Budget 2013: Implications for Canadian ODA[1]

Budget 2013 had dramatic news for the future of Canadian development cooperation – CIDA, Canada's pre-eminent aid agency since 1968, is to be folded into a new Department of Foreign Affairs, Trade and Development. While the future direction of Canadian ODA remains unknown, Budget 2013 did confirm that significant cuts to Canadian ODA, announced last year in Budget 2012, will continue into 2014/15, just one year prior to the 2015 benchmark for achieving the Millennium Development Goals (MDGs). The Budget document and subsequent ministerial statements gave no information and made no commitment to consult parliament or Canadians on the policy and practical implications for sustaining the existing legislated mandate for Canadian ODA as articulated in the ODA Accountability Act (ODA AA) within this new ministry.

In stark contrast, on the very same day, the Conservative UK Chancellor of the Exchequer reaffirmed that the UK would be the first among the G8 countries to achieve the UN aid target of 0.7% of Gross National Income. This substantial resource commitment, at a time of triple dip recession and internal and external pressures on the government to abandon the commitment, continues to be managed by its Department for International Development (DfID), a first-class separate government department dedicated through legislation and clear policies to disburse UK's aid for poverty reduction.

"We will be the first G8 country to keep our promise [to meet the 0.7% target] to the world's poorest people," said U.K. Secretary of State for International Development Justine Greening. In Canada, Canadian Minister Fantino ignored questions about the future for Canadian ODA, while he emphasized that the ending of CIDA will "deliver tangible, sustainable results and advance Canada's long-term prosperity and security," through "[enhancing] coordination of international assistance with broader Canadian values and objectives."[2]

1. The End of CIDA: Priorities for Canadian development cooperation?

While long discussed in DFAIT (as far back as 1992) and more recently in various policy circles, the decision to abolish CIDA as a separate agency of government, with a its mandate to address poverty reduction as an important goal of Canadian foreign policy, will redefine Canada's relationship with developing countries for years to come.

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[1] Briefing paper prepared jointly by the CCIC team and Brian Tomlinson from AidWatch Canada.
[2] "Today, the Honourable Julian Fantino, Minister of International Cooperation issued a statement following the release of Economic Action Plan 2013", March 21,2013.

According to the Budget Plan, "enhanced alignment of our foreign, development, trade and commercial policies and programs will allow the Government to have greater policy coherence on priority issues and will result in greater overall impact of our efforts." [Economic Action Plan 2013, 240-241]

While the Government commits to maintain intact "core development assistance" and "the mandate of poverty alleviation and humanitarian support," it also asserts that "our assistance increasingly plays a catalytic role in fostering economic growth in the developing world and with emerging economies," and that "this assistance is also a critical instrument for advancing Canada's long-term prosperity and security."

There has been historical tension between the mandate of CIDA (long term goals for poverty reduction in the poorest countries) and other mandates of the Government – such as the legitimate mandate of the Department of Foreign Affairs and International Trade (DFAIT) to promote Canada's more immediate economic and political interests (via diplomacy and trade). *Budget 2013* provides an interesting example. The Finance Minister announced that Canada is "modernizing" its schedule of developing countries eligible for preferential tariffs, providing easier access to Canadian markets for goods from these countries. The result is that 72 developing countries will no longer be eligible for preferential treatment, resulting in a transfer of at least $1.1 billion in additional revenue from these countries' exports to the Government of Canada. Minister Flaherty suggested that giving preferential status was "a foreign aid arrangement" and that these are countries "that no longer are entitled to that kind of assistance from Canadian taxpayers."[3]

With this move to amalgamate CIDA's mandate into DFAIT, the Government seems to be reaffirming its evolving paradigm and practice for its aid priorities, away from the allocation of resources to the best opportunities to achieve development outcomes for poor and marginalized people, and towards opportunities for synergies with Canada's foreign and trade objectives..

