CANADA'S COALITION TO END GLOBAL POVERTY
ENSEMBLE POUR ÉLIMINER LA PAUVRETÉ DANS LE MONDE

ANALYSIS OF BUDGET 2017

APRIL 2017

ISSUE Budget 2017 included **no new increases** to the Canadian international assistance envelope (IAE) – the principal source of programmable aid. Looking forward, it is estimated that **ODA in 2016-17 will be roughly $5.67 billion** (or 0.28 % of GNI), up from $5.28 billion in 2015-16 (or 0.27 % of GNI), and $5.2 billion (or 0.25% of GNI) in 2017-18. After a year of consultations during the International Assistance Review, and a number of factors that seemed to raise the likelihood of an ambitious increase, the absence of a costed funding framework for implementing the outcomes of the Review – as is happening with Defence – is deeply disappointing. The government of "Canada is back" could now become the government with the lowest average GNI ratio in Canadian history.

WHAT DID WE GET IN BUDGET 2017 ON OUR ISSUES?

- **Innovation** was the overarching focus of the budget and shows a government that is looking to Canadians to propose solutions to big public policy challenges through innovations – investing in manufacturing, clean tech, cities, education, learning and skills development. Partnerships Branch is leading on this initiative at Global Affairs Canada, and the sector will need to think through what innovation looks like in policy, practice and programming.
- Budget 2017 included **no new increases** to the Canadian international assistance envelope (IAE) – the principal source of programmable aid – although the announcement in Budget 2016-17 of 256 million over two years, means the IAE will stay at $4.75 billion in 2017-18.
- It is estimated that **ODA in 2016-17 will be roughly $5.7 billion** (or 0.28 % of GNI), up from $5.28 billion in 2015-16 (or 0.27 % of GNI). This is due to $512 million in supplementary estimates in 2016-17 allocated to debt relief ($18 million for Cuba) climate finance ($133 million), humanitarian assistance ($174 million) and grants to multilateral organizations ($179.1 million).
- In the absence of any supplementary estimates for 2017-18, ODA in 2017-18 will hit roughly $5.18 million (or 0.25%).
- If the IAE returns to $4.66 billion in 2018-19 and 2019-20 (which is not clear), and with no new supplementary estimates, the Trudeau government will end its first mandate with the lowest average GNI ratio in Canadian history.
- Budget 2017 continues the bad precedent set in previous years of **not disclosing timely and forward-looking figures for the IAE**. This makes it extremely difficult to estimate future growth to Canadian ODA. The last time

figures for the IAE were disclosed publicly was in Budget 2012. These only covered the period from 2012-13 to 2014-15.

- Budget 2017 re-announced $650 million in funding for Sexual and Reproductive Heath and Rights. Like the climate money announced in December 2015, this is not new money. It will come from unallocated funding remaining in the existing IAE, and invariably some from unallocated Muskoka Initiative resources.
- Budget 2017 re-announced the **creation of a Development Finance Institute** (DFI), originally announced in Budget 2015. The DFI will be housed at Export Development Canada, and capitalized with $300 million over five years– supposedly from an off-budget loan (i.e. not IAE). The return on the investment from the DFI will initially help re-capitalize the fund for further investments. The investment is quite modest and is extended over a long timeframe, suggesting that officials are treating it as a pilot project.
- Budget 2017 announced that a **new defence policy**, which followed a similar process to the International Assistance Review, will be released **with a costed funding framework** ("more rigorously costed than any previous defence policy") to increase investments in Canada's armed forces, its defence capabilities, and NATO. There is no similar commitment for the IAR despite indications to this effect made in Budget 2016. This means new resources for defence coming soon, but nothing for development.
- The government committed – for the first time ever – a whole section of the Budget to a **gender-based analysis**, one of the recommendations of the Beijing Declaration and Platform for Action. While a welcome addition and first attempt, groups like Action Canada for Sexual Health and Rights found many of the commitments on childcare and gender-based violence shortchanged or absent (abortion access, the protection of sex workers, national pharmacare). Oxfam welcomed the new investments in the care economy ($7 billion over 10 years in Early Learning and Child Care and $1 billion over 5 years in home care), while recognizing the need to expand the quantity and quality of public care services. Canadian Centre for Policy Alternatives also praised the inclusion of a gender analysis, the $100.9 million over five years being used to establish a National strategy to address gender-based violence, the $3.6 million for an LGBTQ secretariat and $40 million for women-led technology firms. But it also criticized the absence of benchmarks for narrowing the wage gap, increasing women's employment and narrowing gender violence, and the lack of funding for Status of Women Canada, who led (and will continue to lead) on the gender-analysis.
- Budget 2017 introduced measures, including **523.9 million** over nine years through the Canada Revenue Agency, **to prevent tax evasion** and improve tax compliance (in addition to $444 million in 2016). Budget 2017 also commits the government to making improvements on corporate and beneficial ownership transparency – safeguards against money laundering, terrorist financing and tax evasion. While the Liberals have taken positive steps forward, more still needs to be done to close tax loopholes.
- There were **no new tax incentives** for individuals donating to charities beyond those announced in 2015 for high-income earners, but there were revisions to a range of existing incentives, including phasing out the

First-Time Donor's Super Credit.

