

## **CCIC Pre-Budget Backgrounder**

**October 2007**

### **What CCIC is looking for in the 2008/09 Federal Budget:**

- **A timetable to increase Canadian Official Development Assistance (ODA) over the next ten years to reach the UN aid target of 0.7% of Canada's Gross National Income (GNI), a goal endorsed in June 2005 by all parties in the Canadian Parliament;**
- **Overall increases to the International Assistance Envelope (IAE)<sup>1</sup> are targeted to ODA components of the Envelope;**
- **A budgetary plan to increase Canadian ODA by at least 15% a year for the next ten years, to achieve 0.4% of Canadian GNI by 2010, 0.6% by 2015; and the UN target of 0.7% by 2017.**
- **Increases to the 2008/09 portion of IAE devoted to aid by at least \$600 million in 2008/09, \$700 million in 2009/10 and \$800 million in 2010/11. Each of these amounts should be added to the base for future calculations of aid increases.**
- **Support 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 fund and development research). Some of the new components of the IAE, such as some disbursements for peace and security (de-commissioning of nuclear warheads in the former USSR), 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 – costs for the first year of refugees from developing countries in Canada, provincial governments' spending on aid, bilateral debt forgiveness, costs for developing country students studying in Canada etc. The latter 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).

## The March 2007 Second Conservative Budget and ODA Performance for 2007/08

The second Conservative Budget in March 2007 held to the long-standing Liberal aid promise to double aid by 2010, increasing the International Assistance Envelope devoted to aid<sup>1</sup> for 2007/08 by 8%, but made no new commitments for that year. The Budget also did not lay out any timetable for the International Assistance Envelope (IAE) beyond 2008/09 and thus gave no confirmation that aid would in fact double by 2010, as promised.

Total ODA is estimated by CCIC to remain unchanged in 2007/08 at \$4.6 billion, but Canada's aid performance, as measured as a percentage of our Gross National Income, will fall from 0.33% in 2006/07 to 0.32% in 2007/08. This is not even half of the UN target of 0.7% to which other donors have committed. The reduction in performance is the result of last-minute special additions to the 2006/07 aid disbursements and the winding down of debt cancellation for Iraq.

The March 2007 Budget honoured the final installment of the Liberal/NDP 2005 budget deal (a one-off addition of \$500 million in 2005/06 and 2006/07) by adding \$315 million to Canadian aid for 2006/07. Of this \$315 million, \$200 million was earmarked for increased aid to Afghanistan (Canada's largest aid recipient at about \$145 million per year). The remaining \$115 million was a one-off allocation to the Advance Market Commitment, led by Canada, Italy and the United Kingdom, to create a pneumococcal vaccine. This increase of \$315 million brought Canadian ODA for 2006/07 to an estimated \$4.6 billion, an amount equal to expected ODA in 2008/09.

In the 2005 federal election, Prime Minister Harper pledged to add \$425 million in new aid spending, in addition to the 8% increases and the Liberal/NDP commitment to \$500 million. So far in the 2007 Budget, the Conservatives have added \$130 million, less than a third of this pledge.

The Conservatives also pledged during the last election "to move towards the average level among Organization for Economic Cooperation and Development (OECD) [donors]" by 2010 [Conservative 2005 Platform], which at the time of this promise was 0.42% of GNI. The latest DAC ODA figures for 2006 now puts the average performance at 0.46%. On the current track of 8% annual increases, Canadian aid performance in 2010 is expected to only reach 0.33% of Canadian GNI. This is less than CCIC's estimate for 2005/06 of 0.34%, the year prior to the Conservatives winning the election.

An 8% increase in the IAE (devoted to aid) for 2008/09 and for 2009/10 will add approximately \$320 million in new aid resources in each year, respectively.

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<sup>1</sup> In 2005, the Liberal Government reorganized the International Assistance Envelope to include a substantial amount for implementing Canadian international peace and security policies, principally managed by the Department of Foreign Affairs and International Trade. CCIC estimates that approximately \$200 million, or 5% of the IAE, is not eligible to be counted as ODA under the rules established by the Development Assistance Committee of the OECD. So far, both Liberal and Conservative Governments have increased the portion of the IAE devoted to aid by 8%. CCIC calculations for future increases needed in the IAE are based on the same assumptions and therefore dollar figures for the IAE devoted to aid will be less than the actual IAE for a given year.

## **What's Included in ODA: The *Reality* of Canadian Aid**

The global Reality of Aid Network (of which CCIC is a member) and Actionaid International have recently analyzed the *reality* of donor aid reaching poor countries. What are donors counting as ODA? How much aid actually is available to benefit people living in poverty? How much is artificially inflated by additions that never actually leave the donor countries?

