

The Federal Budget Plan for 2003 Fulfilling Canada's Commitment to Increase Aid by 8%

The Government Fulfills the 8% Commitment

Finance Minister Manley's 2003 Budget Plan fulfills the Prime Minister's commitment to immediately increase aid by 8% in 2002/03 and for the next two years up to 2004/05. The Plan further commits the government to double assistance by 2010, with at least half of the planned increase going to Canada's support for the New Partnership for Africa's Development and the G8 Action Plan for Africa.

The December 2001 Federal Budget set the International Assistance Envelope¹ for 2002/03, this current fiscal year, at \$2,280 million. The Envelope for this year has now been increased to \$2,658 million, with additional expenditures to take place before March 31st. This increase represents an 8% increase over the actual IAE in 2001/02 of \$2,461 million. The revised IAE represents an increase of \$378 million for this year over the original IAE in the December 2001 Budget. The increase could be allocated to meet Canada's commitments for HIPC debt cancellation, the early payment of dues to the UN system (which has been the practice in previous years), and the disbursements from the Canada Fund for Africa (see below). In October 2002 CIDA received \$64 million in supplementary estimates for 2002/03, an amount that is also likely included in the revised IAE for this year announced in this Budget Plan.

The International Assistance Envelope will be increased by 8% for each of 2003/04 and 2004/05, based on the revised figure for 2002/03 (\$2,658 million). The detailed allocations for 2003/04 (i.e. how much for various branches within CIDA and other departments responsible for ODA) will not be available until the government publishes its Part III Estimates for CIDA at the end of March.

What are the expected increases each year?

The table below shows the cumulative increase in the International Assistance Envelope over the three years in comparison to the IAE for 2002/03 that was given in the December 2001 Budget Plan (i.e. \$2,280 million). This IAE for 2002/03 includes all allocations for aid in 2002/03, except the Canada Fund for Africa, which was not included at the time in the IAE.

¹ The International Assistance Envelope (IAE) contains the budgetary allocations by the federal government to international assistance. 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. The 2003 Budget Plan added to the IAE Canada's commitment to up to \$100 million each year for the Global Partnership Against the Spread of Weapons and Materials of Mass Destruction", much of which cannot be included in 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.

	<u>IAE</u>	<u>Increase over \$2,280 million</u>
2001/02	\$2,461 million	
2002/03	\$2,658 million	\$378 million increase over Dec. 2001's IAE
2003/04	\$2,870 million	\$590 million increase over Dec 2001's IAE
2004/05	\$3,100 million	\$820 million increase over Dec 2001's IAE

Therefore the announcements in the 2003 Budget Plan amount to \$1,788 million in cumulative increases over the three years which is available for new spending.

The Budget Plan highlights that \$1.4 billion has been added to the IAE in these three years. The Department of Finance official at the budget lockup explained that this total is calculated from the Department of Finance's "financial framework" for the IAE for these three fiscal years.² While \$1.4 billion represents the additional funds that the government must add to their planning figures for the IAE, it bears no relation to the actual increases that will be available for additional spending, compared to the IAE for this fiscal year prior to the 2003 Budget Plan (i.e. \$2,280 million).

What is Included in the Planned Increases?

The Budget Plan sets out a number of areas that are included in the stated increases for the IAE, some of which will also appear to affect the available resources for ODA spending, not already allocated:

- 1) IDRC is identified for an 8% increase in their budget in the next two fiscal years.
- 2) It is stated that the increases "will complete the financing of the \$500 million Canada Fund for Africa", already announced in the December 2001 Budget. When announced in the December 2001 Budget, this Fund was in addition to the \$2,280 million IAE for 2002/03 and was to be spread over three years. At the time of writing this analysis, it is still unclear whether this \$500 million is included in the \$1,788 available for new spending or is still considered separate and addition to it.
- 3) The planned increases for the IAE will also include disbursements in two fiscal year (2003/04 to 2004/05) for Canada's G8 commitment to contribute up to \$100 million each year, over a ten year period, to a "Global Partnership Against the Spread of Weapons and Materials of Mass Destruction", i.e. for the decommissioning of nuclear stockpiles in the former Soviet Union. It is unknown the exact amount to be disbursed in each fiscal year as this will depend on proposals received by Canada against this commitment. This fund cannot be included in ODA as it is likely to be directed mainly to non-ODA eligible countries.

² The Department of Finance's "Financial Framework" for the IAE is the following 2001/02: \$2,461 million, 2002/03: 2,305 million; 2003/04: 2,668 million [the December 2001 Budget had an \$285 million increase in the IAE for this year, but gave no base] and 2004/05: \$2,280 million [the base number for the IAE in 2002/03]. Using this financial framework the Budget Plan calculates a total increase in the IAE over the three years at \$1.4 billion.

CIDA's Part III Estimates at the end of March will provide more detail on the allocation of new resources for aid in 2003/04, beyond the already announced Canada Fund for Africa. Clearly a significant proportion of the \$1,788 million will be available for the nine countries that have been earmarked for "enhanced partnership".

How do these increases improve Canada's ODA performance?