In light of these dramatic institutional changes, the *Budget 2013* confirms that a separate ministerial position for development cooperation will remain and that the Government intends to "enshrine in law the important roles and responsibilities of the Minister for development and humanitarian assistance."

No further details are provided in the *Budget Plan* nor in a subsequent teleconference between staff in the current Minister for International Cooperation's office, a CIDA official and selected Canadian CSOs. In implementing the merger into the new Department, several core questions/issues will be key to determining the success of the move in terms of development effectiveness. CCIC is urging the Government to be open to full consultations

[3] Anthony Furey, "Budget magic trick on tariffs fool us," Toronto Sun, March 25, 2013, accessed at http://www.torontosun.com/2013/03/25/budget-magic-trick-on-tariffs-fooled-us.

with a diversity of actors in international development, including Canadian CSOs, on these and other questions as it works towards the integration of CIDA's mandate within the new Department.

a) Accountability for the new Department's mandate: How will the new Department define its mandate and systems of accountability for Canadian aid and development cooperation? Will there be transparent policies that guide practice, particularly in relation to the stated goals in the Budget for increased synergies between the aid, foreign and trade mandates of the Department?

The legislated mandate for the Minister and the new Department are likely to be very broad and unclear in practice. This is also a Government that has largely avoided high-level policy statements. As a result policy directions have usually only be gleaned from occasional ministerial speeches and announcements of particular initiatives. Effective development outcomes and sustainable results that benefit the poor require long term iterative commitments, often over many years, usually beyond the four year mandate of a government, or the changing foreign policy priorities of the day, however legitimate the latter may be as Canadian policy goals.

As noted above, the *Budget Plan* (and recent statements by Minister Fantino) point to a shift towards the primacy of Canadian trade and investment interests (resource extraction) and partnerships with the private sector in Canada's development cooperation priorities. While these interests have always been present in varying degrees in some Canadian aid programs, CIDA has also channeled large investments to development initiatives in important areas such as education, health and governance, among others, which have been largely untied to trade or investment interests. Will the new Department maintain over the longer term these important priorities and initiatives, ones that are more closely aligned with goals for poverty reduction?

b) Protect and take account of the ODA Accountability Act: What are the implications for the ODA Accountability Act and its legislated purposes for Canadian ODA – poverty reduction, taking account of the perspectives of the poor, and consistency with international human rights standards?

The ODA Accountability Act (ODA AA) remains in force and should not be affected by the shift of the mandate of CIDA to the new Department. The Act was deliberately structured to strengthen accountability for allocations of ODA, irrespective of the ministry involved, and not for CIDA as an aid agency. The current Minister for International Cooperation has an explicit obligation under the Act to table an annual report to Parliament on implementation of the Act and to produce a Statistical Report on ODA disbursements. But the Act provides flexibility and says that the Government can designate another Minister for purposes of this Act. The provisions in the Budget Plan for a new legislation mandating the Minister for development and humanitarian assistance should be closely monitored to ensure that these provisions are consistent with and uphold the current obligations of the ODA Accountability Act.

Indeed, protecting the Act from repeal may be an issue. In a Globe and Mail article on the merger, Minister Fantino states, "The Harper Government believes in the noble mandate of poverty alleviation in the developing world. That is why we are enshrining this important mandate in law...," which taken literally would be a replacement for the ODA AA.

To date, DFAIT has reported on the Act through its annual report to Parliament, but unlike the Department of Finance, DFAIT has not undertaken any consultations on departmental programs falling under the Act. Nor has it identified ODA-related disbursements in its departmental plans and priorities and performance reports.

c) **Strengthen transparency in the new Department:** Will the new Department continue to fulfill the transparency obligations in the ODA AA and to implement its commitment to the International Aid Transparency Initiative (IATI) with the publication of development assistance information against the IATI standard?