CANADIAN ODA NOW AND LOOKING FORWARD

	Actual FY2015-16	Projected FY 2016-17*	Projected FY2017-18+
International Assistance Envelope	$4.638 billion	$4.75 billion	$4.75 billion
Total ODA	$5.281 billion	$5.7 billion	$5.2 billion
ODA to GNI ratio (fiscal year)	0.27	0.28	0.25

Source: Government of Canada Statistical Report on International Assistance for 2015-16; Budget 2016 and Main Estimates. *2016/17 includes supplementary estimates of $512 million; 2017/18 projections assume no supplementary estimates.

REVISED MILESTONES UNDER THE THREE SCENARIOS

Based on the actual figures for 2015-16, as per the Statistical Report on International Assistance for 2015-16 and the projected scenario for 2016-17, we can update the following three scenarios based on annual increases starting in 2018-19.

Percentage increase	***16%***	***12%***	***8%***
Three-year cumulative dollar growth (mn) – 2018-19 to 2020-21	*$2,664*	*$1,923*	*$1,234*
Year IAE doubled	*2022/23 (5 years from now)*	*2023/24 (7 years from now)*	*2025/26 (9 years from now)*
Year OECD average donor effort reached (0.41 as of 2015)	*2022/23*	*2024/25*	*2031/32*
Year GNI ratio reaches or surpasses previous government high (0.33)	*2020/21*	*2021/22*	*2025/26*
GNI ratio at end of first Liberal mandate (Average over first mandate)	*0.30% (0.28%)*	*0.29% (0.27%)*	*0.27% (0.26%)*
GNI ratio at end of potential second Liberal mandate (Average over the two mandates)	*0.46% (0.34%)*	*0.38% (0.31%)*	*0.31% (0.28%)*
Year 0.7 percent of GNI realized	*2027-28*	*2032-33*	*2045-46*

Source: Based on calculations made by the Canadian Council for International Co-operation

WHAT'S OUR REACTION?

The **news is deeply disappointing** since 2016-17, represented a real opportunity for reversing Canada's declining / stagnating performance on its ODA, given a series of coinciding factors:

- Very early, clear and strong language coming from this government on the importance of "being back" on the international stage and being perceived as global players and leaders – including ambition to positon Canada for a UN Security Council seat;
- Early embrace from the Trudeau government of Agenda 2030, the ambitious UN agenda to end poverty by 2030, which requires massive new investments to realize its goals;
- A commitment in last year's budget that this year's budget would be "informed" by the International Assistance Review;
- An International Assistance Review that is to lead to a new international assistance policy (IAP) with clear priorities, and the potential for predictably costing the roll-out of these priorities looking forward;
- The promise in the Minister of International Development's mandate letter of a funding framework for the new policy;
- The release in November by the Standing Committee on Foreign Affairs and International Development of a report that called on the government to spend 0.35 percent of GNI by 2020 on official development assistance (ODA), and to reach 0.7% by 2030;
- The concurrence by the Standing Committee on Finance in December in their Report on the Pre-Budget consultations for Canada to increase its ODA investments to 0.35 percent within the next three to four years;
- A Minister for International Development that spoke openly about her desire to see the aid envelope increased;
- An affirmation in Global Affairs Canada's summary of "What We Heard" that Canadians want the government to increase its ODA and move towards the 0.7% target for ODA;
- Openness from Finance officials to exchange information around potential growth scenarios, outcomes (including political consequences) of these scenarios, and information on return on investments from aid dollars;
- Decent media coverage in the lead-up to Budget day.

SO WHAT WENT WRONG?

- **Trump**. Had the US election been won by Hilary Clinton, we might have seen a very different budget. With Trump's erratic behaviour, including his posturing around NAFTA, the Canadian government is unclear about the impacts on the Canadian economy. As a result, they have signaled that they could not risk large spending in general, nor an ambitious budget for global development cooperation. That said, it is not clear that the Canadian public would have opposed modest increases to the aid budget, given the public support for prior commitments Canada has made to address humanitarian needs in the Middle East, among others.

- **Growth also remains weak.** Economic growth is expected at 2.1 percent of GDP in 2017 and 2018. This gives the government limited scope for new investments in any areas, and especially areas considered discretionary – and all the more so if the government seeks to move toward balanced budgets and a reduced debt-to-GDP ratio in coming years.
- **The government did not fear a backlash for not committing more resources to international assistance.** The Trudeau government received significant national and international applause for the Global Fund replenishment, the PM's visit to Africa and the $650 M commitment to SRHR, even though none of these involved any new money. There was a belief/expectation among Canadian civil society and international actors that this "shell-game" would be followed by new resources in this year's budget. The government clearly did not fear the consequences of failing to meet this expectation.
- **Lack of sufficient public understanding and support for additional funding**. Media attention around key announcements and high profile events has implied that the Trudeau government has significantly increased Canada's international support. Some government officials still claim that the public do not have a full grasp of the degree of Canadian's support for global issues, but in fact the converse seems true – the public does not have a clear idea of how far Canada has fallen.
- **Morneau and doing more with less.** Based on Minister Morneau's response to the absence of any increases to the aid envelope, it would seem like finance officials remain skeptical about the value of investing in international assistance, and about aid's return on investment. Mr. Morneau's comments also indicated a false belief that the DFI could substitute aid investments. Finance also seems much more interested in exploring different tools of innovative finance – that is, initiatives that leverage further private finance, not innovative finance that generates additional development dollars, like a financial transaction tax.