

FEDERAL BUDGET 2012
CCIC BRIEF TO THE PRE-BUDGET CONSULTATIONS
AUGUST 2011

Executive Summary

The 2012/13 Federal Budget is expected to be the second year of an announced four-year freeze on the International Assistance Envelope at \$5 billion. The Government had adopted previous (Liberal) commitments to raise aid prior to 2010, but then implemented the aid freeze. The 2011 budget did not even mention aid. With the freeze for Canadian aid in effect, it is expected that ODA for 2012/13 will be approximately \$5,440 million or 0.30% of Canadian GNI, down from 0.37% in 2010/11. By 2014 the performance ratio is expected to be 0.28%, among the lowest of 22 official donors.

The government has spent the last several years focusing on enhancing the quality and effectiveness of Canadian aid – and has made some strides forward. This 2012/13 budget provides an excellent opportunity to announce a long-term plan for the future growth of Canadian aid to achieve the UN target of 0.7% and enhance commitments to climate change financing

What is CCIC looking for in the 2012 Budget?

- Unfreeze Canada's aid budget and commit to a ten-year timetable to increase Canadian Official Development Assistance (ODA) to reach the UN aid target of 0.7% of Canada Gross National Income (GNI), a goal endorsed in June 2005 by all parties in the Canadian Parliament.
- Increase its contribution to the 'Education for All' Fast Track Initiative.
- Announce an investment of \$400 million or more in new and additional fast start climate financing for fiscal year 2011/12 and 2012/13.

CCIC has a plan to reach the UN target for aid of 0.7% of GNI. What will it cost?

CCIC's proposed ten-year plan would require increases to the line items of the IAE devoted to aid by at least \$680 million in 2012/13, \$760 million in 2013/14 and \$850 million in 2014/15. Each of these amounts should be added to the base for future calculations of aid increases. These additional expenditures represent only 0.3% of expected program costs for these years, or less than one third of a cent for every dollar of program expenditures. Such investments are vital to help address global poverty and of greater priority than planned increases to military spending, which is higher now than at any time since the end of the Second World War.

A plan to meet Canada's fair share for fast-start climate financing.

Ahead of the Durban meeting on the UN Framework Convention for Climate Change, and for Budget 2012, the Government should announce an investment of \$400 million or more in new and additional fast start climate financing for fiscal year 2011/12 and 2012/13. In the 2012 budget, the Government should also outline plans and a timetable for increasing contributions to provide predictability – a key element of aid effectiveness. This financing should address climate impacts on poor and vulnerable populations.

Support for Education for All

Ahead of the November 2011 Fast Track Initiative replenishment, Canada should increase its contribution to the EFA-FTI in Budget 2012, taking into account its current strong commitment to education both bilaterally and multilaterally, the importance of the FTI, and the current flat-lining of the aid budget.

THE FUTURE FOR CANADIAN ODA PERFORMANCE: SOME FACTS AND FIGURES

- 1. Canadian aid performance will decline in 2012 and up to 2014 as the Government freezes the International Assistance Envelope (IAE) at \$5 billion.** The June 2011 Budget continued the freeze on the IAE at \$5 billion for the next three years (see a description of the IAE in Annex One). CCIC estimates that ODA will remain at approximately \$5,440 million until 2014. This includes non-budgetary additions to the IAE and assumes no additional special one-off allocations during these years. While ODA remains constant, Canada's aid performance as measured against Canada's Gross National Income (GNI) will decline from an estimated 0.37% in 2010 to 0.30% in 2012, and to 0.28% in 2014.
- 2. CCIC's Ten-Year plan to reach 0.7% by 2020 is affordable.** CCIC and its members have been proposing to increase ODA to 0.7% of GNI through a fiscally responsible ten-year plan. This plan will permit time for needed reforms in Canadian aid practices to conform to the purposes for Canadian ODA set out in the ODA Accountability Act. Annual increases of about 12% for the aid-portion of the IAE will be required, achieving a 0.49% GNI ratio by 2016/17 and the UN 0.7% target by 2021. This plan would bring significant new resources for Canadian ODA and the world's poor, but would increase overall federal program spending each year by only 0.3%, or less than a third of a cent out of each program dollar.

Several donors, including the UK and more recently Australia, despite much harder economic conditions than Canada, have continued to honour ambitious commitments for aid increases. The UK will achieve 0.7% in 2013 and Australia will move from 0.32% in 2010 to 0.5% of GNI in 2015. In the Department of Finance's October 2010 Fiscal Update, the government boasted that by 2015 it will have "the best fiscal position in the G-7", with "our debt levels ...historically and internationally... projected to remain low over the coming years" (page 30). According to the 2011 Budget Plan, Canada's employment and income has grown faster than any other G7 country in the recovery from the 2008 recession (page 28). Canada can well afford to finally fulfill its long-standing recognition of the UN 0.7% target for ODA.
- 3. ODA for 2011/12 is estimated at \$5.5 billion, which is only 0.32% of Canadian GNI.** In the March 2010 Budget, the Government increased the IAE by 8% to \$5 billion. When items in the Envelope that are not ODA are excluded and additional non-budgetary ODA items are included, CCIC estimates that ODA for 2011/12 will be approximately \$5,440 million. (See Annex One for an explanation of the Envelope).
- 4. Bilateral aid to Sub-Saharan Africa maintains its 2008 level in 2009.** In 2008 the Government proclaimed to the international community that it had met its commitment to double aid to Africa two years early. Overall aid levels for Sub-Saharan Africa for 2009/10 were reported by CIDA to be \$2,118 million, up slightly from \$2,094 million in 2008/09. CIDA increased its bilateral ODA to the region by almost \$80 million in 2009/10, while multilateral ODA (over which CIDA has less control in its allocation) declined by \$55 million. A better measure of the continued commitment to Sub-Saharan Africa will be the disbursements for 2010/11, which will be published in March 2012.
- 5. Canada's aid performance compared to other DAC donors has improved slightly.** Despite modest increases in its ODA, in 2010 Canada remained at 14th spot among 22 donors who report to the OECD Development Assistance Committee, up from 16th position in 2000. This relative improvement is due to lower ODA/GNI ratio performance in 2010 compared to 2000 by Japan, Portugal and Australia.