Based on the 2003 Budget Plan, and taking the above increases and factors into consideration, CCIC has revised its estimates of Canada's ODA performance measured as a percentage of our Gross National Income³.

	<u>2003 Budget Plan</u>	<u>2002 Budget Plan</u> (December 2001)
2001/02	0.26%	0.25%
2002/03	0.27%	0.25%
2003/04	0.27%	
2004/05	0.27%	

If the IAE continues to grow by 8% to 2010, CCIC expects ODA to be approximately 0.31% of our Gross National Income by that year.

What do we need to meet Canada's Commitment to the Millennium Development Goals?

The United Nations system has estimated that an additional US\$ 50 billion annually in aid is required to meet the UN commitment to the Millennium Development Goals (MDGs). What share should Canada contribute to this target for aid and the MDGs? If one takes Canada's GNI as a proportion of the total donor GNI (i.e. approximately 3%) as a measure of our relative share, then Canada should be increasing its ODA by at least Cdn\$ 2.4 billion in each year up to 2015. To achieve this commitment to poverty eradication and human development will require substantial new investments in Canadian ODA, above the 8% growth, which the government is now projecting to 2010.

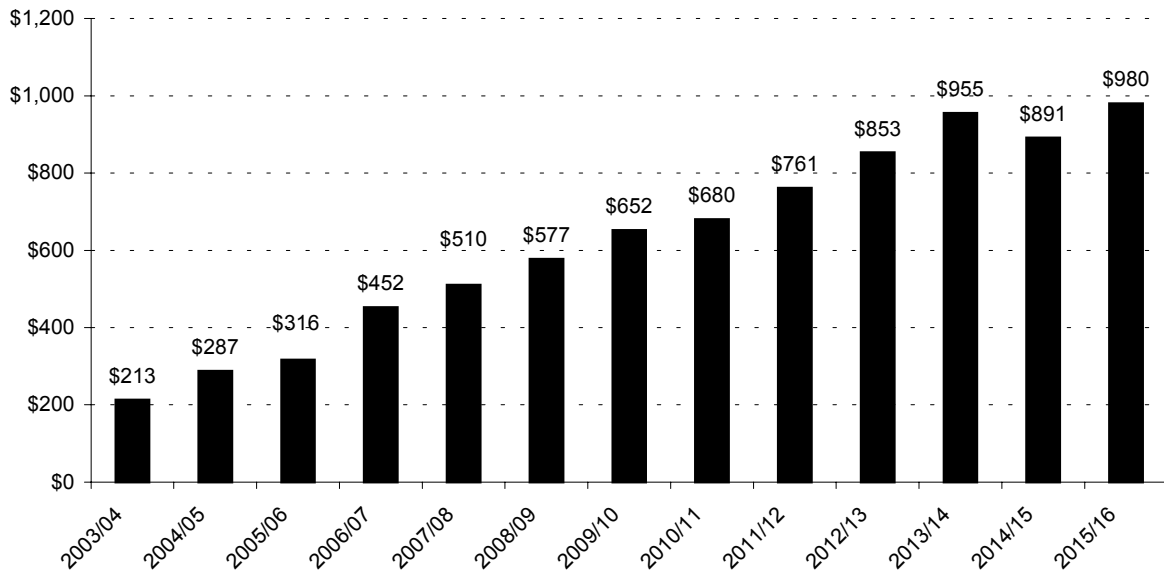
In one scenario, CCIC has calculated that over the next 13 years Canadian aid would have to grow by between 10% and 13% in each year to contribute our fair share of annual global aid increases of US\$ 50 billion.⁴ Chart One demonstrates the dollar amounts of increases for each of these years. Under this scenario, Canadian aid performance would reach approximately 0.53% of our GNI in 2015, and 0.40% in 2010, closer to our performance prior to the 1995 cuts. While the amounts certainly represent

³ Figures for Gross National Income have been estimated from Table 8.5 in the 2003 Budget Plan, based on the stated percentage of GDP for budget revenues from 2001/02 to 2004/05.

⁴ Under this scenario, the IAE increases by 10% in 2004/05 and 2005/06, then by 13% in 2006/07 to 2008/09, then by 12% in 2009/10 to 2013/14, and finally by 10% in 2014/15 and 2015/16. Other scenarios are obviously possible with larger increases in earlier years. The CCIC scenario produces total cumulative ODA over these 13 years that is equal to that which is required by adding \$2.4 billion to the December 2001 Budget Plan for ODA for 2002/03 (\$5.2 billion total aid for that year), and increasing it by an inflation factor of 2.5% each subsequent year.

significant increases in aid, the government was able to allocate in the 2003 Budget Plan \$800 million in each of 2003/04 and 2004/05 in the 2003 Budget Plan to national defence (an amount required only in 2012 and beyond). In future years, modest growth in the Canadian economy will produce substantial fiscal “surpluses” from which to meet domestic social, economic and environmental needs as well as re-establish our leading role in achieving social and economic justice for the world’s poor.

**Meeting Canada's Commitment to the MDGs:
Increases Required in Canadian ODA**
(Millions of Canadian Dollars)



Analysis prepared by Brian Tomlinson
Canadian Council for International Co-operation
February 2003