments made in Bill C-48? (Does the Budget make the first \$250 million available for spending in 2006/07 and does it add this amount to the IAE base for calculating the 8% increase for the next year?)
- Does the Conservative Budget indicate that the government will proceed with accountability legislation for Canadian ODA, which establishes poverty reduction as the exclusive goal of ODA, consistent with Canada's human rights obligations, and directed to the needs of people living in poverty?
- Will the Government join several donors at the OECD's Development Assistance Committee (DAC) that have been attempting to change the criteria for what counts as ODA? Expanding these criteria to recognize military expenditures in peace operations for example will further dilute ODA for poverty reduction and artificially improve donor "aid performance". Other donors have resisted such changes to date, but the issue will be back on the DAC agenda in 2007.

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Appendix One Overview of Budget Scenarios for Achieving Aid Targets

(Millions of Cdn \$)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Liberal Commitment ²	8% increases; additional one-off \$250 million in 06/07 and 07/08 (Bill C-48)					
IAE (aid) ¹	\$3,362	\$3,630	\$3,920	\$4,235	\$4,575	\$4,940
ODA	\$4,400	\$4,655	\$4,695	\$4,760	\$5,100	\$5,465
Performance (ODA as %age of GNI)	0.34%	0.34%	0.32%	0.31%	0.32%	0.33%
Annual Increase		\$520	\$540	\$315	\$340	\$365
Conservative Commitment	\$425 in new money divided equally between the years (\$85 million)					
IAE (aid) ¹		\$3,715	\$4,005	\$4,320	\$4,660	\$5,025
ODA		\$4,740	\$4,780	\$4,845	\$5,185	\$5,550
Performance (ODA as %age of GNI)		0.34%	0.33%	0.32%	0.33%	0.33%
New Money Above Liberal Commitments ⁴		\$85	\$85	\$85	\$85	\$85
Achieving 0.42% (DAC Average) ³	Integrate \$250m and \$135m rather than \$85m in the base for 8% increases.					
IAE (aid) ¹		\$4,015	\$4,720	\$5,235	\$5,790	\$6,385
ODA		\$4,790	\$5,250	\$5,760	\$6,315	\$6,910
Performance (ODA as %age of GNI)		0.35%	0.36%	0.38%	0.40%	0.42%
New Money Above Liberal Commitments ⁴		\$135	\$165	\$200	\$215	\$230
Achieving Parliament Goal of 0.50%	Integrate \$250m increases in base and increase base by 15%					
IAE (aid) ¹		\$4,135	\$5,020	\$5,790	\$6,685	\$7,715
ODA		\$4,910	\$5,545	\$6,320	\$7,210	\$8,240
Performance (ODA as %age of GNI)		0.36%	0.38%	0.42%	0.45%	0.50%
New Money Above Liberal Commitments ⁴		\$250	\$350	\$460	\$555	\$665

All calculations by CCIC, February 2006

- (1) The International Assistance Envelope (aid) is that portion of the Envelope which is devoted to ODA under the criteria established by the Development Assistance Committee of the OECD. The actual IAE will be larger to account for non-ODA items which in 2005/06 were estimated to be approximately \$220 million. ODA is larger than the IAE because it includes non-budgetary items.
- (2) The existing Liberal Commitments include an annual 8% increase in the portion of the envelope devoted to ODA and the one-off \$250 million increase in each of 2006/07 and 2007/08 (Bill C-48).
- (3) The OECD DAC average is the numerical average of donor performances (ODA to GNI) in a given year. The latest average is 0.42%, but this average changes in any given year and will likely increase by 2010.
- (4) New Money above existing Liberal Commitments is the additional money needed each year to achieve the goal beyond what is already committed in various previous Liberal Budgets and Bill C-48.

Five Year Investments Required for the International Assistance Envelope (Aid)

Fiscal Year	Liberal Commitment ¹	Conservative Commitment ²	Reach 0.42% of Cdn GNI by 2010 ³	Reach 0.5% of Cdn GNI by 2010 ⁴
	Millions of Cdn \$			
2006/07	\$520	\$605	\$650	\$ 770
2007/08	\$540	\$625	\$705	\$ 890
2008/09	\$315	\$400	\$515	\$ 775
2009/10	\$340	\$425	\$555	\$ 890
2010/11	\$365	\$450	\$600	\$1,030

All calculations by CCIC, February 2006

Explanatory Notes

- (1) The Liberal Commitment includes 8% increases to the IAE (aid) added to the base of the IAE for future aid increases, plus the one-off \$250 million in 2006/07 and 2007/08 (Bill C-48).
- (2) The Conservative Commitment is to retain all the Liberal commitments as above and increase aid by \$425 million by 2010. Our assumption is that this is divided equally between the five years.
- (3) The Conservative platform states that the government will work to achieve the donor average performance by 2010. This performance is currently 0.42% of Gross National Income (GNI). This requires significant additions to the IAE base in each of the next five years.
- (4) CCIC/Make Poverty History is seeking aid increases for Canada that reach 0.5% by 2010 and 0.7% by 2010. This requires integrating the \$250 million amounts (Bill C-48) and 15% increases to the IAE base in each of the next five years.