Given the emphasis on synergies with Canadian interests, the Government must clearly set out the mechanisms by which the several ministers within the new Department will be accountable to the purposes of ODA as set out in the ODA AA. CCIC's analysis of the several reports to parliament on the implementation of the Act point to a lack of respect to the spirit of the Act in its practical implementation – only a single sentence has been added to the project approval document in CIDA asserting that the project is in full compliance with the Act. The transition to a new Department is an opportunity to review and more transparently implement the intentions of the Act to improve the effectiveness of Canadian ODA in its focus on poverty reduction and its coherence with human right standards.

Over the past year CIDA has increased the transparency of aid transactions through its reporting to the IATI standard and through improvements in flexible access to data on its web site. These essential gains in transparency should not be lost in the transition to the new Department. The integration of CIDA's mandate in the new Department is an opportunity to more fully capture all of Canada's aid transactions – formerly through DFAIT and through the Department of Finance – in its publication of data to IATI.

d) **Giving development expertise an equal footing in Departmental policy making:** Will the mandate for development and humanitarian assistance be structured in the new Department in ways that respect the essential importance of specialized development skills that currently exist in CIDA and that create a "level playing field" for the influence of the development mandate within the new Department?

It is critical that the development / humanitarian assistance expertise existing within CIDA at all levels be fully retained and utilized in positions of authority within the new Department. Historically DFAIT has not had the need to recruit such expertise and when in the past its took on development-oriented programming (e.g. eastern Europe), it soon transferred these programs to CIDA. On the other hand, CIDA has had decades of experience with development partners around the world and in Canada. This knowledge and these relationships are the foundation of effective development programming and results, including through partnerships with civil society organizations. The new Department must not lose these essential resources for effectiveness in development in the transition.

In fact the transition can be an opportunity to renew and strengthen the Department's relationships and engagement with the development expertise of a diverse Canadian development community, collaborating with these organizations as "development actors in their own right", not merely as implementing agents for the Department's programs.

e) **Ensuring continued program decision-making in a smooth transition:** Will the Ministers and senior officials involved in the transition commit to resolving long delays experienced in recent years/months and ensure continuity in Canadian aid programs?

The full transition to the new Department will take many months to plan and fully implement. This was the experience when the trade mandate was integrated with foreign affairs to create the current Department of Foreign Affairs and Trade (DFAIT).

The Government should diligently implement the transition in ways that do not adversely affect, through long delays in administrative processes, the ability of current development partnerships to implement their programs. Already CIDA's partners have experienced long delays in programming. For example, general funding for Canadian CSOs, and specific funding for the volunteer sending CSOs, has been put on hold for the past two years, and new projects approved for specific purposes have been significantly delayed.

In an internal memo that followed the Budget announcement, deputy ministers of DFAIT and CIDA "committed to working collectively to ensure a smooth transition while maintaining the consistent delivery of current policies and programs." Minister Fantino and senior management at CIDA should announce measures that will strengthen timely decision-making for existing and new programs during the transition. A reputation for long delays in CIDA's current practices, if reinforced by the absence of decisions during the transition, will surely affect the public perception of the efficacy of the new Department and have detrimental impacts on Canada's aid program.

2. Implementing the cuts to ODA

Canadian Official Development Assistance (ODA) continues to decline from a high of $5.5 billion in 2010 and 2011, to an estimated $5.2 billion in 2013/14 and $5 billion in 2014/15, just one year prior to 2015, the year by which the international community had committed to "spare no effort" to realize the MDGs towards ending global poverty. (See Annex One for year-by-year ODA projections.)

Budget 2013 makes no further cuts to ODA over and above those announced in Budget 2012 and no information was given to extend the 2012 three-year projection for the International Assistance Envelope beyond 2014/15.[4]

Canada's aid performance during this period will have fallen from 0.34% in 2010 to an estimated 0.28% in 2013/14 and 0.26% in 2015/16. When "Real ODA" is considered (removing support for refugees in Canada for their first year and imputed costs related to students studying in Canada),[5] the performance drop is even sharper – from 0.31% in 2010/11 to an estimated 0.22% in 2015/16. In 2011, only Italy, Japan, Greece and the United States had an aid performance GNI ratio lower than 0.26%. While some donors are also cutting their aid levels in the coming years, by 2015 Canada will likely rank among the worst performing aid donors.