Debt cancellation is very important for the long-term sustainability of developing countries' finances for their development priorities. However, the benefits of cancellation (payments of principal and interest not paid in a given year by a government) are spread over many years, sometimes decades. Nevertheless, donors are permitted to include the full face value of debt cancelled in the year that agreement is reached to cancel this debt. In recent years, donor ODA has been significantly inflated by the very large amounts involved in agreements to cancel the debt of Iraq and Nigeria.

Canadian ODA is no exception. CCIC estimates that Canadian ODA has included \$950 million in debt cancellation in the three years since 2005. Removing debt cancellation significantly reduces Canadian ODA performance to 0.31% of GNI in 2006/07 (from 0.33%) and 0.30% in 2007/08 (from 0.32%). Little bilateral debt will remain to be cancelled by 2010, making it more challenging for donors to realize their commitments against the UN 0.7% target.

All donors are also allowed to include in ODA government support for refugees from developing countries for their first year in the donor country. ODA can also include an imputed amount for the expenditures in Canada for students from developing countries studying at Canadian universities. Removing debt cancellation, support for refugees and for developing country students from Canadian ODA, lowers our performance ratio even further – to 0.29% of GNI in 2006/07 and 0.28% in 2007/08!

In analyzing Canadian aid quality, CCIC has concluded that “aid inflation” has significantly affected Canadian aid since 2000 and that up to 35% of Canadian aid might be considered “phantom aid” that never reaches poor people in developing countries. CCIC has supported aid legislation, passed in the House of Commons in the Spring of 2007, and currently before the Senate. This legislation will require the Minister for International Cooperation to confirm that Canadian aid disbursements are targeted exclusively to poverty reduction, in the context of Canada's human right obligations, taking into account the perspectives of people living in poverty.

In the year 2000, Canada, along with the international community, signed onto the Millennium Declaration in which we agreed to “spare no effort” in ending poverty. This was followed by commitments to devote aid resources to achieve the rather modest objectives for the Millennium Development Goals (MDGs). Progress has been slow, particularly for Sub-Saharan Africa. This should not be surprising. According to DAC figures, Canada made available more than \$2 billion in new aid resources since 2000. But when one accounts for increased debt cancellation, increased emergency assistance, assistance to Afghanistan and Iraq, less than 30% of this \$2 billion was even available to target the MDGs. Globally, incredibly, only 3.5% of the \$69 billion in new aid resources since 2000 could actually have been added to previous aid allocations for the MDGs; much of the remainder was debt cancellation and aid to Afghanistan, and particularly to Iraq.

## **Achieving the UN Target of 0.7%**

While different timetables are possible, CCIC is proposing that the 2008 Federal Budget set out a relatively simple timetable of 15% increases to the International Assistance Envelope (devoted to aid) over the next ten years, starting with this 2008 Budget. The increases required for this scenario are \$600 million in 2008/09, \$700 million in 2009/10 and \$800 million in 2010/11. Each of these amounts must be added to the base for future calculations of aid increases.

The current track of 8% increases produces an uninspiring expected aid performance of 0.33% in 2010. The CCIC scenario will reassert Canadian leadership in international cooperation. Canada will be on course for aid performances that will achieve 0.4% of Canadian GNI by 2010, 0.6% by 2015; and the UN target of 0.7% by 2017.

## **What to watch for in the Conservative 2008 Budget**

- Will the 2008 Conservative Budget acknowledge and set out a plan to achieve the United Nations target for ODA of 0.7% of GNI over the next ten years?
- Will the Budget present a plan to reach the Conservative's currently stated goal of achieving OECD average donor performance of 0.42% by 2010?
- Will the 2008 Budget continue to 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)?
- Will the Government acknowledge the urgent development needs of Sub-Saharan Africa, and along with its G7 colleagues, achieve the doubling of aid resources for Sub-Saharan Africa between 2003/04 and 2008/09 (as set out in the 2005 Liberal Federal Budget)?
- Will the Conservative Budget add any new aid resources to 2007/08 or 2008/09, beyond the 8%, to the base for calculating future aid increases? Previous year-end additions by both the Liberals and Conservatives have been one-off, with no impact on future increases for aid.
- Will the Conservative Budget indicate that the government supports accountability legislation for Canadian ODA, legislation that 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 announce its choice of priority countries for Canadian aid based on criteria related to need and potential for poverty reduction, rather than mathematical formulae? The 2006 Budget proposed that priority countries would be determined by the positioning of Canada among the top five donors for the country of choice. This implies that the choice of priority countries for Canada may be determined not by the Government, but by the actions of other donors, with aid resources much larger than Canada.

Brian Tomlinson  
CCIC Policy Team  
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