6. The aid freeze provides only marginal improvements for the Government's fiscal position.

The March 2010 Budget calculated that freezing the International Assistance Envelope at \$5 billion would save a cumulative \$2.2 billion between 2011 and 2014 (assuming the 8% increases would have continued, to which the government had never committed). However, referencing the June 2011 Budget Plan, this \$2.2 billion will amount to a mere 1.2% of the planned savings and increased revenue, needed to bring the budget into balance by 2014!¹ The Government is therefore making marginal improvements in its fiscal position through de-facto cuts to aid on the backs of poor and marginalized populations around the world. Meanwhile Canadian military spending is higher now than at any time since the end of the Second World War.

7. Meeting Canada's international commitments for climate change financing must balance mitigation and adaptation needs and be additional to rising contributions to ODA.

There is growing evidence that the Government intends not only to freeze the aid budget over the next four years, but also to raid existing poverty reduction programming to provide some of the \$400 million in promised annual climate change financing for 2011 and 2012. To date, the government has yet to make any announcement about planned climate financing for 2011-2012. In the absence of such a commitment, the 2012 budget may need to provide an even higher figure. To ensure future aid predictability, the Government should also announce as part of Budget 2012 a plan and timetable of climate financing beyond this initial "fast track" phase.

A plan to meet Canada's fair share of climate financing, both in the 2010-2012 "fast start" period and beyond, must not only meet financial targets, but must also balance mitigation and adaptation spending, and ensure financing is directed towards mechanisms that give priority to addressing impacts on poor and vulnerable populations. These commitments must be additional to the ten-year plan to reach the 0.7% target for ODA. For 2010, more than 70% of the \$400 million went as loans through the World Bank's International Finance Corporation's climate window for private sector investments in developing countries. More than \$100 million came out of the 2010 IAE, which otherwise would have been allocated to existing aid priorities.

8. Increasing the Government's funding of the Education for All Fast Track Initiative (FTI) supports Canada's three thematic priorities.

The Education for All - Fast Track Initiative (EFA-FTI) is hosting its first ever replenishment conference on November 6-8, 2011. This is the first time the EFA-FTI is coordinating donors in this way, working to ensure that funding for EFA-FTI proposals is predictable and long-term. At present, there are 37 countries benefitting from funding from the EFA-FTI as a way to supplement and scale-up their own national spending on education and national strategy plans. Canada is one of the founders of EFA-FTI, and despite the measurable success of the FTI, Canadian contributions have been waning in recent years. At the EFA-FTI Replenishment Pledging Conference and ahead of Budget 2012, Canada should increase its contribution to the EFA-FTI, taking into account its current strong commitment to education both bilaterally and multilaterally, the importance of the FTI and the current flat-lining of the aid budget. The contribution should represent a "fair share" of what Canada should be spending. Such spending is consistent with Canada's existing thematic priorities on children and youth, health, food security and sustainable economic growth: In Africa, children of mothers with a full primary education are 40% more likely to survive to age 5 and are 50% more likely to receive life-saving immunizations; investing in the education of girls boosts agricultural output by 25%; and each additional year of schooling increases an individual's potential income by 10%.²

¹ The Fiscal Update puts the deficit in 2010 at \$45.6 billion. A combination of expenditure savings and increased revenue cumulatively total \$117 billion between 2010 and 2014, realizing a balanced budget in 2015.

² "The Education for All Fast Track Initiative: the Case for Further Investment"

<http://www.educationfasttrack.org/media/library/replenishment-fundraising/business-case-replenishment.pdf>

Annex One: What is the International Assistance Envelope (IAE) ?

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, 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). Not all of the allocations in the Envelope are eligible to be counted as Canadian aid or Official Development Assistance (ODA) and the Envelope does not include all items that can be included when calculating Canadian ODA.

Some of the line items of the IAE, such as some disbursements for peace and security (decommissioning of nuclear warheads in the former USSR, security programs in non-ODA eligible countries), are not eligible for ODA (as determined by all donors meeting in the OECD Development Assistance Committee (DAC) and by the Canadian ODA Accountability Act).

Canadian 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 supporting refugees from developing countries in Canada, provincial governments' spending on aid, bilateral debt forgiveness, costs for developing country students studying in Canada etc. These 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).

Total Canadian Official Development Assistance is therefore made up of

- ODA-eligible line items in the International Assistance Envelope
- Less IAE items not eligible for Canadian ODA
- Plus non-budgetary items that can be included as ODA.

While the Budget and the Government still refer to the International Assistance Envelope, since 2007/08 there has been no publicly accessible breakdown of the component line items of the IAE available either in the Budget or in the detailed Expenditure Estimates. CCIC's estimation for the IAE is based on the current budget allocations for the component line items that made up the Envelope in 2007.