CCIC and AidWatch Canada estimate that as a result of these cuts, by 2015, the government will have cumulatively removed almost $1.4 billion dollars from Canada's aid efforts since 2010, when it boasted of doubling aid in the past decade. If the Government had maintained the policy of 8% increases to the International Assistance Envelope beyond 2010, Canadian ODA would have reached an estimated $6.9 billion in 2013/14 (rather than $5.2 billion), with a performance ratio of 0.37% (rather than 0.28%).

3. A New Incentive for Charitable Giving

One piece of good news for the charitable sector as a whole in Budget 2013 is a change in the tax implications for first-time charitable donors. The Budget announced a "temporary First-time Donor's Super Credit (FDSC)." This incentive will provide an additional 25% tax credit for a first-time donor (who has not made a charitable donation since 2007) on donations up to $1,000. Accordingly, a first-time donor will be entitled to a 40% federal credit for donations of $200 or less (in contrast to 15%), and a 54% federal credit (in

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[4] See CCIC's detailed analysis of these cuts in http://www.ccic.ca/_files/en/what_we_do/2012_08_CCIC_Initial_Analysis_Budget_2012.pdf.

[5] "Real ODA" is a measure adopted by the global CSO Reality of Aid network, which is intended to give a true measure of ODA resources actually available to developing countries. Donor expenditures for refugees and students are allowable to be included in ODA under the rules of the OECD Development Assistance Committee.

contrast to 29%) for the portion of donations over $200 but not exceeding $1,000. Only donations of money will qualify for the FDSC.

This change in incentives for charitable giving was the result of budget recommendations made in the previous months by Imagine Canada, which includes CCIC. This is one of only several recommendations by Image Canada, but the charitable sector is pleased that the government took this first step. Much more remains to be done to improve the enabling environment for increasing charitable giving in Canada.[6]

4. Estimates for Department Spending in 2013-14

Since there were no budget announcements affecting the International Assistance Envelope, the Part II Estimates, Government Expenditure Plan and Main Estimates for 2013-14, tabled in Parliament in February, reflect the allocation of resources within CIDA for the 2013-14 fiscal year.[7]

Main Estimates for CIDA
2011/12: $3,927 million (actual expenditures)
2012/13: $3,411 million (main estimates at the beginning of the FY)
2012/13: $3,631 million (estimates including supplementaries during the FY)
2013/14: $3,159 million (estimates at the beginning of the fiscal year)

The Part II Main Estimates for CIDA put expected expenditures for 2013-14 at $3,159 million. This level of expenditure is down from $3,927 million (by 19.6%) for actual expenditures in 2011/12, and down from $3,631 million (by 13%), which is the revised estimates for CIDA for 2012/13, including supplementary increases during the fiscal year. (There are usually three supplementary estimates tabled in Parliament during each fiscal year.)

The Estimates for CIDA at the beginning of the 2012/13 fiscal year were $3,411 million (i.e. equivalent to the $3,159 million above for 2013/14). The budget estimates at the beginning of 2013-14 for CIDA ($3,159 million) is a reduction of 7.4% from the equivalent estimate at the beginning of 2012-13 ($3,411). Supplementary estimates during 2012/13 increased CIDA's budget by 6.4% (difference between $3,411 and $3,631).

