

## The Government Freezes the Aid Budget at \$5 Billion in 2010

*“Canada’s performance is nothing short of an international embarrassment,” said Gerry Barr, President of the Canadian Council for International Co-operation. “To announce a freeze to aid spending as Canada is about to host the G8 and G20 meetings shows a lack of leadership and is unconscionable.”*

The March 2010 Federal Budget confirmed that the Conservative government will honour the Liberal-initiated promise made by Prime Minister Chretien at the UN Financing for Development Conference in 2002 to double Canadian international assistance between 2001-02 and 2010-11. The International Assistance Envelope (IAE) will be approximately \$5 billion in 2010-11 and CCIC estimates Canadian Official Development Assistance (ODA) for this coming year to be \$5.2 billion.<sup>1</sup>

Given a capped budget level for Canadian ODA at 2010-11 levels (\$5.2 billion), Canada’s aid performance will decline from 0.33% of GNI in 2010-11 to 0.28% in 2014-15. This performance puts Canada at the lowest ranking in its history as a donor among the 22 donor country – at 18<sup>th</sup> spot in 2010 according to the OECD DAC. Only the United States (0.20%), Japan (0.20%), Greece (0.21%) and Italy (0.20%) rank lower in 2010.

Canadian ODA to GNI Performance Ratio	
2010-11	0.33 %
2011-12	0.32 %
2012-13	0.30 %
2013-14	0.29 %
2014-15	0.28 %
<i>CCIC Calculations</i>	

Other official donors have managed to maintain their aid performance despite dealing with more serious impacts on government finances from the global financial crisis than those experienced by Canada. The UK is on track to reach the UN 0.7% target by 2013, and a number of countries such as Sweden, Norway, Denmark, Holland and Luxembourg, continue to be highly generous donors, with aid commitments well above the 0.7% target.

While the International Assistance Envelope makes up less than 2% of the Government’s total program spending for 2010-11 and beyond, the Budget states that ODA will contribute \$4.5 billion (or 25%) of the \$17.6 billion in the Budget’s stated savings over five years. What is the basis for these cuts?

<sup>1</sup> See the difference between “international assistance” and Official Development Assistance (ODA) in CCIC’s *2010-11 Pre-Budget Briefing* (October 2009) at [http://ccic.ca/files/en/what\\_we\\_do/2010\\_11\\_pre\\_budget\\_brief\\_oct09\\_e.pdf](http://ccic.ca/files/en/what_we_do/2010_11_pre_budget_brief_oct09_e.pdf)

A cap on aid spending will have very significant impacts on current and future aid allocations to government priorities for aid. But the notion that aid will be contributing \$4.5 billion to deficit reduction over the next five years seems mythical. To arrive at this figure of \$4.5 billion, the Department of Finance assumed that the 8% increases would go forward, although the government has never made any commitment or public announcement to that effect. Then in this Budget, the Minister of Finance announces a cut of these “increases”, to which the government has never demonstrated any intention to finance in the first place.

In fact, the first Conservative-initiated Budget initiative for planned future Canadian aid spending (after four years of governing), is to cap indefinitely the 2010-11 aid level. But according to the Budget, aid spending in a given year after 2010-11 may be more uncertain. The Budget goes further than a cap and states that aid spending in future years will be “assessed alongside all other government priorities on a year-by-year basis in the budget” (page 142).

CCIC has been calling on the government to join several donors in setting out a plan to reach the 0.7% target with planned increases averaging 14% per year. The Conservative plan not only fails to meet this goal, but the Budget statement runs counter to commitments Canada made in 2008 at the Accra High Level Forum, where it agreed to increase the predictability for Canadian aid going forward.

There are no details as to new aid priorities in the Budget. For example, it states that “Canada will use its leadership at the 2010 G8 Summit in Muskoka to focus the world’s attention on maternal and child health and will work to secure increased global spending on this priority” (page 145). Yet how such leadership will be exercised remains a mystery, as there is no indication in the Budget about the level of Canada’s commitment to this priority!

With the announced cap for aid and perhaps additional annual uncertainty as to aid levels, the impact on existing CIDA programs may be significant. The government has repeatedly affirmed the doubling of aid to Africa as an important achievement. But it will be very difficult to sustain this level of funding for Africa in the context of an aid freeze if it must meet other aid priorities out of very limited uncommitted funds in any given year. With a build-in 8% accelerator for aid each year between 2002 and 2010, new aid priorities, for the most part, were accommodated and managed by CIDA in ways that preserved long term sustained funding for past commitments, which many have demonstrated is required for effective development. Zero aid growth potentially reduces the effectiveness of current aid programs.

The Budget provides some additional information on important support that Canada provided to the International Monetary Fund and Regional Development Banks to enable continued lending to poor countries during the financial crisis. It did so through the commitment of additional “temporary callable capital”. Callable capital is in effect a promise by Canada to cover any shortfalls to private sector creditors if in the unlikely situation that these institutions were to fail.

Increases to “callable capital” in support of loans to developing countries have no budgetary implication, are not included in the \$5 billion IAE and cannot be included as ODA. However, the upcoming negotiations for the replenishment of the World Bank’s IDA soft loan window or increased demands to provide resources to the Multilateral Debt Initiative (arising from increased loans during the financial crisis) will come out of the existing \$5 billion envelope. This will compound the impact of the capping of aid finance on other aid priorities.

While Canada stated at the time of the December 2009 Copenhagen Climate Change Conference that it would contribute its fair share to a US\$30 billion “fast start” climate change fund for the period 2010 to 2012, the Budget made no reference. The cap on aid finance make it all the more imperative that financing for climate change mitigation and adaptation for developing countries be additional to Canadian ODA levels.

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