The Part II Main Estimates for 2013-14 report that $100 million will be requested in

[6] See Imagine Canada, Budget 2013: Summary of items affecting the charitable and nonprofit sector

[7] It is important to note that these Estimates are not for Canadian ODA. It is not possible to calculate an estimate of overall ODA from the Part II Estimates because there is no figure given for the ODA estimated expenditures for 2013-14 by the Department of Finance and DFAIT, the other two main departments that allocate ODA.

supplementary estimates for CIDA during FY 2013/14 to make permanent the Quick Release Mechanism for responses to disasters.

The Part II Estimates give a breakdown for CIDA resources between "global engagement and strategic policy", "fragile states", "low income countries", "middle income countries" and "Canadians engaged in development". But without definitions of what programs and countries are included in some of these categories, these breakdowns are difficult to interpret. For example, many fragile states are also low income countries.

The Part II Estimates for CIDA also give a breakdown of grants and contributions for various branches in the agency for several years

> **Bilateral** (including both grants and contributions):
> 2011/12: $744.6 million (actual expenditures)
> 2012/13: $854.3 million (estimates at the beginning of the fiscal year)
> 2012/13: $863.5 million (estimates including supplementaries)
> 2013/14: $624.7 million (estimates at the beginning of the fiscal year)

The large cuts planned for bilateral start to take effect in 2013-14, unlike last year when the cuts mainly affected Partnership with Canadians Branch.

> **Multilateral** (including both grants and contributions):
> 2011/12: $2,269.2 million (actual expenditures)
> 2012/13: $1,818.8 million (estimates at the beginning of the fiscal year)
> 2012/13: $2,351.0 million (estimates including supplementaries)
> 2013/14: $1,842.0 million (estimates at the beginning of the fiscal year)

Most of the supplementary estimates during 2012/13 went for multilateral programs that include not only multilateral organizations but also humanitarian assistance.

> **Partnerships with Canadians (PwCds)** (including both grants and contributions):
> 2011/12: $264.7 million (actual expenditures)
> 2012/13: $280.9 million (estimates at the beginning of the fiscal year)
> 2012/13: $304.1 million (estimates including supplementaries)
> 2013/14: $252.6 million (estimates at the beginning of the fiscal year)

For PwCds in 2012/13 there were $23.2 million in grants above the estimates at the beginning of the year (likely one-off grants, which are rare for PwCds Branch). The estimate for 2013/14 is 4.6% below the actual expenditures in 2011/12.

To date, no preliminary expenditure figures for 2012/13 have been released. There has been speculation that CIDA will be significantly under-spent in this year, with allocated funds under the estimates above lapsing back into the public purse as of March 31st. But no confirmation will be possible, likely until the fall of 2013, when the government publishes its annual report to parliament as part of its implementation of the ODA AA.

Annex One: Budget 2013 - Canadian ODA Projections

Millions Cdn $	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
IAE (1)	$5,093.4	$5,000	$4,819.3	$4,757.9	$4,622.4	$4,622.4
ODA	$5,527.1	$5,531.6	$5,461.2	$5,252.9	$5,017.4	$5,017.4
ODA/GNI Ratio	0.34%	0.31%	0.30%	0.28%	0.26%	0.24%
Real ODA (2)	$5,024.4	$5,053.7	$4,991.2	$4,782.9	$4,547.4	$4,547.4
Real ODA GNI/ODA Ratio	0.31%	0.29%	0.27%	0.25%	0.23%	0.22%

(1) International Assistance Envelope: The IAE is a budgetary envelope that contains most ODA budgets, including CIDA. A number of items in the IAE are not eligible as ODA. But in addition, a number of other budgetary items and imputed items (e.g. imputed costs of students from developing countries studying in Canada) are added to the ODA items in the IAE to make up ODA in a given year.

(2) "Real ODA" is total ODA, less the amount allocated for refugees from developing countries for their first year in Canada, imputed costs for students from developing countries studying in Canada, and debt cancellation in the year that the total debt is cancelled. Real ODA is a measure created by the CSO Reality of Aid network as a true measure of the resources in ODA available to developing countries for development and humanitarian assistance.